

Clash Among Oil Giants Causes Significant Price Drop Amidst Already Volatile Capital Markets (3/10/2020)

On Monday, March 9, crude oil prices fell more than 20% to their lowest level since 1991 after a weekend clash between Saudi Arabia and Russia ensued; Saudi Arabia threatened to increase its crude output, resulting in fears of oversupply. Brent crude, which is a benchmark for global oil prices, was down to \$35.49/barrel as of Monday morning, and U.S. crude futures dropped 17% to \$34.37/barrel. Because of the coronavirus outbreak and expected lower global demand, both Brent and U.S. crude had already lost half of their value since the beginning of the year.

According to the International Energy Agency (IEA), global oil demand was down 2.5 million barrels a day in the first quarter of 2020, with China accounting for almost three-quarters of the decrease. The IEA had already expected global oil demand to decrease this year for the first time since 2009.

The oil price war, along with concerns surrounding the continued coronavirus epidemic, has contributed to U.S. stocks' worst percentage decline since the financial crisis in 2008, as investors sought safe havens in U.S. government bonds. In particular, all sectors of the Standard & Poor's (S&P) 500 were down, led by energy, which fell 15% at one point. Stock trading also halted briefly on Monday morning for the first time since 1997 — known as a “circuit breaker” — whereby trades were halted for 15 minutes after the S&P 500 dropped 7% from its previous close. The 10-year U.S. Treasury yield closed at an all-time low of 0.59% on Monday, after falling below 0.50% intraday.

The U.S. stock market and oil prices are rebounding, and U.S. Treasury yields are rising to start the day on Tuesday, March 10, but continued market volatility is expected.

The table below identifies preliminary year-end 2019 bond and common stock exposure of U.S. insurance companies to oil and gas companies. The industry's \$112 billion book/adjusted carrying value (BACV) exposure represents less than 2% of the U.S. insurance industry's total cash and invested assets.

U.S. Insurer Preliminary Exposure to Oil and Gas Companies, Year-End 2019, \$mil. BACV

Asset Type	Life	Property/Casualty	Title	Health	Total *	Pct of Total
Bonds	84,955	15,823	121	1,645	102,545	91.2%
Common Stock	922	8,641	58	267	9,888	8.8%
Preferred Stock	-	2	-	2	4	0.0%
Total	85,877	24,465	179	1,915	112,437	100.0%
Pct of Total	76.4%	21.8%	0.2%	1.7%	100.0%	

The NAIC Capital Markets Bureau will continue to monitor the impact of the coronavirus and other market events on the financial markets and report as deemed appropriate.

Questions and comments are always welcome. Please contact the Capital Markets Bureau at CapitalMarkets@naic.org.

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