

## Falling Crude Oil Prices

### What is the issue?

\n\n

\n

- The global Brent crude oil prices have fallen significantly in the recent weeks from \$86.29 to \$63.3 per barrel.

\n

- With this, Indian petrol and diesel prices have also fallen slightly, while the rupee has strengthened against the dollar.

\n

\n\n

### What are the driving factors?

\n\n

\n

- Trump's sanctions on Iran have not had a huge impact on Iran's oil production.

\n

- This may be because Trump has permitted Iran's largest customers (Japan, China, and India) to continue buying oil temporarily.

\n

- Importantly, Saudi Arabia and other major oil producers have been holding back production of oil since 2017.

\n

- But these have now started to produce oil in ample amounts in order to ease consumer worries.

\n

- Trump's pressure on Saudis to avoid production cuts has further pushed the price slump.

\n

- Alongside, there is also a surge in crude output at three biggest producers - US, Russia, and China.

\n

- Output has also risen in Libya, despite continuing warfare.

\n

- It has also remained better than expected in Venezuela, another troubled country.

- \n
- Volumes of oil held in storage tanks around the world are beginning to build again.
- \n

\n\n

## What are the implications?

\n\n

- \n
- The fall in prices has been a dramatic shift of sentiment in just about a month. Traders, thus, fear another supply glut amid dimming demand prospects.
- \n
- As, a protracted US-China trade war is seen as negative for oil demand.
- \n
- Car sales in China as well as India have also slowed this year, hurting fuel demand.
- \n
- The price fall reminds of the industry-rattling crash in 2014, a big worry for members of Organization of Petroleum Exporting Countries (OPEC).
- \n
- Notably, the economies of these countries are closely tied to oil revenues.
- \n
- **India** - Lower oil prices mean that India's oil import bill in 2018-19 would be lower than predicted before.
- \n
- This, in turn, would mean
- \n

\n\n

- \n
- i. less pressure on rupee
- \n
- ii. narrowing current account deficit
- \n
- iii. lower subsidy payout
- \n
- iv. higher public resources for other welfare projects
- \n
- v. lower risk of inflation
- \n
- vi. increased room for RBI to cut interest rate
- \n

\n\n

\n

- The rupee, which was also hovering above 74 a dollar, has gained and is now below 72.

\n

- Notably, variation in exchange rate by one rupee changes oil import by Rs 6,639 crore.

\n

- These two factors of global crude oil prices and exchange rate are the major contributors to retail fuel prices in India.

\n

\n\n

### How does the future look?

\n\n

\n

- Saudi has said production cut of about 1 million barrels a day from October, 2018 levels is needed to deal with current imbalance.

\n

- Saudi Arabia will never let a glut build again in future.

\n

- But it may struggle to persuade producers like Russia and Iraq to join in making cuts.

\n

- Saudi has to balance between pressures from Trump administration for lower oil prices and its own economy's need for higher revenues.

\n

- The OPEC is expected to decide on a supply cut of 1-1.4 million barrels per day when it meets next in Vienna in a month.

\n

\n\n

\n\n

**Source: Indian Express, Economic Times, NYT**

\n