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Oil prices turned negative. Hundreds of US oil companies could go bankrupt

By Matt Egan, CNN Business
Updated 10:36 PM ET, Mon April 20, 2020

Oil producers grapple with demand collapse
Global oil crisis: Bottom of the barrel is still unclear

New York (CNN Business) The American oil industry is facing a doomsday scenario.

The coronavirus pandemic has caused oil demand to drop so rapidly that the world is running out of room to store barrels. At the same time, Russia and Saudi Arabia flooded the world with excess supply.

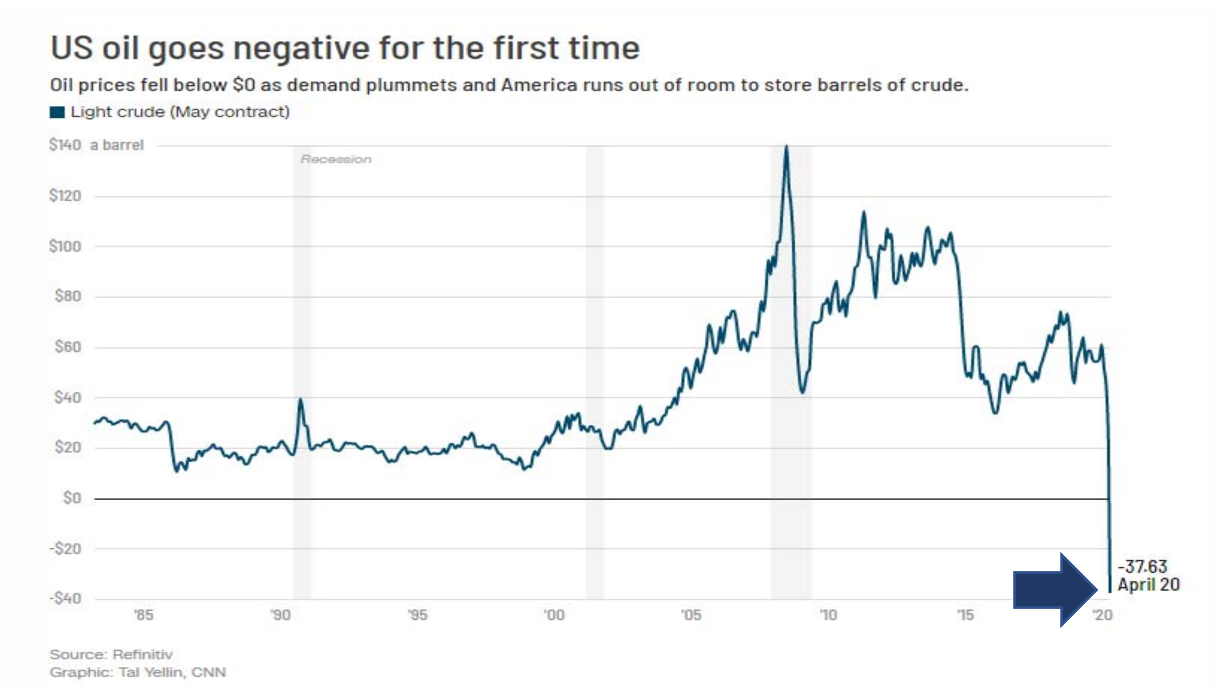
That double black swan has caused oil prices to collapse to levels that make it impossible for US shale oil companies to make money. US crude for May delivery turned negative on Monday -- something that has never happened since NYMEX oil futures began trading in 1983. It was easily the oil market's worst day on record.

US crude for June delivery is still trading above $20 a barrel — but even that's disastrous.

"$30 is already quite bad, but once you get to $20 or even $10, it's a complete nightmare," said Artem Abramov, head of shale research at Rystad Energy.

Many oil companies took on too much debt during the good times. Some of them won't be able to survive this historic downturn.

In a $20 oil environment, 533 US oil exploration and production companies will file for bankruptcy by the end of 2021, according to Rystad Energy. At $10, there would be more than 1,100 bankruptcies, Rystad estimates.



"At $10, almost every US E&P company that has debt will have to file Chapter 11 or consider strategic opportunities," Abramov said.

OPEC cuts failed to end the panic

The most stunning part of the record low in oil prices is that it comes after Russia and Saudi Arabia agreed to end their epic price war after President Donald Trump intervened. OPEC+ agreed to cut oil production by a record amount.

Trump said the OPEC+ agreement would save countless jobs and much-needed stability to the oil patch.

"This will save hundreds of thousands of energy jobs in the United States," Trump tweeted on April 12. "I would like to thank and congratulate President Putin of Russia and King Salman of Saudi Arabia."

Yet crude has kept crashing, in part because those production cuts don't kick in until May. And demand continues to vanish because jets, cars and factories are sidelined by the coronavirus pandemic.

The hope in the oil industry is that Monday's negative prices are somewhat of a fluke caused by the rolling over futures contracts.

The record low in the May contract comes on very thin trading volume ahead of Tuesday's expiration. That's because there are concerns that there will be no room to store those barrels delivered in May. The June contract, however, only dropped around 10% to $22 a barrel. And Brent crude, the world benchmark, fell just 5% to $26.50 a barrel.

Still, oil contracts roll over each month and they don't crash to record lows.

"There will be a lot of companies that don't survive this downturn," said Ryan Fitzmaurice, energy strategist at Rabobank. "This is one of the worst on record."

'Unprecedented' stress in the oil industry

Signs of stress abound in the oil patch.

The S&P 500's energy sector has lost more than 40% of its value this year — despite the dramatic rebound in the overall stock market over the past month.

Noble Energy (NBL), Halliburton (HAL), Marathon Oil (MRO) and Occidental (OXY) have all lost more than two-thirds of their value. Even Dow member ExxonMobil (XOM) is down 38%.

Whiting Petroleum became the first domino to fall when the former shale star filed for Chapter 11 protection on April 2. But it certainly won't be the last.

Rystad's $20 scenario predicts more than $70 billion of oil company debt will get reorganized in bankruptcy, followed by $177 billion in 2021. And that only accounts for exploration and production companies, not the servicing industry that provides the tools and manpower to drillers.

The key will be how long oil prices stay dirt cheap. A rapid rebound in prices could allow many oil companies to avoid bankruptcy.

Buddy Clark, co-chair of the energy practice at Houston law firm Haynes and Boone, said his firm is "extremely busy" working on potential oil bankruptcies. Haynes and Boone has been forced to pull lawyers from other areas of the firm to work on the oil problem.

"I don't think I've seen anything like it in my lifetime. It's unprecedented," said Clark, who started working in the industry in 1982.

Clark thinks that despite the further collapse in prices, there will still be only — "only" — 100 oil bankruptcies in 2020.

"It's hard to believe that 100 bankruptcies is the optimistic view. That just shows you where we are," Clark said.

Liquidations could be on the way

There would probably be more bankruptcies already if it weren't for the extreme volatility in oil prices. Clark said companies are having trouble drawing up restructuring plans because they don't know what the price of the commodity will be.

"Ironically, the lower price has slowed down the process," Clark said. "A number of companies may have teed up filings but they need to go back to the drawing board."

The dire outlook in the oil industry will make it very difficult for companies attempting to reorganize in Chapter 11 proceedings to get the required financing and support. Debtholders who would normally swap their debt for equity may not want that equity.

That means, unlike the 2014-2016 crash, some oil companies may not survive altogether.

"Chapter 11 requires financial sponsors to back you. You may see more Chapter 7 liquidations," said Reid Morrison, US energy leader at PwC.

The nightmare scenario could present lucrative buying opportunities for the industry's biggest players. That's because struggling oil companies, either in bankruptcy or before it, will be forced to sell off prime acreage -- at fire sale prices. Exxon and Chevron (CVX), the industry's supermajors, could be tempted to make acquisitions.

"Those with strong balance sheets will be able to take advantage of the situation," said Morrison.

However, he noted the supermajors will be "cautious about pulling the trigger" in the next six months because they must defend their coveted dividends first.

The next dominoes?

The oil crash has set off a guessing game about which companies will be next to succumb to bankruptcy. The most vulnerable companies are the ones that piled on too much debt, face looming debt maturities and can't generate cash flow to even make their interest payments.

Rystad's Abramov said "no one would be surprised" if Chesapeake Energy (CHK) and Oasis Petroleum (OAS) were forced to consider bankruptcy.

Chesapeake recently suspended dividend payments on preferred stock. Its stock price crashed so low that it turned to a one-for-200 reverse stock split to comply with exchange requirements.

Shale driller Oasis has lost more than 90% of its value this year. Its stock is trading below 30 cents.

Although American frackers rebounded from the 2014-2016 oil crash, there are concerns the shale industry could be permanently scarred.

Investors were already tired of the industry's horrible returns following years of excessive spending and oversupply. And that was before the great oil crash of 2020.

WTI crude price goes negative for the first time in history

By **CAMERON WALLACE** on **4/20/2020**

HOUSTON - A perfect storm of weak demand, unbridled production by warring producers, and an exhaustion of storage capacity drove West Texas Intermediate crude to a negative price for the first time in history, closing at -$37.63/bbl.

Crude stockpiles at the Cushing pipeline hub in Oklahoma are reaching capacity, and many major pipeline operators are requiring shippers to prove their crude has a destination so that it will not strand the lines. Solutions being considered in Washington include utilizing the U.S. Strategic Petroleum Reserve as temporary storage, and deploying financial incentives to keep operators from producing and adding to the glut.

All this comes in the wake of the “OPEC++” deal, in which OPEC producers, its allies, and even competitors like the U.S., Mexico and Canada came together and agreed to a 9.7 MMbpd production cut. The amount of the cut is only about a third of global daily oversupply, however, and an agreement start date of May 1 has encouraged participants like Saudi Arabia to pump as fast as possible before the deal takes effect.

In addition to the above market factors, an expiry of May futures on Tuesday the 21st is playing a major role in the price crash, and indicate that this historic decline is more a creation of the market than one of actual demand. June futures remain positive for WTI, standing at $22.12 as of 12:50 pm U.S. Central time. Brent crude prices declined less dramatically, closing down $1.87 to $26.21, further suggesting that the WTI price crash will not persist over the coming days.

World Oil's editorial team discusses the historic closing oil price, and how it will compel actions on a state, federal and international level, on the Daily Brief podcast: https://blubrry.com/worldoilsdailybrief/59125001/daily-brief-the-oil-industry-enters-day-one-of-the-negative-price-era/

Oil for Less Than Nothing? Here’s How That Happened

By: Sheela Tobben

April 20, 2020, 4:58 PM CDT *Updated on April 21, 2020, 12:01 PM CDT*

April 20, 2020 will go down in oil-market history as the day when the U.S. benchmark price for crude dropped below zero for the first time -- and then kept falling. In a massive and unprecedented swing, the future contracts for May delivery of West Texas Intermediate tumbled to minus $37.63 a barrel. The jaw-dropping development was in no small measure down to an extreme glitch in the way oil futures operate. But it also revealed a fundamental truth about the oil market in the age of coronavirus and the aftermath of a price war: The world's most important commodity is quickly losing all value as chronic oversupply overwhelms the world's crude tanks, pipelines and supertankers.

1. Why would anyone pay to sell their oil?

For some producers, it may be cheaper in the long run than closing down production or finding a place to store the supply bubbling out of the ground. Many worry that shutting their wells might damage them permanently, rendering them uneconomical in the future. Then there are the traders who buy oil futures contracts as a way of betting on price movements who have no intention of taking delivery of barrels. They can get caught by sharp price drops and face the choice of finding storage or selling at a loss. And the escalating glut of oil has made storage space scarce, and increasingly expensive.

Why Oil Prices Went Negative

By DANIEL TENREIRO

Crude oil storage tanks at a tank farm in Cushing, Okla., in 2016.

Because storing oil costs more than the oil itself, traders are paying to get rid of their futures.

FOR the first time ever, the price of U.S. crude oil has gone negative as the coronavirus pandemic obliterates demand for energy. On Monday, traders and producers paid as much as $40 for the privilege of parting with a barrel of oil.

West Texas Intermediate (WTI) crude sold for more than $60 a barrel just a few months ago. Following the outbreak of the coronavirus, a global collapse in economic activity, coupled with a price war between Saudi Arabia and Russia, brought the price of crude to its lowest level since the 1997 Asian financial crisis. Plummeting prices have set off a mad dash to store oil, as producers hope to weather the storm and sell their supply after the pandemic. But storage space is finite and growing ever more expensive as buyers disappear from energy markets. Monday marked the first time that one month's storage costs exceeded the spot price of oil. Rather than cover those costs, traders paid to get rid of their oil.

The speed of the sell-off reflects the deadline of the May futures contract. Traders and exchange-traded funds in commodity markets exit positions by selling futures as they expire. Otherwise, they would receive physical shipments of oil — which they don't want. (It's hard to store barrels of crude in a Tribeca loft.) Monday was the last day to exit May futures before their Tuesday expiration date. As traders rushed to offload their contracts, prices collapsed — with a gap of $60 between May and June WTI futures. Commodity analysts call it "contango" when oil for delivery in the future costs more than oil for immediate delivery.

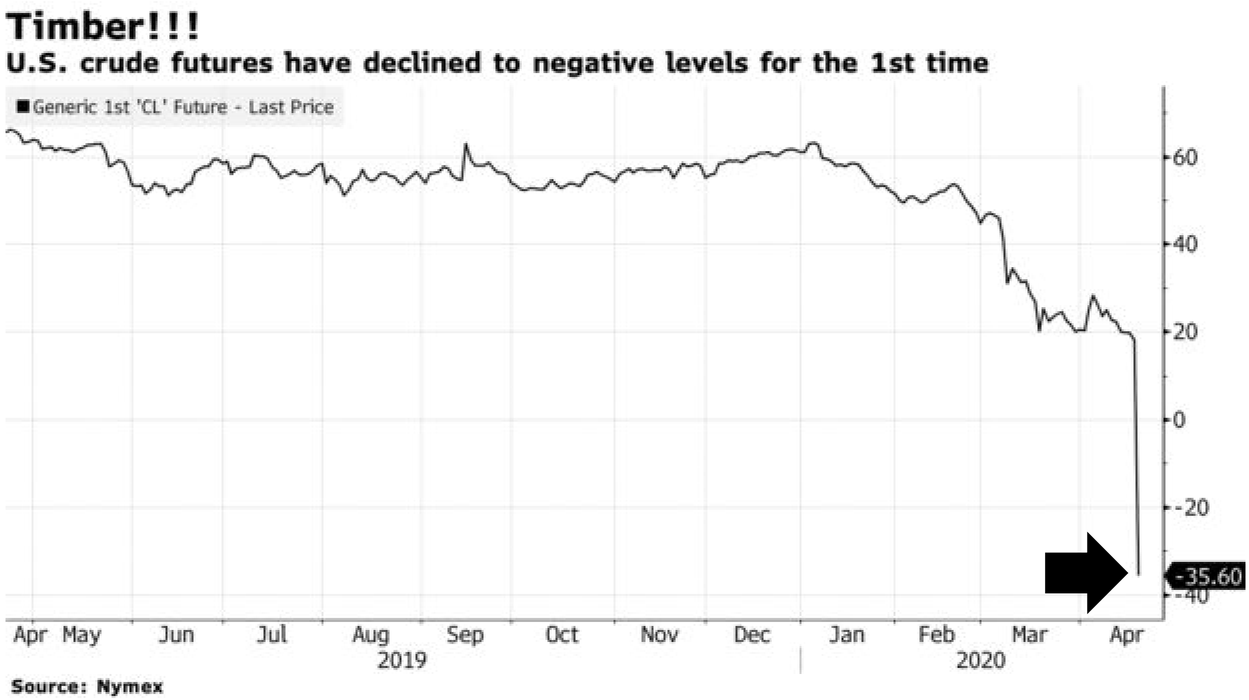
The pandemic has hit U.S. oil producers harder than their peers because the domestic oil supply is landlocked. Unlike Brent crude — a waterborne oil delivered by producers to the North Sea — WTI is traded through Cushing, Okla. Because of the higher logistical barriers of transporting oil across land, West Texas oil trades at a discount to Brent, which fell by 9 percent to $25 a barrel Monday.

The move in oil accentuates the near impossibility of stimulating the economy during a global shutdown. Just over a week ago, the U.S. and OPEC+ — an expanded oil cartel that includes Saudi Arabia and Russia — agreed to cut production by nearly 10 million barrels a day. Despite unprecedented international coordination, with the U.S. government intervening in energy markets for the first time, supply cuts have failed to prop up prices. No amount of output restrictions can force planes into the air or workers into the factory. And the pandemic comes at a time of massive global output driven by the U.S. fracking boom.

Collapsing oil prices will hurt high-cost producers the most, including those in the U.S. and emerging economies such as Venezuela, Nigeria, and Angola. Shale producers lose money when the price of crude sinks below $50. Facing a protracted demand slump, high-cost producers will "shut in" supply, closing oil wells until prices stabilize. For highly leveraged U.S. shale companies, near-zero revenues will likely lead to bankruptcy. For petrostates such as Venezuela, negative oil prices could pose an existential threat.

But when economic activity picks up, shuttered production is expected to cause a large increase in the price of oil: Demand will pick up just as wells shut down. In the long run, the U.S. may stand to benefit from depressed prices. For one, consumers will face lower prices at the pump, and businesses will pay less for energy. But beyond that, shale has an inherent advantage in that wells can be shut down and restarted relatively easily.

Once markets normalize, oil and gas fields that have shut down will take years to bring back online, and shale producers will be well positioned to fill that demand. In the meantime, though, we'll likely see consolidation in the oil industry as oil majors with healthy balance sheets buy up distressed shale assets.



2. Where did the glut come from?

Either the pandemic or the price war alone would have rocked energy markets. Together, they have turned them upside down. As the virus started to spread around the globe, it began eating away at oil demand. But just as countries like Italy showed what kind of damage a national lockdown could do economically, Saudi Arabia and Russia, the world's biggest oil producers, escalated the price war. A pact that had restrained production collapsed and both countries opened their taps to the fullest, releasing record volumes of crude into the market.

3. Wasn't there a deal on that?

Yes, one worked out by OPEC, Russia, the U.S. and the Group of 20 countries. But its call for an overall production cut of roughly 10% proved to be too little, too late. Prices initially turned negative just in obscure corners of the U.S. market such as Wyoming, where storage options are few. Then major hubs began to register negative prices for small streams of selected crudes. And on April 20, prices fell sharply below zero on the NYMEX exchange, which is owned by CME, the world's largest energy market.

4. What did futures contracts have to do with that?

The lowest prices came in trades in futures -- contracts in which a buyer locks in a purchase at a stated price at a stated time. Futures are a tool for users of oil to hedge against price swings, but also a means of speculation. The contracts run for a set period, and traders who don't want to unwind their position or take delivery generally roll over their monthly contracts shortly before expiration to a month further in the future. Contracts for May delivery were due to expire on April 21, putting maximum pressure the day before on traders whose contracts were coming due. For them, selling at a steeply negative price was better than taking delivery of actual oil because nobody needs it and there are fewer and fewer places to put it.

5. What happened to other oil prices?

Brent futures, the benchmark for Europe in London, ended April 20 down sharply but still above $25 a barrel. The physical domestic crude market in the U.S. saw negative trades for grades like WTI in Midland, Mars Blend, Light and Heavy Louisiana Sweet crudes. Horrified by negative benchmark prices, some U.S. oil producers began offering crude at fixed prices for the first time since an oil rout in 2014-15. The WTI futures contract for June delivery changed hands at $20 a barrel on April 20 before falling further the next day -- highlighting the extent to which the rout was being caused by the massive glut in the market rather than just a technical quirk. Ever tightening constraints on storage capacity mean the June contract may also turn negative, according to one of the top trading houses.

6. What's happening to storage?

Since the glut began to build and prices began to fall, storage facilities have been moving toward capacity. Crude stockpiles at Cushing in Oklahoma -- America's key storage hub and delivery point of the WTI contract -- have jumped 48% to almost 55 million barrels since the end of February. The hub had working storage capacity of 76 million as of Sept. 30, according to the Energy Information Administration. The industry has been accumulating supply aboard ships, while contemplating other creative options such as storing oil in rail tanker cars. The Trump Administration, which is concerned about the possible ripple effect from oil bankruptcies, is eyeing a proposal, which is still in its infancy, to pay drillers to keep their oil in the ground temporarily. The idea would be to keep it off the market until prices recovered, giving the Treasury a healthy profit eventually while protecting producers from immediate losses.

7. What does this mean for consumers?

Nationwide, the average gasoline price is down more than $1 a gallon in the past year to $1.81. It's fallen every day since late February. It'll take a couple more weeks for the declines in futures prices to be reflected at the pump. And with taxes making up part of the price, there's only so low they can go.

Oil prices go negative — and Washington is paralyzed over what to do

Reports that the Trump administration was considering paying oil companies not to pump oil have not comforted oil executives.

By **BEN LEFEBVRE**
04/20/2020 02:25 PM EDT
Updated: 04/20/2020 03:29 PM EDT

An oil refinery in Texas. | David J. Phillip/AP Photo

Airlines, restaurants, retailers, farmers and a slew of other industries are getting billions of dollars in bailouts as the U.S. economy contracts because of the coronavirus.

U.S. oil futures prices fell to their lowest-ever level by far on Monday, at -$37.63 per barrel, meaning owners of the futures contracts were paying to offload them. It broke the previous low-price record near $10 a barrel set in 1986 and comes as policymakers struggled to address the glut of crude that has seen the industry reverse a decade-long boom and sink into a deep recession that threatens to push dozens of companies into bankruptcy.

U.S. policymakers for decades have focused their policies on ensuring the oil supply shocks that damaged the U.S. economy in the 1970s would not return, and they created a national reserve to backstop the market and ensure supplies were available to fill up the nation's fleet of automobiles and trucks. But with U.S. production hitting record levels late last year and storage tanks now brimming with fuel, Washington has few tools at its disposal to lift oil prices to levels needed to sustain the energy industry.

“The U.S. government's ability to fundamentally change this situation are minimal,” said Raymond James oil analyst Pavel Molchanov. “The real problem is the fact that upwards of 20 percent of global oil demand is currently offline, mainly due to the Covid-related lockdowns. “

President Donald Trump won praise last week for helping push Russia and Saudi Arabia to end a market standoff and reduce shipments oil. But those cuts won't take effect until next month, hurting near-term prices for crude and leaving oil producers scrambling to find storage for their production.

A White House spokesperson referred questions about any new efforts to aid the oil industry to the National Security Council, which did not respond. A Department of Energy spokesperson did not reply to questions.

After Congress rejected an Energy Department request for $3 billion to buy oil to top off the nation's Strategic Petroleum Reserve, the agency altered course and is now allowing companies to lease space in the facilities for 30 million barrels of oil. But even that amount, as well as another 47 million barrels that could flow into federal storage in the coming weeks, will do little to sop up the extra production that is adding more than 2 million barrels per day to private storage tanks.

Reports that the Trump administration was considering paying oil companies not to pump oil under a plan that would reclassify those supplies still in the ground as part of the nation's strategic reserves have not comforted oil executives.

Dan Eberhart, chief executive of oil services company Canary LLC, dismissed the talk of paying drilling companies to keep the oil in the ground as mostly “head fakes.”

“A tidal wave of bankruptcies is about to hit the sector,” Eberhart said.

U.S. May crude oil futures sunk under $6 a barrel as traders were forced to roll out of their investments ahead of the contract's expiration. The active June contract was down about $2.50 to $22.60 a barrel.

And industry officials who have met with the White House have previously said that administration officials have assured Saudi Arabia that the federal government would not directly aid U.S. oil and gas companies, and would instead allow the market conditions to drive business decisions to reduce the oversupply in the market.

OPEC, Russia and a group of other producers agreed to cut production by 9.7 million barrels per day starting in May, and producers in the U.S. and Canada are shutting down wells in a retrenchment that's expected to remove millions of more barrels in the coming months. Until that supply shrinks or there is a rebound in global demand — which is estimated to have declined by 20 million to 30 million barrels per day — there is little chance the industry will return to firm footing.

To make matters worse, a group of oil tankers that left Saudi Arabia before the country agreed to cut production is currently heading toward the U.S. That oil will further strain storage capacity unless another country buys them before they reach the U.S.

“It’s like some movie from the 1980s where the U.S. president and the Soviet premier come to an agreement" to halt a nuclear war, "[but] one plane missed the call back,” said one industry official tracking the ships but was not authorized to speak to the press.

SUMMARY

These articles document that on April 20, 2020 the price of West Texas Intermediate (WTI) crude oil went negative for the first time EVER in the history of commodities trading!!

On April 20, 2020 commodities traders actually PAID buyers to take their oil!   The buyers received $35.60 for every single barrel they *“purchased”* that day.

This first-ever condition only lasted one day ... but it was a record setting day to be remembered well into the future!