

Falling Crude Oil Prices

What is the issue?

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

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

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What are the driving factors?

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

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

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

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

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

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

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

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

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

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What are the implications?

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- 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.

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- As, a protracted US-China trade war is seen as negative for oil demand.

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- Car sales in China as well as India have also slowed this year, hurting fuel demand.

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- The price fall reminds of the industry-rattling crash in 2014, a big worry for members of Organization of Petroleum Exporting Countries (OPEC).

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- Notably, the economies of these countries are closely tied to oil revenues.

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- **India** - Lower oil prices mean that India's oil import bill in 2018-19 would be lower than predicted before.

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- This, in turn, would mean

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- i. less pressure on rupee

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- ii. narrowing current account deficit

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- iii. lower subsidy payout

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- iv. higher public resources for other welfare projects

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- v. lower risk of inflation

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- vi. increased room for RBI to cut interest rate

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

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

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

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How does the future look?

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

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

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

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

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- 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.

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Source: Indian Express, Economic Times, NYT

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