BUSINESS INSIDER

GOLDMAN: Oil is on the verge of plunging to $20

MIKE BIRD
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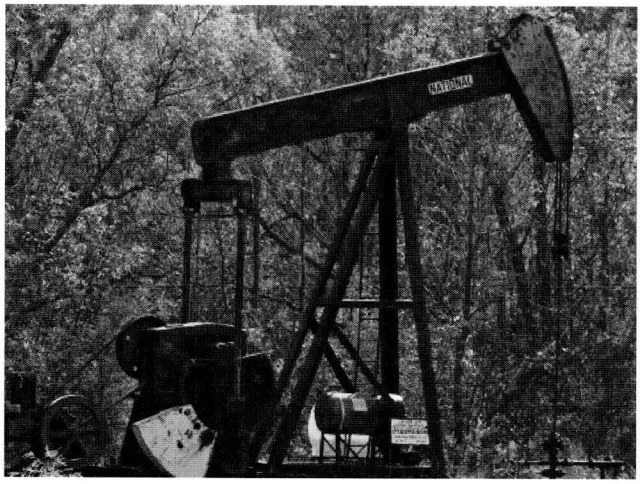

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Oil prices have been on a roller-coaster ride over the past year. West Texas Intermediate (WTI) oil tumbled late in 2014 from over $100 (£64.78) a barrel to just around $45 a barrel early this year.

After a recovery back to around $60 a barrel during the early summer, prices have gone through the floor again, down to $45.12 on Friday.

But oil could go even lower.

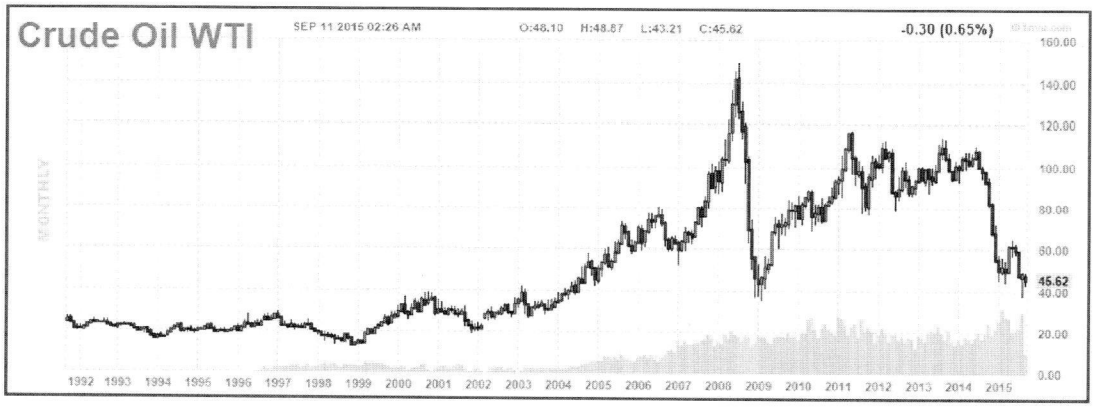
The price of a barrel of oil could go to just $20 soon, according to Goldman Sachs analysts led by global commodities research chief Jeffrey Currie.

There's a huge surplus of oil in the world, stemming from both buoyant supply and weaker demand, and that could leave prices at levels not seen in decades. Here's a snippet from Goldman's latest note on oil:

> The oil market is even more oversupplied than we had expected and we now forecast this surplus to persist in 2016 on further OPEC production growth, resilient non-OPEC supply and slowing demand growth, with risks skewed to even weaker demand given China's

> slowdown and its negative EM feedback loop ... While not our base case, the potential for oil prices to fall to such levels, which we estimate near $20/bbl, is becoming greater as storage continues to fill.

That's the level oil was at for most of the 1990s — though of course, $20 then was worth more than $20 now.



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Goldman's base case — its most likely scenario — is that WTI oil prices are at $38 in one month and $45 in 12 months. That's a serious cut, from forecasts of $45 in one month and $60 in 12 months previously.

Effectively, the bank is now saying US oil producers need to go out of business for oil to rebound again, since the analysts "believe the market requires non-OPEC production to shift from our prior expectation of modest growth to large declines in 2016."

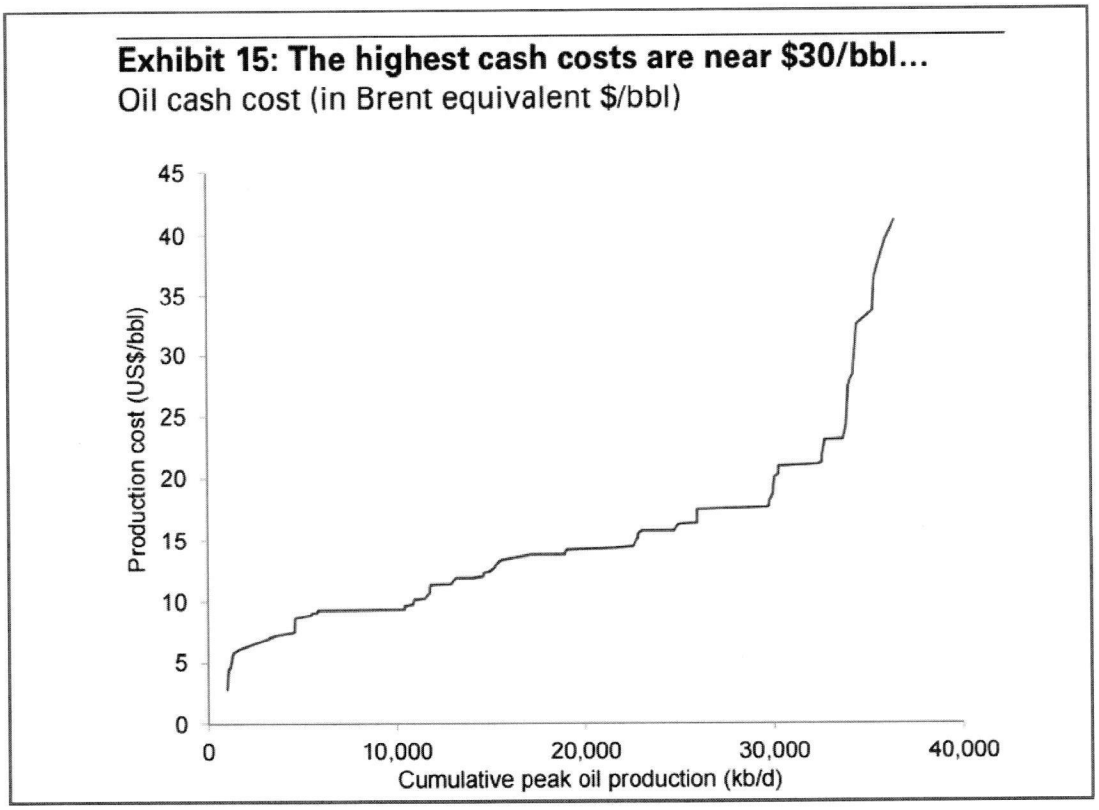
But that's not certain at all — US producers have been surprisingly resilient to the plunge in oil prices that began at the end of 2014. WTI is now sitting at below half the level it was for most of 2014.

When prices recovered a little earlier this year, US producers began to bounce back, and the decline in rig numbers reversed. Goldman's note says that has probably had an impact on the world's major producers, who would like to squash the American oil industry:

> OPEC's resolve in growing market share has likely strengthened following the pick-up in US activity that occurred this summer once WTI prices returned to $60/bbl. Despite the fiscal challenges that low oil prices create for OPEC producers, the alternative of reducing production would similarly undermine long-term revenues.

In short, Saudi Arabia and the world's other major oil nations are willing to wait it out and keep the supply up. With Iran's nuclear deal looking relatively likely, another major source of oil will emerge in the near future.

The analysts also show that a long period of lower prices is possible, with a chart of how much it costs different producers to make a barrel of oil:



Goldman Sachs

There's a steep climb, and some fields will have to go heavily into debt or shut down if prices plunge to such a low level. But much of the production can be done with oil prices below $25 or ever below $20 a barrel.