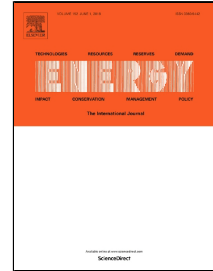


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Impacts of supply and demand factors on declining oil prices

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# Impacts of supply and demand factors on declining oil prices

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## ABSTRACT

Extraordinary oil price declines were observed from 2008 to 2009 and from 2014 to 2016. During these periods, international oil prices collapsed by more than one half. Several reasons have been suggested for these crashes by numerous industry experts and scholars. In this study, we propose a new approach to explain the causes of the extreme oil price plummets via the supply and demand factors of price determinants. The autoregressive models with exogenous variables reflecting real demand, speculative demand, and supply factors are proposed and applied for forecasting monthly global crude oil prices during their periods of decline. Using the forecasting results, we retrospectively try to discover the factor that is best able to improve forecasting performance. During the first period of oil price decline, real demand reduction seemed to play a more prominent role compared with the other factors. Meanwhile, some supply factors, measured by U.S. shale oil production, combined with real and speculative demand factors, played an important role during the period of second oil price drop.

Keywords: crude oil price, forecasting, OPEC production, U.S. shale oil, U.S. strategic petroleum reserve

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