

# Oil for May delivery plunges below zero

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A drilling rig at work on Devon Energy well pads on New Mexico's side of the Permian Basin. (Courtesy of Devon Energy)

Crude oil prices plunged into negative territory on Monday for the first time ever, with U.S. benchmark West Texas Intermediate trading at minus \$37.63 per barrel for oil purchased for delivery in May.

That means producers selling oil would have to pay buyers to take it off their hands.

But while it is historic, the floor hasn't actually collapsed, because oil for June delivery is still trading around \$20 a barrel, about where it's been for several weeks.

Rather, Monday's price plunge reflects what's likely a one-day anomaly triggered by the last day of trading for next-month delivery of oil that buyers have no place to store, experts said. Storage

tanks are either filled or near full after the coronavirus lockdown cut global demand by about 30% as factories, cars and airplanes sit idled around the world.

When trading for June delivery opens on Tuesday, prices are expected to bounce back to the \$20-per-barrel range, said Raye Miller, a longtime New Mexico oilman and president of Regeneration Energy Corp. in Artesia.

“Monday saw the biggest one-day drop in oil prices in history,” Miller said. “But Tuesday, we’ll see the biggest one-day increase in oil prices ever recorded.”

Still, New Mexico producers will take a hit from Monday’s drop, because buyers base the price they pay for oil delivered in May on the average daily price recorded in April. That means Monday’s negatively priced crude will factor into the final price local producers get in May for the oil they put in the pipeline this month, Miller said.

Miller’s company received about \$29 per barrel this month for oil it delivered in March.

“The price fluctuations we saw today demonstrated a phenomenon inherent in futures markets that can happen as commodities contracts begin to expire,” New Mexico Oil and Gas Association Executive Director Ryan Flynn told the Journal in an email. “Traders were working to quickly exit positions in the context of infrastructure and storage constraints that have manifested due to a sharp drop in demand.”

Still, Monday’s price plunge shocked many. After the Plains Crude Oil Price Bulletin posted negative oil prices Monday afternoon, Regeneration Energy took a photo of it.

“We’ll frame it to hang on our wall as the lowest price we’ll ever see,” Miller said.

The price of oil has a major effect on New Mexico, which is home to the western section of the massively productive Permian Basin – and tens of thousands of associated jobs. New Mexico’s state government also relies heavily on the energy industry for taxes and royalties. For every \$1 drop in price, the state’s budget loses an average of about \$22 million in direct oil and gas revenue over a year.

Meanwhile, the plunge in oil sent energy stocks in the S&P 500 to a 3.7% loss, the latest in a dismal 2020 that has caused their prices to nearly halve.

The Dow Jones Industrial Average lost 592.05 points, or 2.4%, to 23,650.44, and the Nasdaq dropped 89.41, or 1%, to 8,560.73. The S&P 500 fell 51.40 points to 2,823.16.

The losses ate into some of the big gains indexes have made since late March, driven lately by investors anticipating the potential reopening of businesses as infections level off in hard-hit areas.