

# THE HISTORIC NEGATIVE CRUDE OIL PRICES THAT YOU MAY REMEMBER IN YOUR LIFETIME

## 历史性首次负油价，您不可能忘记

*What is the possible causes of the negative oil prices and its consequences to global and Malaysia economy?*

*Is it good or bad to you and me?*

- When demand shock and supply shock come together, they could create an unforgettable story.
- Malaysia is going to lose RM 300 million for every one drop in USD oil prices?
- Currently, the oil market is seems to be better. Is this a good time to store oil?

# Oil prices hit 1990s low as Covid-19 outbreak sinks demand

ENERGY



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**Oil**

## Oil prices dip below zero as producers forced to pay to dispose of excess



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BREAKING: WTI crude oil for May delivery fell more than 100% to settle at negative \$37.63 per barrel [trib.al/bpBEYms](https://trib.al/bpBEYms)

## Breaking News

Bloomberg

 68

 1K

 1.1K



# THE **FIRST TIME** UNITED STATE OIL PRICES HAD EVER TURNED **NEGATIVE** IN HISTORY ON MONDAY, 20 APRIL 2020.

“ I’m not sure how to react to that other than say that nobody, whether they’re 120 years old or whether they’re 20 months old, has ever seen an oil price lower than this ”

Tom Kloza, Global head of energy  
analysis for OPIS (Oil Price  
Information Service)



# How are the negative crude oil prices even possible?

*The negative USD 37.64 per barrel means that the oil producers have to pay their buyers to take the barrels of oil off their hands because of the insufficient storage facilities*

When equilibrium occurs where demand and supply intersect, one force can resist the other. However, when both demand and supply get shocked at the same time, they could dramatically destroy the equilibrium.



## ***DEMAND SHOCK***

The Covid-19 gives rise to lockdown and shuts down the factories and travel. There are less consumption and the global economy is contracting. The global demand for oil is then reduced by up to 33%. (Kemp 2020)



## ***SUPPLY SHOCK***

On 8 March 2020, Saudi Arabia initiated an oil price war with Russia. Such war facilitated the oil to be sold at a discount. (Raval, Sheppard and Brower 2020)

As a result, there was an excess supply of discounted oil. Even though both parties finally agreed to cut production on 9 April 2020, but it was too late. (Hansen 2020)

The West Texas Intermediate (WTI) crude oil May 2020 futures become a “hot potato” as a consequence of the whole world in lockdown and the supply glut of oil.

### US crude futures crash into negative territory



Source: BLOOMBERG

The future contract is a legal agreement to buy or sell a particular commodity asset at a predetermined price at a specified date in future.

When WTI May future expires, anyone who owns a contract would have to take delivery of the oil.

Generally, if you don't wish to perform your obligations, you can sell the contract.

However, during such economic slump, no one is willing to buy contracts and thus, leading to traders are being paid to take them on. (Egan 2020)



# WHERE IS THE MAIN STORAGE HUB AND DELIVERY POINT?

**It is Cushing, Oklahoma.**

*It is a disaster when Cushing is full.*



# The Consequences,



## Social

Well...It seems to be good to businesses and households because of the cheaper oil prices but the Covid-19 outbreak reduce the demand for every necessities, even people may afraid of losing their job, they may decide to cut their purchasing power. Such oil market increases the fears to global economic growth and the country who makes revenue from oil, such as Malaysia.



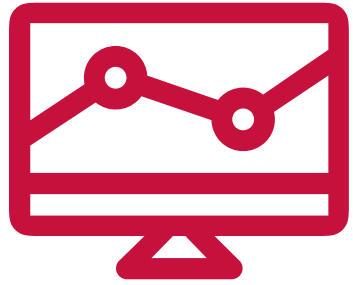
Malaysia is an oil producing country. In other words, it heavily relies on the oil price to generate its revenue. Based on the previous estimates by Malaysia finance ministry, every a US dollar drop in crude oil price will cost Malaysia to lose around RM 300 millions in oil-related tax revenue.(Aziz 2018) Consequently, Malaysia estimates to lose RM 16.5 billions in 2020 which is mainly from the petroleum income tax. (Kana 2020)



## Economical

People will also worry that the Brent crude oil prices could decline further following the trend of WTI prices because both have strong relationship. Initially, government assumed the Brent crude oil price of USD 62 per barrel in Budget 2020. However, due to the recent sharp decline in both Brent and WTI crude oil prices, government recalibrates the Budget 2020 and makes an average Brent crude oil price assumption of USD 35 per barrel in its stimulus package. Hence, less money comes into the economy and government may reduce its budget to spend on the development activities when people need support. (Kana 2020)





## ***Don't too worry! The recovery of the oil prices is going to be quite rapid.***

- Oil traders begin to trade barrels for delivery in June in earlier and such action is expected to trigger far higher oil prices. A speedy end to lockdown would also boost up the market oil price recovery. Moreover, Brent prices normally trade at premium as compared to WTI and so, Brent prices will not crash as we see in WTI's May future. (Kana 2020)
- Now, some of you will think that OK... the supply glut will be resolved soon and it is the time to store as much of oil as you can with a hope that you can sell them for more in future.

Unluckily, everyone in the world, including me has the exact same idea. It will result in a historic glut which significantly fills up the storage capacity.

### Facts:

1. Around 76% of the available oil storage facilities was full in March 2020. (Dunn 2020)
2. Based on Reuters, there are 160 million barrels of oil being stored on tankers at sea. (Dunn 2020)
3. The cost to rent an oil supertanker is increased from USD 20,000/day to around USD 300,000 per day. (Energy 2020)



*Even though the oil market is seems to become better, the slow moving economy activities from Covid-19 crisis would also make further financial pain for producer. No matter who are you or how the oil prices change, you should be careful on every ringgits you spend. If not, the oil prices will turn into negative again because the rebound in prices is temporary.*



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