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THE OIL TURMOIL

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ABSTRACT

The oil price has declined by more than 60% from past 18 months without taking the name of recovery. In the last June, it was priced at 105 USD per barrel and now in November 2015 it is priced around 41 USD per barrel. The tumbling Crude Oil price is putting OPEC nations and other oil producing nations on toes. The current paper focuses on how declining prices would affect global economies, oil exporting countries and oil importing countries followed by the impact on inflation of global economies as lower oil prices would decrease inflation both directly by decline in price of oil related products and indirectly by decline in production cost of other goods.

Index Terms—Crude oil, OPEC, Crude oil price, Impact Analysis

I. INTRODUCTION

The oil price has declined by more than 60% from past 18 months without taking the name of recovery. In the last June, it was priced at 105 USD per barrel and now in November 2015 it is priced around 41 USD per barrel. The oil price is determined basically by demand, supply, and expectations of investors. The tumbling Crude Oil price is putting OPEC nations and other oil producing nations on toes. As on 24th August 2015, for the first time in the history of American WTI, crude benchmark traded below $40 per barrel since 2009.

The decline in oil prices would deemed to be because of increase in supply from all producing nations with an impression of not to lose their markets to the competitors. This act of exporters has affected them maximum adversely whereas the importers were gained minimum. This paper focuses on how declining prices would affect global economies, oil exporting countries and oil importing countries followed by the impact on inflation of global economies as lower oil prices

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would decrease inflation both directly by decline in price of oil related products and indirectly by decline in production cost of other goods. These repercussions may be differing from oil exporting nations and oil importing nations.

Oil production of North America has increased sharply in recent years. This lies behind the heavy increase of total oil production in the United States and Canada. Russia, Iraq and Libya have also increased production since the summer, OPEC has also increased production. An expected decrease in demand for oil due to lowered expectations for global GDP growth has also contributed to the price fall. GDP growth in China has fallen and is weak in Europe.

The following table shows the movements of Crude Oil Price in USD and INR from past 25 Months (01/12/2013 to 01/11/2015):

Date	USD Price	Change %	INR Price	Change %
1-Nov-15	41.49	-10.96%	2836	-7.56%
1-Oct-15	46.59	3.33%	3068	2.99%
1-Sep-15	45.09	-8.35%	2979	-7.77%
1-Aug-15	49.2	4.41%	3230	6.32%
1-Jul-15	47.12	-20.77%	3038	-19.54%
1-Jun-15	59.47	-1.38%	3776	-2.40%
1-May-15	60.3	1.12%	3869	2.08%
1-Apr-15	59.63	25.27%	3790	25.29%
1-Mar-15	47.6	-4.34%	3025	-1.27%
1-Feb-15	49.76	3.15%	3064	7.32%
1-Jan-15	48.24	-9.44%	2855	-15.26%
1-Dec-14	53.27	-19.47%	3369	-19.98%
1-Nov-14	66.15	-17.87%	4210	-14.62%
1-Oct-14	80.54	-11.65%	4931	-13.08%
1-Sep-14	91.16	-5.00%	5673	-2.71%
1-Aug-14	95.96	-2.25%	5831	-2.91%
1-Jul-14	98.17	-6.83%	6006	-5.22%
1-Jun-14	105.37	2.59%	6337	3.78%

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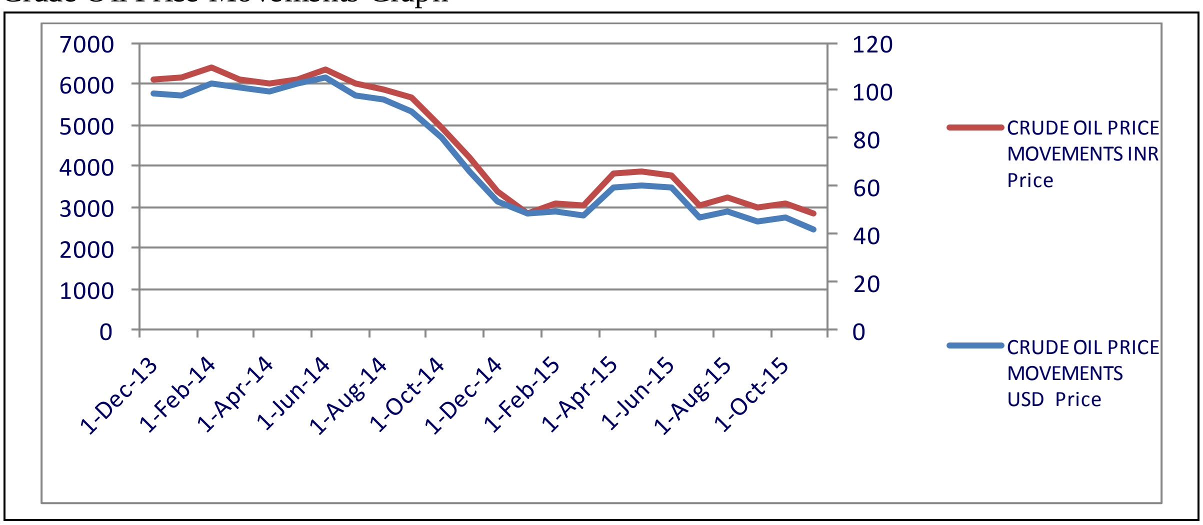
1-May-14	102.71	2.98%	6106	1.51%
1-Apr-14	99.74	-1.81%	6015	-1.70%
1-Mar-14	101.58	-0.98%	6119	-3.96%
1-Feb-14	102.59	5.23%	6371	3.27%
1-Jan-14	97.49	-0.94%	6169	0.77%
1-Dec-13	98.42	6.15%	6122	4.85%

From the above table, it is clearly evident that the price of Oil started declining continuously from July 2014, after trading at 105 USD in the month of June 2014. During July 2014, it was traded at 98 USD and now in the month of November 2015 it is trading at 41 USD respectively.

Crude Oil Price Movements Graph



II. Analysis of the Factors behind the Current Situation

The United States oil companies' domestic production has nearly doubled over the last six years. Inspite of declining prices, they managed to raise investments followed by declination in costs and showing higher production levels than expected by way of focusing on optimal productive rigs. With this, the countries that used to supply their production to U.S. shifted their focus to non oil producing nations resulting in increased competition forcing the declination of crude price.

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Devaluation of Yuan by world's second largest economy China has created ripples in the global markets and impacted adversely the Equity, Forex, Commodities, and Crude alike. So this may also be one of the reasons of declination in oil price as it is largest importer of crude.

With increase in demand for fuel efficiency vehicles in order to decrease the consumption of fuel by emerging economies is lagging the demand for fuel a bit. The OPEC countries are also pumping more oil than expected to boost the production despite of declining prices so as to put the new competitors out of the race.

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III. Impact Analysis

With decrease in oil prices, the earnings for companies that explore and produce will come down by forcing the companies to stop most of their rigs. In addition to this, the Independent oil and gas producers will decline dividends and sell assets as they report negative earnings. Few oil companies may go out of business with increased debt burden, or pressure the banks to lend them.

In light of the above, the share prices of oil equities and oil futures that produce oil & gas may also decline leaving the investor to lose his/her hard earned money. By stopping the production and exploration, the companies will be forced to lay off the workers which in turn decrease the source of income to the individuals adversely affecting the economy. In addition, the companies that manufacture drilling and production equipment will also show a sharp decline in their earnings because of curtailed production and exploration of oil.

It seems the rulers in India are taking the advantage of the situation to offset the losses arised from offering subsidised oil earlier. Hence, the oil price is not that much responsive to the movements of oil price in International Markets.

IV. Supply Demand Playoff

The U.S. oil companies' domestic production has nearly doubled over the last 6 years. Rising supply from producing countries and slowing demand from emerging nations' has declined the price of oil. From past few months, in order to maintain the oil prices intact, the government has maintained more than expected inventories that now mounting pressure on oil prices to decline further.

With increase in demand for fuel efficiency vehicles in order to decrease the consumption of fuel by emerging economies is lagging the demand for fuel a bit. As per market news, OPEC countries are also pumping more oil than expected to boost the production despite of declining prices so as to counter the new competitors.

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