The NATIONAL INTEREST FOUNDATION

Massive Collapse of Oil Prices

For the first time in history, oil prices in the United States hit negative values this week. Demand for oil has evaporated as countries continue to be locked down in the face of the spread of COVID-19. As a result, oil suppliers are stuck with significant excess, and fears are growing that storage space will run out in May. Last week, OPEC+ agreed to a historic deal in which the conglomerate agreed to cut global supply by 10%. However, closer analysis shows this will not have an impact large enough to balance oil markets. The price of oil plummeted this week on a technicality, given that oil is traded on its future price, and contracts for May expired on Tuesday. With this deadline looming, traders dumped their holdings to ensure they avoided the headache of taking delivery of the oil and finding storage for it. Experts have warned that an uptick in prices for June was unlikely as well given the current trajectory of COVID-19.

The price for the oil benchmark in the U.S., West Texas Intermediate, dipped as low as negative 37.63 per barrel, and the European benchmark of Brent Crude fell by 23% to below $20 per barrel, a historic low. The European market wasn't hit as hard as the American market because there is more storage space available, particularly in tankers in the North Sea, where Brent Crude is based. Future projections for the oil market in the United States are grim, with most analysts not expecting much of an upturn for almost a year. American producers will most likely have to severely reduce their output as demand slowly returns to pre-coronavirus levels, which will be seen through the production of roughly two million barrels fewer per day than last year.