

Is it the beginning of the end for oil?

Oil is mainly used in the production of petrol and diesel, jet fuel and plastics. Right now, we're not driving very much, we're not flying, and our social conscience is increasingly focused on alternatives to plastic.

Last week, crazy trading sent the May futures contract for West Texas Intermediate crude oil into a monumental fall. Oil, per barrel, became cheaper than a McDonalds ready meal and ultimately suffered a 300% decline. Holders of the futures contract were unwilling or unable to accept delivery of the physical commodity and were forced to pay to get rid of it, meaning that the contract for an oil purchase went negative for the first time in history. During the second half of last week, there was a partial recovery due to the planned deliveries in June, when some global restrictions on lockdown are likely to be relaxed, but is this decline in oil prices a sign of things to come?

In edition 29, we talked about whether the coronavirus crisis can prevent a future green swan event. We have become increasingly mindful of the effect our actions have on nature and the environment, and the data that we will garner from this highly unusual period could be the catalyst that sparks a more deliberate move to reduce our carbon footprint.

Italy are leading the way in the sustainability race with a plan to reduce pollution and protect residents by restricting car use in Milan and the surrounding Lombardy region.



These areas of Northern Italy are among Europe's most polluted and have been hit hard by the Covid-19 outbreak. Under the nationwide lockdown, motor traffic congestion has dropped by 30-75% and a significant decrease in air pollution has also been identified. The city has announced that 35km of streets will be transformed over the summer as Covid-19 restrictions are lifted, as part of a rapid, experimental citywide expansion of cycling and walking space.

In the UK, the acceleration of sustainable living could be slower as we don't have the transport network that other countries currently benefit from, but it is likely that car use will become restricted in some UK cities. In Leeds, for example, the emission charge plans to replicate the London system may become a reality sooner than we thought.

The potential reshaping of our behaviour and the introduction of new government schemes to support sustainable living could accelerate the decline in oil usage.

Some believe that oil will bounce back, but we have already seen a similar downward trend with natural gas prices that never fully recovered after the Financial Crisis. If there is an oversupply and demand is low, the price of oil will stay down.

In the US, refineries have already cut fuel production by 25%. Oil companies are paring back spending and closing wells. The wild trading in the futures market last week was a warning to curb production now because at some point the world will not be able to store any more supply. It will be survival of the fittest in the oil patch, with many companies going out of business as a result.

Oil has been a stable part of a portfolio for generations, but a more sustainable slant is likely to be applied going forward. Companies will be forced to look at other ways of producing energy because this could be the beginning of the end for oil...

QUIZ: What and when was the highest recorded oil price per barrel?

LAST WEEK'S ANSWER: According to the ONS, the UK spent £4.94 million on their pets in 2018