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FOX BUSINESS

Oil prices could fall below zero: Analyst

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Plunging oil prices could be headed a lot lower – possibly below zero, according to one Wall Street analyst.

West Texas Intermediate crude oil, the U.S. benchmark, fell by more than 10 percent Wednesday to near $24 a barrel, a level last seen in April 2002.

"Oil prices can go negative," wrote Paul Sankey, managing director at Mizuho Securities.

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global economy to a standstill by prompting “shelter in place” orders, social distancing between people and the cancellation of non-essential travel. The sharp slowdown in economic activity has curtailed the need for oil.

If that weren't enough, Saudi Arabia recently slashed oil prices and raised output after Russia refused to join OPEC in deepening production cuts.

Oil is a 100 million barrel-per-day market, but Sankey says it’s possible that the economic fallout from the pandemic could zap demand, creating a 20 million barrel-per-day surplus.

He says the “physical reality” of the market is that oil is pumped out of the ground and has to be consumed or stored. When the cost of storage goes high enough -- or space runs out -- companies might pay customers to take it.

For now, President Trump has ordered the Department of Energy to take advantage of low prices by stepping into the market and buying oil for the Strategic Petroleum Reserve.

The reserve can build at 2 million barrels per day, meaning that it has four months until it’s at capacity, Sankey said.

By then, he added, high-cost oil from the Bakken shale formation in the U.S. or bitumen from the Canadian oil sands, "prices negatively because it exceeds needs" and requires storage, Sankey wrote. “Negative prices are simply a higher cost of storage than market.”

Sankey isn’t the only one on Wall Street who is sounding the alarm about the coming flood of oil.

Excess supply from OPEC and Russia, coupled with crumbling demand "are leading to concerns about a surplus that could overwhelm global storage,” wrote

19 and the price war between Saudi Arabia and Russia could cause inventories to swell by 900 million barrels in the second quarter alone. He estimates the world currently has about 1.5 billion barrels of available storage.

Blanch's worst-case scenario isn't as dire as Sankey's.

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"In a severe scenario, if the market struggles to find a home for surplus barrels, then oil prices might have to trade down into the teens," he wrote.

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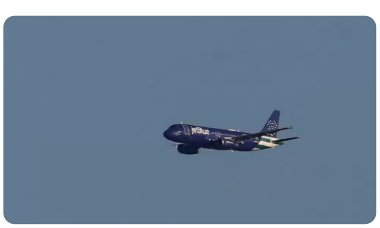

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