

Unprecedented: “Oil Prices Can Go Negative”

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Last month, analyst Paul Sankey warned that “(o)il prices can go negative” in today’s environment. On March 18, he wrote:

“The physical reality of the market is that oil is pumped out of the ground and has to be consumed or stored.”

“When the cost of storage goes high enough — or space runs out — companies might pay customers to take it.”

He wasn’t alone in this assessment, reports weeks earlier saying prices indeed can go below zero because of falling demand and increasing supply.

With global storage capacity close to its limit, negative oil prices if sustained would force producers to pay customers to take deliveries because the cost is cheaper than shutting down wells.

On Monday, the May spot futures contract for WTI (West Texas Intermediate oil) closed at an astonishing negative \$37.63 a barrel, an unprecedented price collapse.

Commenting on what happened, oil analyst Louise Dickson said “(i)t’s like trying to explain something that is unprecedented and seemingly unreal,” adding:

“(M)idstream players are now paying ‘buyers’ to take oil volumes away as the physical storage limit will be reached. And they are paying top dollar.”

On Monday, the June futures contract for WTI closed down 18.3% at \$20.03 a barrel, a figure unlikely to be a floor if economic conditions remain weak.

Last week, Schlumberger CEO Olivier Le Peuch said Q II is “likely to be the most uncertain and disruptive quarter that the (oil) industry has ever seen.”

A Halliburton assessment was grim, saying it “expect(s) activity in North America land to sharply decline during the second quarter and remain depressed through year-end, impacting all basins.”

Analyst Edward Moya said “no one wants to take delivery because storage capacity is getting close to being reached.”

Analyst Phil Flynn noted “demand ground to a standstill.” The Russian/Saudi led deal among global producers to cut output by 10 million barrels a day did nothing to stabilize prices because far greater production cuts are needed.

On Monday, Brent crude for June delivery closed at \$25.57 a barrel because it's more seaborne than WTI that's mostly supplied more quickly via pipelines.

On Tuesday, AP News reported that "(t)he world is awash in oil. There's little demand for it, and we're running out of places to put it."

On Monday, WTI crude for May delivery ranged from an astonishing +\$15 to -\$40 a barrel, closing near its low price.

Production continues daily at a slower pace. Output has to go somewhere, but to where if storage capacity is near its limit.

While one day's price volatility is technical, according to analysts, negative WTI prices reflect economic weakness that's likely to be around for some time.

Some pressure may be relieved by filling the US Strategic Petroleum Reserve to capacity.

Gasoline is the cheapest in many years because most people aren't driving, the same true for jet fuel because of limited air travel.

According to CNBC, the overnight price for late May delivery of WTI is \$35.77 a barrel, a figure likely to swing widely in trading during the day and what follows.

Its website showed an image of parked commercial passenger planes sitting idle that normally would be in service. A second image showed a near-deserted passenger airline terminal.

As bad as things are at a time of weak economic conditions, OilPrice.com struck a positive note, saying:

"(N)egative oil prices do not mean curtains for the oil industry."

The higher-priced June contract that expires May 19 "is a better representation of the true oil market" even though it shows price weakness because of low demand, adding:

"While (Monday's spot oil prices) "may not be as bleak as they seem, there is still trouble ahead for the oil industry."

Since around mid-March, about 260 US rigs were shut down for lack of demand, the number expected to rise.

If oil prices stay well below the cost of production for some time, many producers will likely declare bankruptcy — some reorganizing to continue operating, others shutting down permanently.

According to Rystad Energy, hundreds of oil exploration and production companies will go out of business if \$20 crude continues through 2021.

It's an ideal time for the Trump regime to launch a new Middle East war or escalate ongoing ones in Syria, Yemen, and/or Libya that surely would increase oil prices significantly.

Hard times for oil producing nations and companies are temporary.

But in a weak economic environment that could get weaker and stay soft throughout 2020 or longer, low prices may be around for some time.

Global economic shutdowns are uncharted territory. When they end, things won't likely be as they were before current troubles began.

Privileged interests are benefitting from the current environment at the expense of ordinary people in the West and elsewhere.

They face greater poverty, unemployment, underemployment, and overall deprivation.

Hard times for them have been getting harder since the neoliberal 90s, especially post-9/11, and now economic shutdowns, countless millions struggling to get by.

For the vast majority of ordinary people, in the West and elsewhere, the outlook ahead is bleak.

Today's perfect storm will likely cause more harm to more people than global wars, most of it under the radar so the true toll won't likely be reported.

Expect the worst, what's likely coming this year and what follows.

I remember and wrote about numerous economic downturns and wars, including WW I and II, the latter I remember well before the television age.

Long ago, I never imagined anything like what's happening now and believe it's not accidental.

Opportunities abounded for me what I entered the workforce in 1960.

The environment for today's youths in the US and West is bleak.

Opportunities I had don't exist for most people, just for the privileged few.

It's sad testimony to America gone off the rails — never beautiful throughout its history.

Today it's never been more unsafe and unfit to live in for the vast majority of people.

Both right wings of the one-party state are enemies of ordinary people at home and abroad.

The nation I grew up in no longer exists, things getting disturbingly worse, not better — a grim assessment for what likely lies ahead.

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