

Price drop of crude oil

[Linguistics](#), [English](#)



PRICE DROP OF CRUDE OIL Price drop of Crude Oil Introduction Crude oil is a determinant of economic progress. Therefore, the fluctuating price per barrel is of importance to the oil dealers and nations at large. In the recent past, the prices of crude oil have experienced a rapid decline in the world's oil market. The changes have made various countries that entirely depend on oil exportation have experience quite a hard economic time as a result. According to the economist in the oil industry, a combination of factors has played a significant role in scaling down the prices of crude oil. Some of them include the oversupplying of the product, inflated American currency and the impact of Organization of the Petroleum Exporting Countries (OPEC). In addition, several deals that America has made with war-torn oil-producing countries. The art article addresses the factors mentioned above.

The quantity of crude futures declined in the recent past on concerns that the global oversupply is hurriedly filling oil stocks. Total petroleum output in the year 2015 is expected to go up to 9.35 million barrels every day. The quantity is slightly more than the 9.3 million barrels daily forecast in the previous period, the Energy Information Administration (EIA) highlighted last week in its monthly short-term energy outlook. Independently, oil stocks went up more than anticipated marking the several consecutive week of a higher overall than at any other time for the last 80 years and more. The American commercial crude oil stocks rose by approximately 4.5 million barrels from the previous week; the EIA said Wednesday.

Body paragraph 1: Negative impact by the OPEC

Another reason weighing on oil price is the OPEC policies on the export of crude oil to the global market. As a result, the American oil output could be

adversely affected in the recent years due to low oil prices offered by the OPEC countries. In addition, OPEC also outlines that the lower global oil prices may have affected the marginal barrel output from other sources, such as shale. The OPEC is a significant body in the oil industry. Therefore, its decisions and marketing affects trade in crude oil because it controls a large percentage of the world's fuel production. As such, any decision that they make directly affects the market prices of the commodity (Why the oil price is falling , 2014).

In this case, the petroleum trading block may take actions targeting their competitors in order to establish gain control of a larger market. Such activities may include flooding the market with the commodity leading to market forces coming into play and hence price decline. The decrease in the prices would in turn translate into losses and limit the number of traders in the commodity. Therefore, the OPEC stands to benefit from few traders or enjoy a monopolistic market altogether. The unplanned supplies of the product resulting from crucial OPEC decisions facilitate price disruptions and tighten conditions of the global market.

Body paragraph 2: Iran and Tehran nuclear deals

The American foreign policies also affect the pricing of crude oil. Notably, deals to counter terrorism directly affect the quantity of the commodity in the market. America has been in the frontline in the war on terrorism. As such, the country has formulated various policies aimed at reducing terrorism. Such policies have been affected towards Iran and Tehran for their alleged involvement in nuclear weapon manufacturing. In this case, the two countries are prohibited from placing their products in major global markets.

However, USA and the two countries have signed several deals that have seen the reintroduction of petroleum product from two nations. In this case, the total global supplies increase prompting the market forces to push the prices downward. The increased amount of the product for a constant market target market results in a decline in the prices of the products.

Body paragraph 3: Inflation of the US dollar

The inflation of the American dollar affects values of particular country currencies. In the recent past, the dollar has significantly increased in value more than other foreign currencies. As such, other currencies appear to be struggling in the presence of the dollar. In this case, Americans can buy as much fuel as they can help. In this case, some are creating stocks in anticipation of better terms of trade in the future also known as hoarding. As mentioned above, the artificially crafted demand has pushed the prices of the commodity to the floor. In addition, it is imperious to point out that experts are warning that should this trend continue, many producers, especially the small-scale dealers, are likely to be pushed out of the business. This is basically because the small companies cannot actually apply such strategies of buying buffer stock when the prices are favorable. Instead, the price drops push the actors out of the industry.

Body paragraph 4: Geopolitical crises

The crises in the oil-producing nations have significantly affected the pricing of the precious commodity. Countries such as Iraq, Saudi Arabia, Libya, and Iran have continually had the trouble with civil wars thereby affecting the production and export of the product to the international market. In this essence, the demand has declined in the weak economies. Other nations

that entirely depended on the crude oil for production are also finding alternative sources of energy. The trend, therefore, has resulted in the surplus of the product in the market that in turn causes the reduction in the prices.

Body Paragraph 4: Green energy and diversification of energy sources

Climate change presents serious environmental challenges. In order to deal with the problem, nations shift to other sources of green energy that produce little or no emissions to the air. Energy sources such as wind power, solar and hydroelectric power have gained prominence especially in the developed nations. The shift towards these sources of energy adversely affects the use of crude oil thereby affecting the import and export of the commodity. Governments also offer subsidies for firms that promote other forms of energy perceived as friendly. Thus, they attract more entrepreneurs to the sector and in turn affect the supply of the commodity causing price drop. In addition, other nations have discovered oil deposits in their countries making them become energy sufficient. Instead of importing the crude oil, the countries prefer to use their own thus locking out potential exporters of the product. In the same line, the United States has emerged as one of the prominent producers of oil in the world. The development means that the nation no longer imports several tons thus causing auxiliary supply (Cunningham, 2015).

Body Paragraph 5: Smuggling and other illegalities in the market

Lastly, another possible factor for the declining oil prices is the presence of a large number of smugglers. Illegal dealers and miners, which as thus actors and players focus the correction of the beneficial description of the of the

trade. Smuggling and other illegal business activities are known to cause much havoc and harm to businesses, especially the international trade. In this case, these acts tend to increase the total amount of supply in the market. As a result, the market forces push the prices downward. This leads to the petroleum products fetching lower prices than those set by normal demand and supply curves (Mouffe, 2013).

Conclusion

In conclusion, it is noteworthy that the petroleum industry is quite significant, and it is the primary source of energy for engines and other machines. As such, the industry cannot be ignored when faced with circumstances that adversely affect its effectiveness. Some of the factors analyzed above include the effect of OPEC, the American dollars inflation, smuggling and public deals that ensure favorable terms of trade. These factors have combined to bring about havoc and uncertainty in the industry; however, various efforts are underway to restore a normal curve as far as petroleum is concerned.

References

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