

Oil prices begin to drop: reasons and aftermaths

[Business](#), [Industries](#)



Oil prices will definitely begin to drop. This won't stay for very long, but it will still affect the economy really bad. Some say about a level below \$44 a barrel can drag an energy product to \$35 and a further fall to \$13.5. Others see prices plummeting to as low as \$20 a barrel.

According to Raoul Pal crude prices could crash to \$20 due to a strong dollar and weak economy in Europe and China. Between 2015 and 2016, it came down for about 51% lower. Prices of Brent crude, which matters more for India, were quoted at \$58.35 a barrel early on Thursday. Western Texas crude was ruling at \$48.54 a barrel. Supplies in the USA have increase to 80-year high of 448.8 million barrels. The EIA (Energy Information Administration) tells that the world is oversupplying by finding its way to storage in North America. Not all producers will be able to run at these low costs and their business will break down. The average cost of producing shale oil in the US is \$61 a barrel. While production costs are lower for some, they are in the high \$80s for others. US government data showed that shale oil drillers have become vulnerable to lower prices. The problem of oversupply will continue since the Organization of Petroleum Exporting Countries, which accounts for 40% of the global production, and US shale oil producers are locked in a tussle to assert their supremacy. It could be possible that they lose market share by cutting production and pushing up all the prices. For OPEC, Saudi Arabia has been the prime force in not agreeing to any production cut, which could boost prices psychologically. The situation is is still facing with economies around the world such as, Venezuela, Russia, Ecuador and Nigeria being affected by the crude oil plunge. They fear that this will lead to serious economic and social problems

in West Asia, which depends on earnings from crude oil. Job cuts and recession are a big possibility with everything that's happening. Cheaper crude oil will result in drop in production costs for various industries. Ethanol, heating oil, natural gas, coal, copper, steel, corn, cotton, rice, rubber, soybean, sugar, rice and wheat have all dropped by over 20% in the last one year. This means returns to farmers will be lower, thus curbing their purchasing power. This will definitely affect consumer goods and things such as technology. With crude oil prices ruling low, natural rubber will be on lease since the user industry has the option to switch over to cheaper synthetic rubber. Corn and vegetable oils will also be under pressure in view of lower prices. Ethanol production at current crude oil level is unviable, while demand for vegetable oils for biodiesel will be subdued. The backfire is that other dangers such as exports can be affected. For example, India depends on West Asia and Russia a lot for its exports. When these economies suffer from lower crude oil prices, they will tend to import less or ensure that their foreign exchange outgo is curbed. In turn, Indian shipments abroad could be hit.

Another drawback that this can bring Kuwait is that, it produces very little outside of the oil industry. The Majority of food and other products are imported INTO the country. So, the prices are about 70% higher than they are in many other countries, such as in London. The country thrived on immigration after the discovery of oil, but in recent times expats have been blamed for the issues that a rising population can lead to. The cost of producing a barrel of oil - which is on a downward trend - can be a factor to stop the possible exaggerated momentum of oil price on international

markets; on the other hand, however, in this equation an important role is played by the cost of money!