

Oil Futures Plunge Below Zero as Capital Markets Volatility Continues (4/21/2020)

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On Monday, April 20, U.S. oil futures fell below zero for the first time in history due to a lack of capacity to store the current oil inventory. Oil-storage facilities, such as refineries and tankers, are filled to capacity as people continue sheltering-in-place because of the ongoing COVID-19 pandemic; about 109 million barrels of oil are currently being stored at sea.

The price of West Texas Intermediate (WTI) crude oil dropped to *negative* \$37.63 after closing at \$18.27/barrel on Friday April 17. This means that sellers would pay buyers for barrels of oil. The collapse in oil prices, along with expectations that economic recovery will begin in the second half of the year has resulted in “contango,” which means prices for commodities are higher in the future than they are currently. On April 21, WTI was quoted at -\$2.67/barrel, a significant rebound but still in negative territory. WTI had started the year at \$61/barrel, but about a month ago it dropped to its previously lowest level since 1991 after a clash between Saudi Arabia and Russia ensued; Saudi Arabia threatened to increase its crude output, resulting in fears of oversupply.

Oil futures for the international benchmark, Brent Crude, are quoted at below \$20/barrel on April 21, a 20% decline from the previous day and a 70% decline from the beginning of the year. The significant declines in value are due in large part to the COVID-19 outbreak and expected lower global demand.

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 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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