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Oil crashes to fresh 18-year low as demand suffers unprecedented drop

CNN Audio Live TV Log In

Updated 3:47 PM ET, Mon March 30, 2020

New York (CNN Business) – The great oil crash of 2020 ain't over yet.

US crude plunged nearly 7% and finished at an 18-year low of $20.09 a barrel Monday as the coronavirus pandemic continues to deal a devastating blow to energy demand.

At session lows, oil touched $19.27 a barrel -- the weakest intraday price since February 2002.

Brent crude, the world's benchmark, tumbled as much as 13% and fell to as low as $21.65 a barrel, its lowest point in 18 years. Brent settled at $22.76 a barrel, the lowest close since November 2002.

The renewed selling in the oil patch underscores the unprecedented collapse in demand caused by the social distancing restrictions imposed by governments around the world. Highways are empty. Entire airlines are shutting down. Macy's (M) just furloughed a majority of its 125,000 workers. Factories large and small have halted production.

Global oil consumption will likely crater by 12 million barrels per day this quarter, or 12%, the steepest decline ever recorded, according to Bank of America.

"It is very ugly and there is no way to sugarcoat it," Bank of America commodity analysts wrote in a Monday note to clients.

At the same time, Saudi Arabia and Russia are flooding the world with excess oil -- at exactly the time when the opposite approach is required. That price war is exacerbating the pain in the oil market.

Related Article: How America can fight back in the oil war with Russia and Saudi Arabia

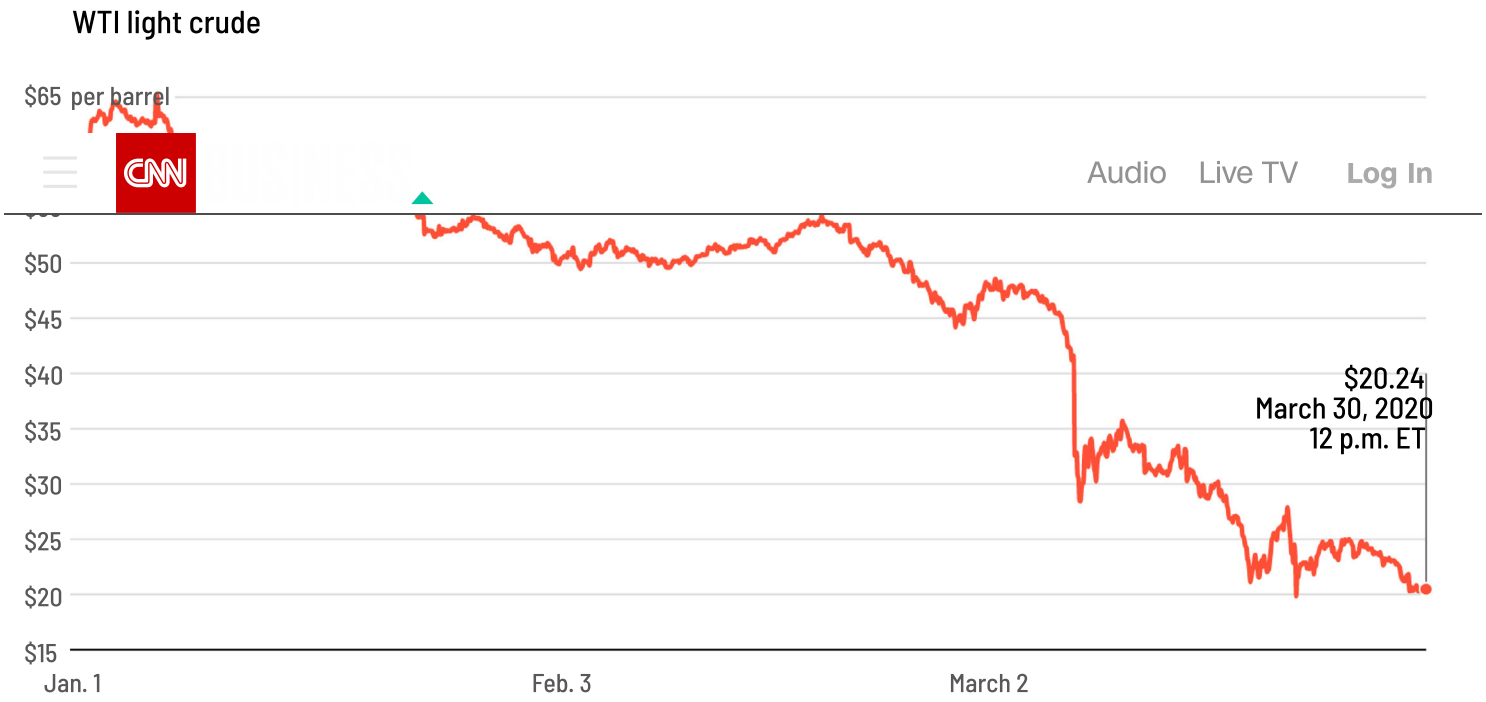
Those two factors have driven US oil prices down by a stunning 68% since the recent peak of $63.27 a barrel in early January.

US gasoline demand could collapse by more than half

The selling comes after President Donald Trump, heeding the advice of health experts, extended federal social distancing guidelines until April 30. And Dr. Anthony Fauci, the nation's top infectious disease expert, warned on CNN the United States could see millions of coronavirus cases and 100,000 or more deaths.

Oil prices slammed

US oil prices collapse as coronavirus continues to destroy demand for energy in the United States and around the world.



Source: Refinitiv
Graphic: Tal Yellin, CNN

That dire warning suggests the nightmare won't end anytime soon for the energy market.

IHS Markit estimates that US gasoline demand could collapse by as much as 4.1 million barrels per day -- or more than 50% -- during the coronavirus response period. That would easily surpass the demand destruction during the Great Recession.

And that's a big problem for oil because US gasoline is the No. 1 swing factor worldwide for oil demand.

Goldman Sachs head of commodities Jeffrey Currie called it the "largest economic shock of our lifetimes" and warned it is "extremely negative" for oil prices.

Sub-$2 gasoline prices

That shock has amplified the epic battle between Russia and Saudi Arabia.

First, Russia refused to cut production despite the obvious need for less supply. That refusal is driven by its desire to drown high-cost US producers in a sea of cheap crude in hopes of recapturing market share.

Saudi Arabia responded by threatening to ramp up production and slashing prices further still. That caused an historic collapse in oil prices -- exactly the opposite of what was needed to stabilize the shaken market.

Ordinarily, lower energy prices would be great news for American drivers, airlines and other energy consumers.

The average price for a gallon of gasoline has plunged to $2.01, according to AAA. That's down from $2.44 a gallon just a month ago. Several US states, including Texas, Ohio and Michigan, are now seeing prices at the pump below $1.75 a gallon.

Yet many Americans can't take advantage of cheap gas prices because of the severe travel restrictions imposed to fight the coronavirus pandemic. Most people are working from home, and few are taking road trips.

first dividend cut since Great Depression

is cheaper -- have canceled thousands of flights, and some like EasyJet in Europe have grounded flights altogether.

Trump to the rescue?

The oil crash has left Trump in an awkward spot.

On one hand, he's long been in favor of cheap energy prices for consumers, and Trump has never been shy about bashing OPEC for not pumping more.

Yet the oil crash, combined with excess production, threatens to bankrupt US shale oil companies and wipe out tens of thousands of oil jobs -- many in Republican-leaning states. That's why Trump has said he might eventually get in the middle of the oil dispute between the two nations.

In fact, Trump said Monday on a call to Fox News that he planned to raise the issue with Russian President Vladimir Putin.

"Right after this call, I'm speaking to a gentleman named Vladimir Putin," Trump said, adding that both Russia and Saudi Arabia "went crazy" about oil.

A readout of the call from the Kremlin said the two presidents agreed to hold talks on the state of the oil market at the ministerial level.

Resolving the oil war can't stop the crash, however.

"Now the question is: Can the US and OPEC save this market? The demand shock has become so large that they can't do it alone," Currie, the Goldman Sachs analyst, wrote.

He added that even a global production cut -- an outcome that "appears impossible at this point" -- would be "too late to stop the current surplus."

Only the end of the coronavirus crisis can stop that.

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BRENT CRUDE	98.15	-1.45	-1.46%	BONNY LIGHT	118.1	-3.97	-3.25%
MURBAN CRUDE	98.26	-1.64	-1.64%	OPEC BASKET	103.2	+1.91	+1.89%
NATURAL GAS	8.768	-0.106	-1.19%	MARS US	90.59	-2.65	-2.84%

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The Most Destructive Oil Price Crash In History?

By Tom Kool - Mar 16, 2020, 3:00 PM CDT



As markets brace for yet another week of total liquidation (even gold fell below $1500), oil drillers are preparing for the worst.

Last time crude traded this low, back in 2016, U.S. oil firms entered survival mode, slashing costs, cutting jobs and optimizing drilling processes. But this time, there's not a whole lot left to cut.

The 2014-2016 oil price crash happened gradually, over the course of several months. 2020's crash happened in just a few weeks and could end up being a lot more destructive.

IHS Markit expects the 'largest-ever oil glut' to be between two and four times bigger than the 2015-2016 glut of 360 million barrels. All of this is happening at a moment that global crude demand is tumbling. Analysts even believe that the current drop in oil demand will turn out to be the most dramatic decline in history.

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Hedge fund chief Pierre Andurand was quoted by Bloomberg as saying that "This global pandemic is something the world hasn't witnessed since 1918," and that "I do not see how the demand drop wouldn't be multiples of the drop witnessed during the global financial crisis."

Trafigura, one of the world's largest independent oil traders even expects consumption of crude oil to fall by some 10 million bpd until May, reflecting a 10 percent drop in total global demand, spelling a doom scenario for crude markets.

Related: Saudi Arabia Strikes Back At Russia In Key Oil Market

So what does this mean for the upstream oil and gas industry? Many drillers, oilfield service companies, and suppliers already had less meat on the bones, and a good portion of them continue to fail to sustain a positive free cash flow.

The drastic cost-cutting that started this week will have a direct impact on oilfield services and suppliers, but also exploration companies are set to become immediate victims of the price plunge. Morgan Stanley estimates that most companies will revise their budget guidance downward by about 25 percent.

In an interview with Bloomberg, Matt Johnson, Chief Executive at Primary Vision, an industry data tracker, says that E&P spending could come down 40 percent before the end of the year and that, in the Permian alone, 1,500 to 3,000 oilfield service jobs could be at risk of disappearing in the next two months.

U.S. oil firms will turn to their suppliers and service companies and once again ask for serious discounts. As I wrote on Friday, Parsley Energy asked service providers "to reconsider your pricing," and help them achieve an "at least 25 percent" reduction in costs. But oilfield services are arguably in a worse position. "Anyone dumb enough to ask for a discount today is an (expletive)," a drilling executive who did not want to be identified said.

Either way, OFS companies might not have a choice, and it'll be sink or swim situation if prices don't rise to at least $40+ per barrel within the next 8 weeks.

The U.S. and Canadian rig counts are already coming down, and this trend is expected to accelerate in the next couple of weeks as drillers focus operations on the lowest cost wells. Given the current production shut-ins and spending cutbacks, Oilprice.com expects a rig count decline of 20-25 percent within the next 3-4 months.

Related: Yergin: No End In Sight For The Oil Price Crisis

But it's not just short-cycle drilling operations and ongoing projects that are being slowed down. New (mega)projects are now unlikely to receive the green light. Kallanish Energy reported that Husky Energy's Lloydminister thermal projects ''have been deferred and will be reconsidered as market conditions improve''. Kallanish also reports that Husky has deferred projects in offshore China and the development in Indonesia of the MDA-MBH natural gas field.

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Several megaprojects such as the $14 billion LNG Quebec facility are teetering on the brink as large investors such as Warren Buffett's Berkshire Hathaway are pulling out. Sadly, deferring or scrapping exploration and production projects completely might be the only way for oil & gas firms to ride out of the storm.

Going forward, the industry should brace for more pain, as not even a Fed emergency rate cut of 100 basis points could keep oil prices from tumbling on Monday morning, stoking fears of $10 oil.

By Tom Kool for Oilprice.com

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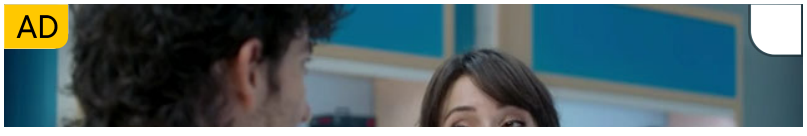
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ENERGY & ENVIRONMENT

6 Months Into The Oil Market Crash, Still No End In Sight

The oil and gas industry is used to boom and bust cycles, but workers and economists agree that this downturn is differ That's because there's still so much uncertainty around the coronavirus pandemic.

KYRA BUCKLEY (HTTPS://WWW.HOUSTONPUBLICMEDIA.ORG/ARTICLES/AUTHOR/KBUCKLEY/) | SEPTEMBER 15, 2020, 6:00 AM (LAST UPDATED: SEPTEN 2020, 10:44 AM)

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Lucio Vasquez / Houston

An oil and gas refinery near La Porte, on Aug. 28, 2020.

On March 1, oil and gas leaders from around the globe opened up their email to learn the premier conference for the industry — CERAweek, held every Houston — **was canceled (https://www.houstonpublicmedia.org/articles/news/business/2020/03/02/362376/houston-could-lose-out-on-millions-du cancellation-of-ceraweek/)** due to fears over the coronavirus.

This was on top of an already rough start to the year: Saudi Arabia and Russia were locked in a **price dispute (https://www.houstonpublicmedia.org/articles/news/energy-environment/2020/03/09/363182/saudi-russia-oil-fight-sends-markets-spiraling-what-** mean-in-texas-and-beyond/) that threatened a global oversupply of cheap oil.

Then in mid-March, the pandemic brought oil demand to a near standstill as people stopped driving and flying. In response, oil and gas companies slas budgets, furloughed and laid off workers, and started to sell off assets.

At six months old, the oil bust of 2020 is still threatening bankruptcies and layoffs. Thousands of oil and gas jobs in Houston have vanished. Oil demand low as prices hover at or below $40 a barrel. This has created even more uncertainty for an industry familiar with boom and bust cycles.

Listen

04:21

At the start of the pandemic, Sid Banerjee was pretty sure he'd keep his job, but the Houston petroleum engineer still had doubts. He'd seen a couple o downturns in the industry before, but this is the first one since the birth of his twins last December.

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“It's hard not to think about the cost of babies and health insurance and things like that," **Banerjee said in early April (https://www.houstonpublicmedia.org/articles/news/energy-environment/2020/04/10/366725/i-dont-take-things-lying-down-houston-energy-worl the-oil-crash/)**, "and not to worry, at least a little bit — not just about whether or not I can keep them safe from pandemics and the world around them whether or not I can stay employed and provide some degree of financial assurance that let's us protect ourselves.”

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Timeline create

(https://cdn.hpm.io/wp-content/uploads/2020/09/14191233/oilcrashtimeline.png)

Click to expand and see a timeline of the oil market crash.

Then on April 20 oil prices plunged into **negative territory (https://www.houstonpublicmedia.org/articles/news/energy-environment/2020/04/20/367 falling-u-s-oil-drops-below-2-per-barrel-as-demand-disappears/)** for the first time ever. Over the next few months, companies posted billions of dolla losses. A handful filed for bankruptcy. By the end of July, some 18,000 oil and gas workers in Houston had **lost their jobs (https://www.houstonpublicmedia.org/articles/news/energy-environment/2020/04/29/368266/whats-next-for-thousands-of-laid-off-oil-and-gas-w houston/)**.

That includes Level III NDT Welding Inspector Jeff Lattea. Even though he lost his job at the start of the pandemic, he had a temporary one lined up for May.

But six months into the coronavirus-fueled oil crash, Lattea is collecting unemployment for the first time in his life.

"I've never been on any kind of government assistance or anything like that," Lattea said. "What really kept my head above water was the added $600 a benefits, **and then those evaporated (https://www.houstonpublicmedia.org/npr/2020/07/20/892476371/the-end-of-600-unemployment-benefits-wil millions-of-households-and-the-economy/)**."

Lattea said he hopes to use his certifications and experience to land some independent work, get off unemployment, and if possible, return to a perma in oil and gas next year.

As companies cope with smaller workforces and low per-barrel oil prices, energy economist Ed Hirs said they still face coronavirus-related challenges tl keeping demand low.

"This is a public health disaster and we have state, local and federal government mandating shutdowns, mandating a stop to economic activity," Hirs sa why this (downturn) is really different."

Both Jeff Lattea and Sid Banerjee said they've seen a lot of people leave the industry in the last six months, possibly for good. But not Banerjee — he's s job as a petroleum engineer, working from home with his now nearly 9-month-old twins.

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Banerjee said adding to that difficulty is the uncertainty around COVID-19.

"I feel like that is the one thing about this particular downturn," he said, "is that you don't really have a sense of when things are going to get better."

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Kyra Buckley

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- Experts say oil prices – and gasoline prices – could be volatile through 2022 (https://www.houstonpublicmedia.org/articles/news/energy-environment/2022/03/21/421470/experts-say-oil-prices-and consequently-gasoline-prices-could-be-volatile-through-2022/)
- U.S. sanctions on Russian oil have Texas producers ready to up production. Environmentalists fear it's at the expense of reducing emissions longterm (https://www.houstonpublicmedia.org/articles/news/energy-environment/2022/03/14/420892/texas-oil-and-gas-producers-say-us-sanctions-on-russian-oil-mean-they-need-to-up-production-environmental-advocates-say-not-at-the-expense-of-reducing-emissions/)

HOUSTON CHRONICLE TIMELINE

How the 2020 oil crash unfolded

A global pandemic and an international price war combined to create a historic oil crash that cost thousands of jobs and billions of dollars.

By Brian Rausch

Dec. 23, 2020 6:00 a.m.

2019 2020

DEC. 2019

Thousands of miles away from Texas, the coronavirus begins to spread in China. By the time its effects are felt in the U.S. in March, the growing pandemic will have begun to ravage demand for crude, contributing to a historic downturn.



Chinatopix / AP 2020

MARCH 8, 2020

Oil markets tumble the most since the 1991 Gulf War in 1991 after the disintegration of the OPEC+ alliance triggered an all-out price-war among the world's biggest producers. Brent futures sink by 31 percent in seconds after the open of trading, falling to $31 a barrel.



Joe Klamar / AFP 2019

MARCH 7, 2020

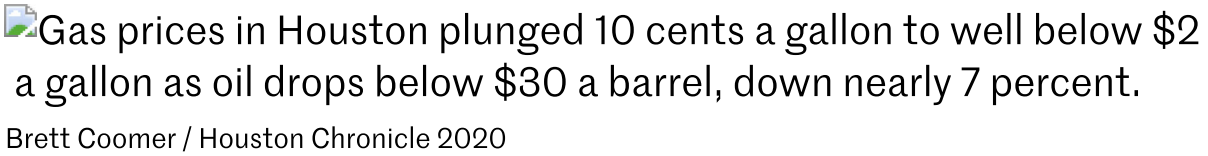
Saudi Arabia slashes prices for its crude by the most in more than 30 years. State energy giant Saudi Aramco is offering unprecedented discounts in Asia, Europe and the U.S. to entice refiners to use Saudi crude.

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Amr Nabil / AP 2019

MARCH 16, 2020

oil drops below $30 a barrel, down nearly 7 percent.

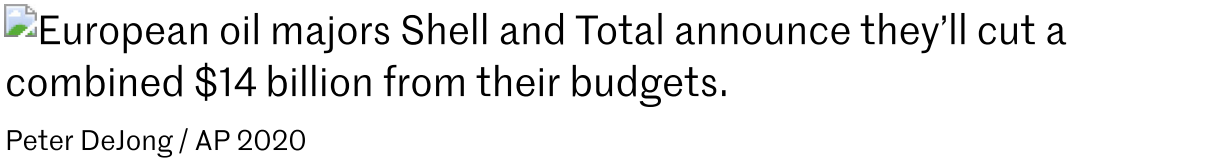


Gas prices in Houston plunged 10 cents a gallon to well below $2 a gallon as oil drops below $30 a barrel, down nearly 7 percent.

Brett Coomer / Houston Chronicle 2020

MARCH 16, 2020

European oil majors Shell and Total announce they'll cut a combined $14 billion from their budgets.

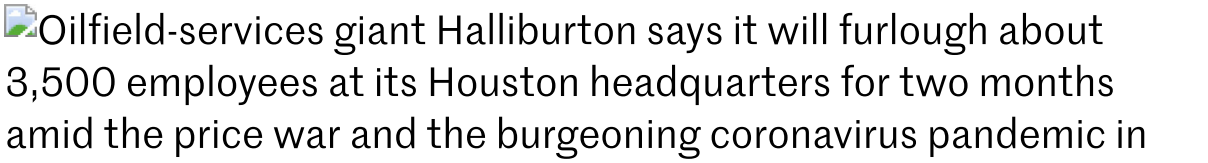


European oil majors Shell and Total announce they'll cut a combined $14 billion from their budgets.

Peter DeJong / AP 2020

MARCH 18, 2020

Oilfield-services giant Halliburton says it will furlough about 3,500 employees at its Houston headquarters for two months amid the price war and the burgeoning coronavirus pandemic in the U.S.

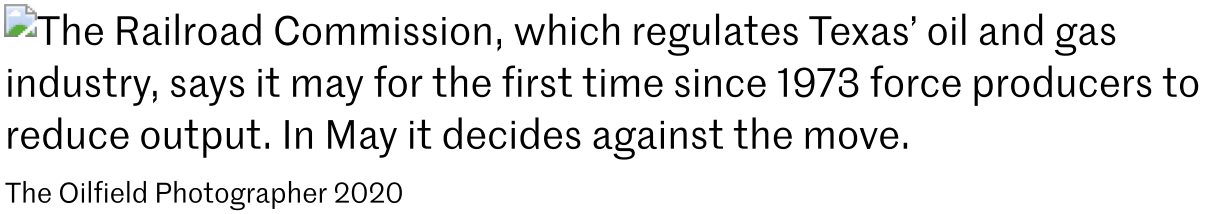


Oilfield-services giant Halliburton says it will furlough about 3,500 employees at its Houston headquarters for two months amid the price war and the burgeoning coronavirus pandemic in the U.S.

Steve Gonzales / Houston Chronicle

MARCH 19, 2020

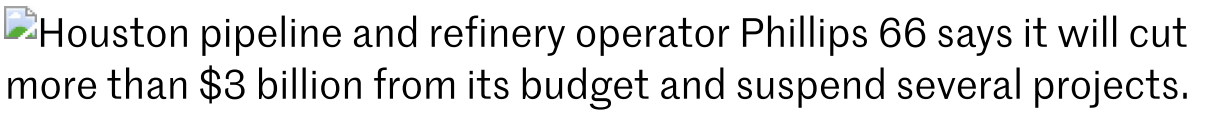
The Railroad Commission, which regulates Texas' oil and gas industry, says it may for the first time since 1973 force producers to reduce output. In May it decides against the move.



The Oilfield Photographer 2020

MARCH 24, 2020

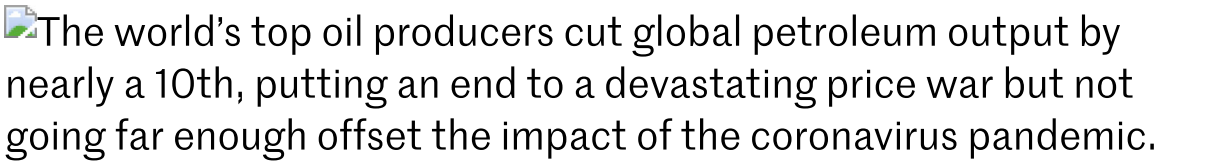
Houston pipeline and refinery operator Phillips 66 says it will cut more than $3 billion from its budget and suspend several projects.



2020

APRIL 12, 2020

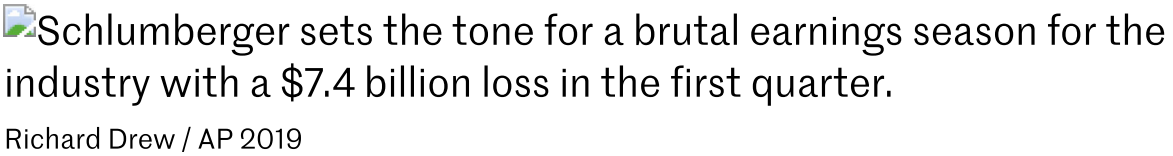
The world's top oil producers cut global petroleum output by nearly a 10th, putting an end to a devastating price war but not going far enough offset the impact of the coronavirus pandemic.



Brett Coomer / Houston Chronicle

APRIL 17, 2020

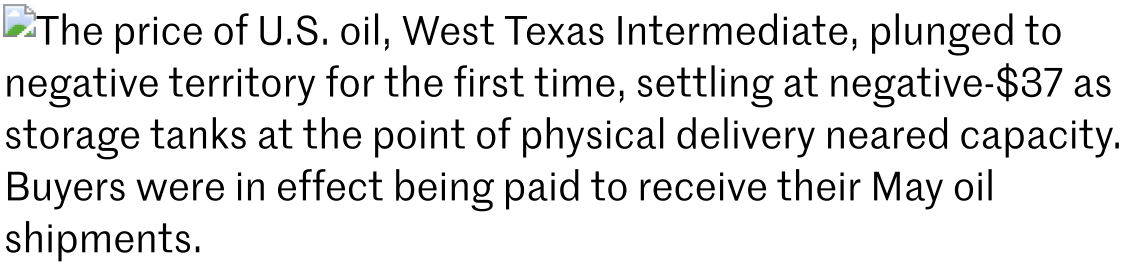
Schlumberger sets the tone for a brutal earnings season for the industry with a $7.4 billion loss in the first quarter.



Richard Drew / AP 2019

APRIL 20, 2020

The price of U.S. oil, West Texas Intermediate, plunged to negative territory for the first time, settling at negative-$37 as storage tanks at the point of physical delivery neared capacity. Buyers were in effect being paid to receive their May oil shipments.



Bloomberg

MAY 1, 2020

Losses continue for industry linchpins: Exxon Mobil loses $610 million in the first quarter and Houston refining and pipeline company Phillips 66 loses $2.5 billion.

million in the first quarter and Houston refining and pipeline company Phillips 66 loses $2.5 billion.

Richard Drew / AP 2020

MAY 20, 2020

Oil begins to surge, rising about 70 percent since the start of May. The turnaround comes quicker than most expected but required painful production cuts and the world's risky first steps out of coronavirus lockdown.

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James Durbin / AP

JUNE 7, 2020

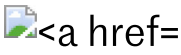
OPEC and its allies agree to a one-month extension of its record oil-production cuts and adopt a stricter approach to ensuring that members don't pump more than they pledged.

OPEC and its allies agree to a one-month extension of its record oil-production cuts and adopt a stricter approach to ensuring that members don't pump more than they pledged.

Joe Klamar / AFP

JUNE 8, 2020

BP says it will lay off nearly 10,000 workers by the end of the year as it responds to the oil crash after a self-imposed 90-day moratorium on job cuts.



Hollie Adams / Bloomberg

JULY 2020

Second-quarter results roll in and they're often worst than those of the first. Exxon Mobil $1.1 billion (its first consecutive quarterly loss in 30 years), Occidental $8.4 billion, Chevron $8.3 billion and Schlumberger $3.4 billion.

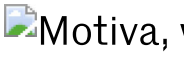


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Liz Hafalia / SF Chronicle

AUG. 11, 2020

Motiva, which operates the largest U.S. refinery in Port Arthur, says it will cut 10 percent of its workforce by September. Meanwhile, bankruptcies soar during the third quarter with

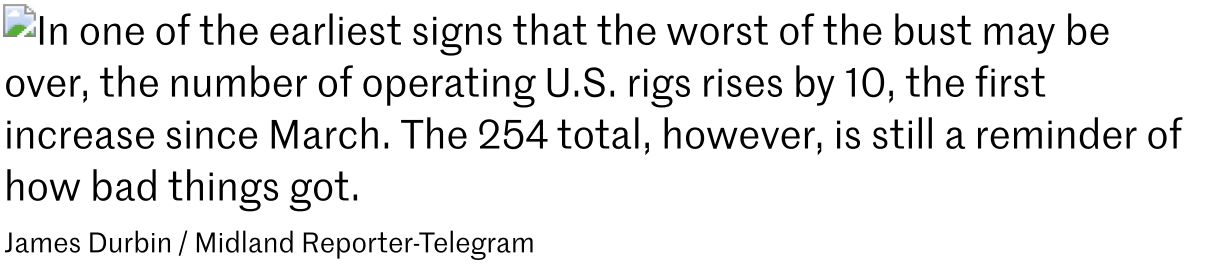


Motiva, which operates the largest U.S. refinery in Port Arthur, says it will cut 10 percent of its workforce by September. Meanwhile, bankruptcies soar during the third quarter with

Jon Shapley / Houston Chronicle

AUG. 21, 2020

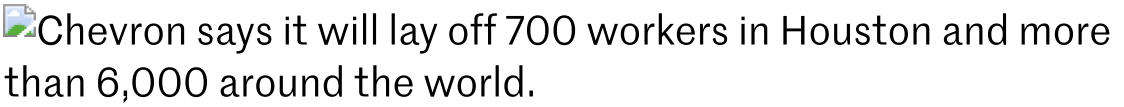
In one of the earliest signs that the worst of the bust may be over, the number of operating U.S. rigs rises by 10, the first increase since March. The 254 total, however, is still a reminder of how bad things got.



James Durbin / Midland Reporter-Telegram

OCT. 8, 2020

Chevron says it will lay off 700 workers in Houston and more than 6,000 around the world.



Paul Chinn / SF Chronicle

OCT. 16, 2020

Financial results in the third-quarter bolster the idea that things are getting better, as companies report significantly smaller losses than earlier in the year. Schlumberger lost “just” $82 million and Chevron $207 million.

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Richard Drew / AP

OCT. 22, 2020

Exxon CEO Darren Woods reverses course and says job cuts are inevitable. The company, which employs about 16,000 in the Houston area, eventually slashes 15 percent of its workforce, or about 14,000 global jobs.

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Melissa Phillip / Houston Chronicle

NOV. 25, 2020

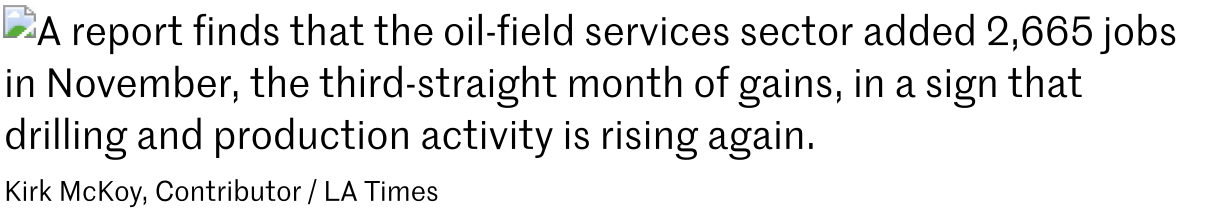
The price of U.S. oil jumps to an eight-month high on optimism about a coronavirus vaccine.

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Fran Ruchalski, The Enterprise / The Enterprise

DEC. 8, 2020

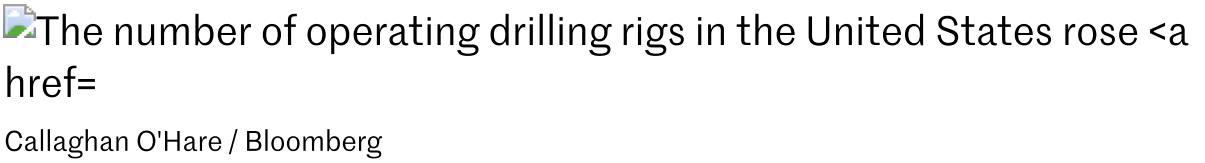
the third-straight month of gains, in a sign that drilling and production activity is rising again.



Kirk McKoy, Contributor / LA Times

DEC. 19, 2020

The number of operating drilling rigs in the United States rose to the highest level since May as oil prices moved within striking distance of $50 a barrel.



Callaghan O'Hare / Bloomberg

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