

FUTURES SHOCK: THE HINDU EDITORIAL ON OIL PRICE FALL BELOW \$0

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Foreign Capital, Foreign Trade & BOP

Five decades after the oil shock of 1973, when an Arab embargo on the supply of oil to some western powers including the United States sent the price of crude skyrocketing fourfold to \$12 a barrel, the global economy faces a fresh shock from a free-fall in oil prices. On Monday, May futures for the West Texas Intermediate (WTI) [U.S. crude plunged below zero to touch a historic low](#) of -\$40.32 a barrel. A negative price implies that a seller would have to pay the buyer to hold the oil to be supplied. While the unprecedented plunge in the particular futures contract could be partly explained away as a technical anomaly given that the May contract was set to expire on Tuesday, beyond which buyers would need to be ready to take physical delivery, the reality is that oil prices are desperately in search of a bottom. A perfect storm of a supply glut exacerbated in March by a price war that saw key producers Saudi Arabia and Russia ramp up output even as demand continued to contract on account of the COVID-19 outbreak sent prices into a steeper slide. Brent crude futures have tumbled more than 67% in 2020 to about \$21 a barrel as of Tuesday afternoon in London trading, while the WTI futures have plunged about 110% to -\$5.78. The International Energy Agency observed this month, that the confinement measures instituted worldwide have resulted in a dramatic decline in transportation activity which will erase at least a decade of demand growth.

Explained | [Why are oil futures in negative terrain?](#)

With storage for crude — on land or offshore in supertankers — nearing capacity or becoming prohibitively expensive, oil producers are going to have little option but to curtail output. Saudi Arabia is reported to be considering output cuts even before a 9.7 million barrels per day deal it had struck with Russia to cut production takes effect from May. Still, merely closing the tap a notch or two is not going to redress the oversupply in the market at a time when the 'Great Lockdown' has destroyed demand on an unprecedented scale. India has prudently been using the sharp fall in both crude prices and domestic demand to accelerate the build-up of its strategic reserve. While the sliding oil prices would help significantly pare India's energy import bill, a protracted demand drought would end up hurting the government's tax revenues severely, especially at a time when it badly needs every additional rupee it can garner. Also, rock-bottom oil prices risk damaging the economies of producer countries including those in West Asia, hurting inward remittances. After the lockdown, the Centre ought to consider using this opportunity to cut retail fuel prices sharply by foregoing some excise revenue for a while in order to tease back momentum into the wider economy.

You have reached your limit for free articles this month.

Register to The Hindu for free and get unlimited access for 30 days.

Already have an account ? [Sign in](#)

Sign up for a 30-day free trial. [Sign Up](#)

Find mobile-friendly version of articles from the day's newspaper in one easy-to-read list.

Enjoy reading as many articles as you wish without any limitations.

A select list of articles that match your interests and tastes.

Move smoothly between articles as our pages load instantly.

A one-stop-shop for seeing the latest updates, and managing your preferences.

We brief you on the latest and most important developments, three times a day.

*Our Digital Subscription plans do not currently include the e-paper ,crossword, iPhone, iPad mobile applications and print. Our plans enhance your reading experience.

Why you should pay for quality journalism - [Click to know more](#)

Please enter a valid email address.

From the abrogation of the special status of Jammu and Kashmir, to the landmark Ayodhya verdict, 2019 proved to be an eventful year.

Subscribe to The Hindu now and get unlimited access.

Already have an account? [Sign In](#)

Sign up for a 30-day free trial. [Sign Up](#)

To continue enjoying The Hindu, You can turn off your ad blocker or [Subscribe to The Hindu](#).

[Sign up for a 30 day free trial.](#)

END

Downloaded from **crackIAS.com**

© **Zuccess App** by crackIAS.com

Crack