Focus

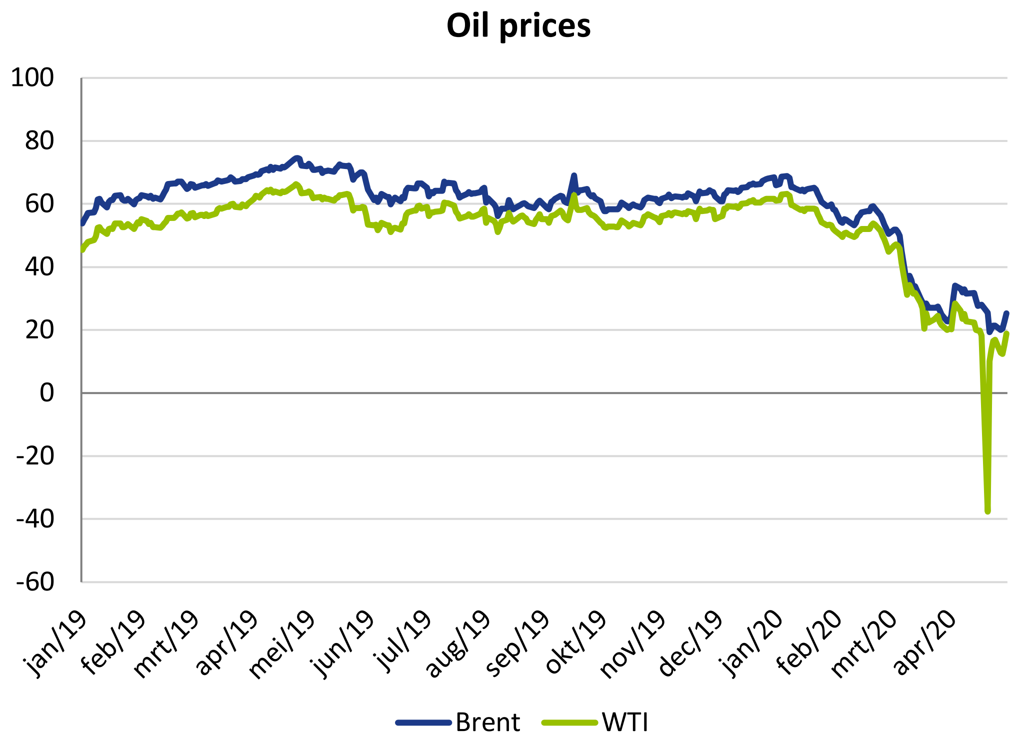
The coronacrisis has led to big changes in daily life in recent months. The economic impact of the crisis is gradually becoming clear. One of the sectors that is impacted most is the oil industry. In March 2020, oil prices fell sharply, and in April 2020 prices for forward contracts for WTI crude oil shortly dropped below USD 0. What is the cause of these historically low oil prices?

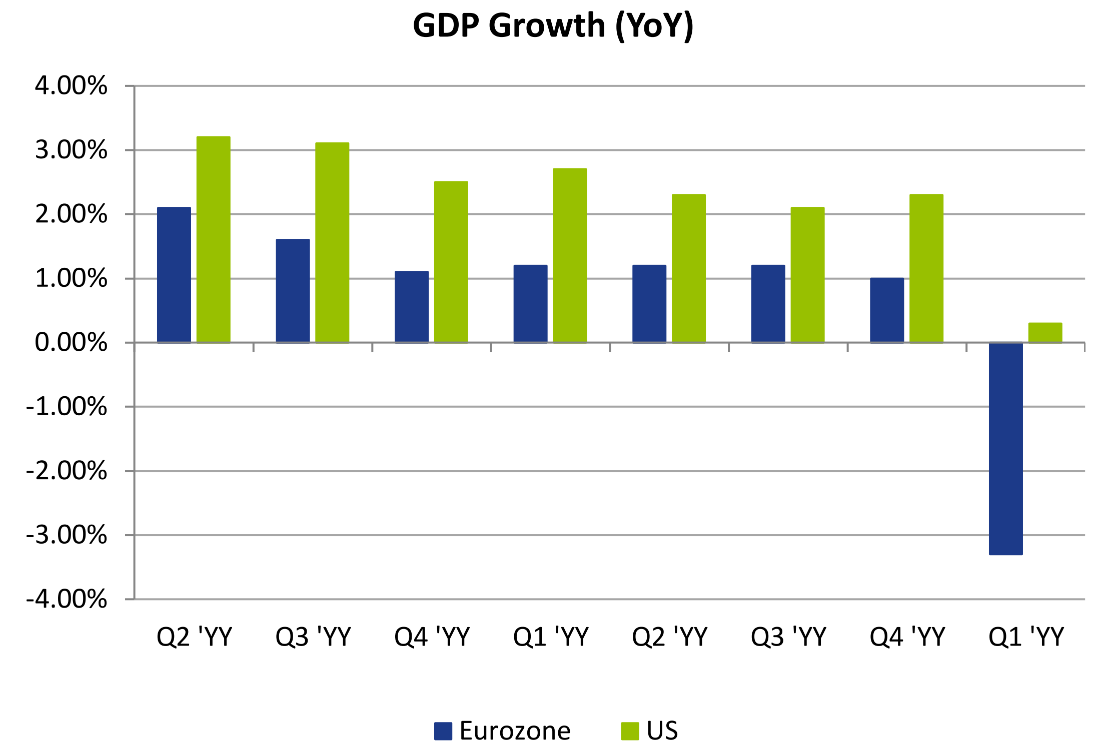
On March 6, 2020, it was announced that negotiations between OPEC and other affiliated countries (OPEC+) on production restrictions had failed. Russia, among others, refused to impose further production restrictions to counteract the drop in demand that was caused by the coronavirus outbreak. In response to the failed negotiations, both Saudi Arabia and Russia announced to increase oil production. As a result, the oil price of both Brent and WTI fell sharply (see graph).

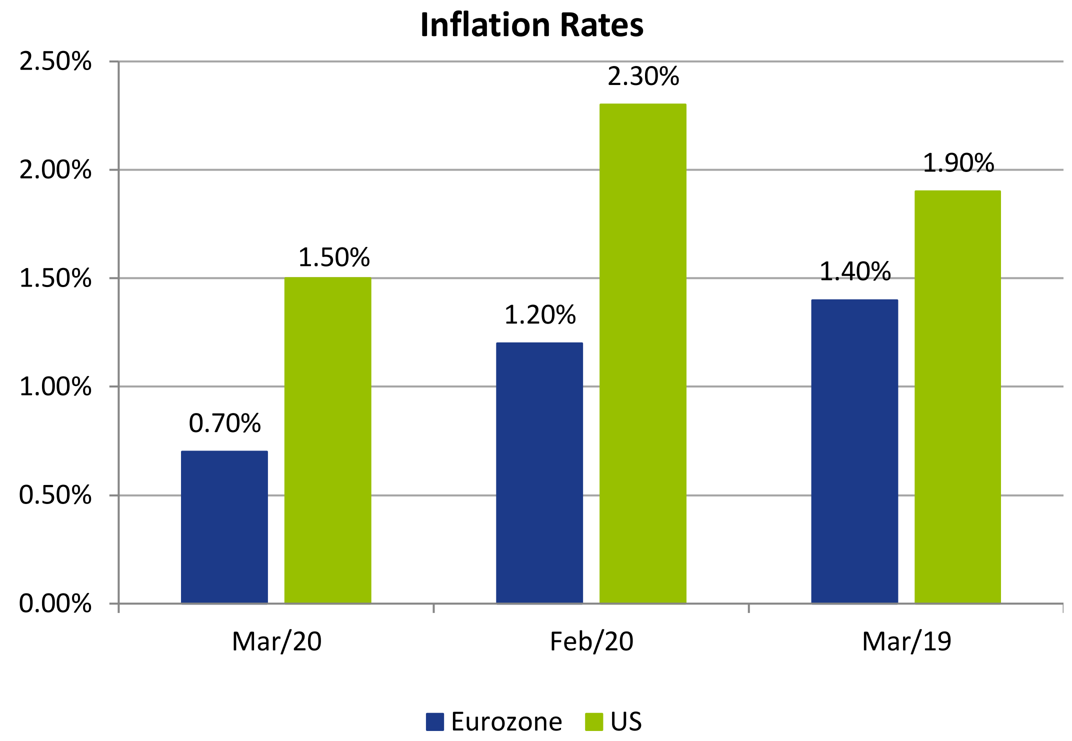
Eventually, on April 6, OPEC and OPEC+ countries agreed to limit oil production. However, according to several analysts, the restrictions were not rigorous enough, and too late. During the month of March and early April, global air traffic almost came to a standstill, and lockdowns in many countries reduced global industrial production. As a result, the demand for oil decreased sharply. This, coupled with the high production of Saudi Arabia and Russia, led to a massive build-up of oil supplies worldwide in the weeks leading up to April 5. Partly due to this oversupply, oil prices fell further in April.

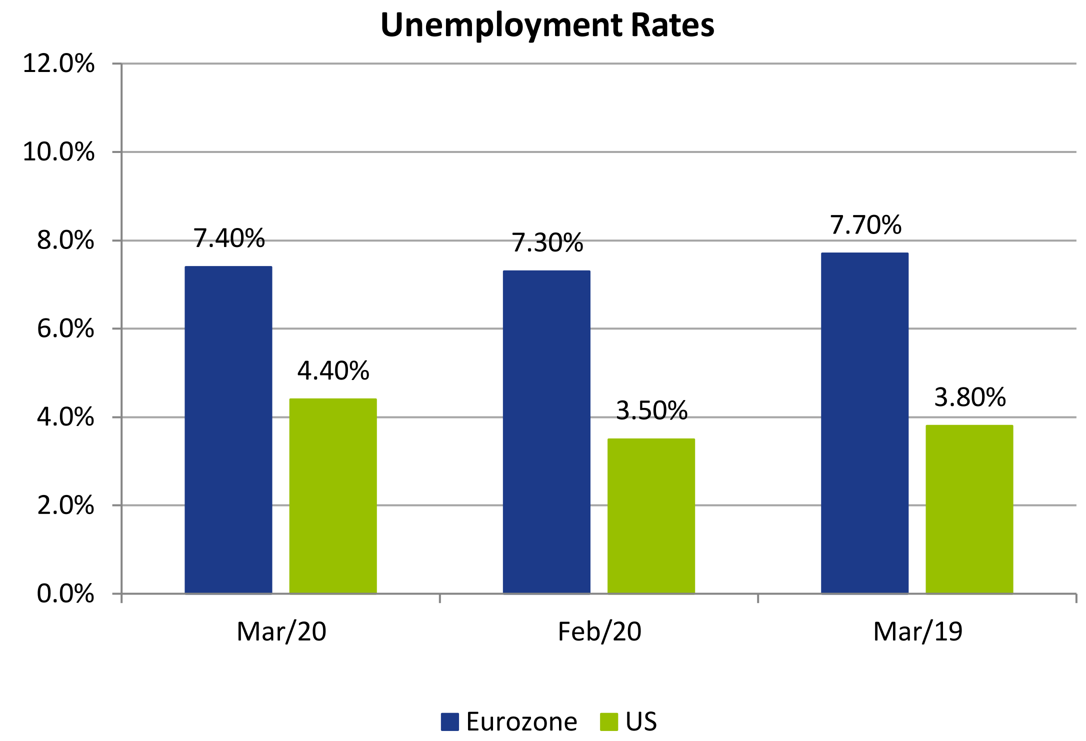
The price for a barrel of WTI oil even turned negative at the end of April. This was caused not only by the oversupply, but also by the way in which WTI oil is traded. When a Brent oil contract expires, it can often be settled by means of a cash settlement. Also, there is a degree of flexibility in the place of delivery of the oil. This flexibility is much less with WTI oil. Here, delivery practically always takes place physically in Cushing, Oklahoma. Due to the decreasing demand, however, the sale of the supplied oil has become more difficult and oil therefore must be stored. However, there is limited storage capacity. So when the forward contract for the month of April almost expired and traders had no storage facilities, oil prices became negative. Although this development could not be observed for Brent oil, prices also fell sharply.

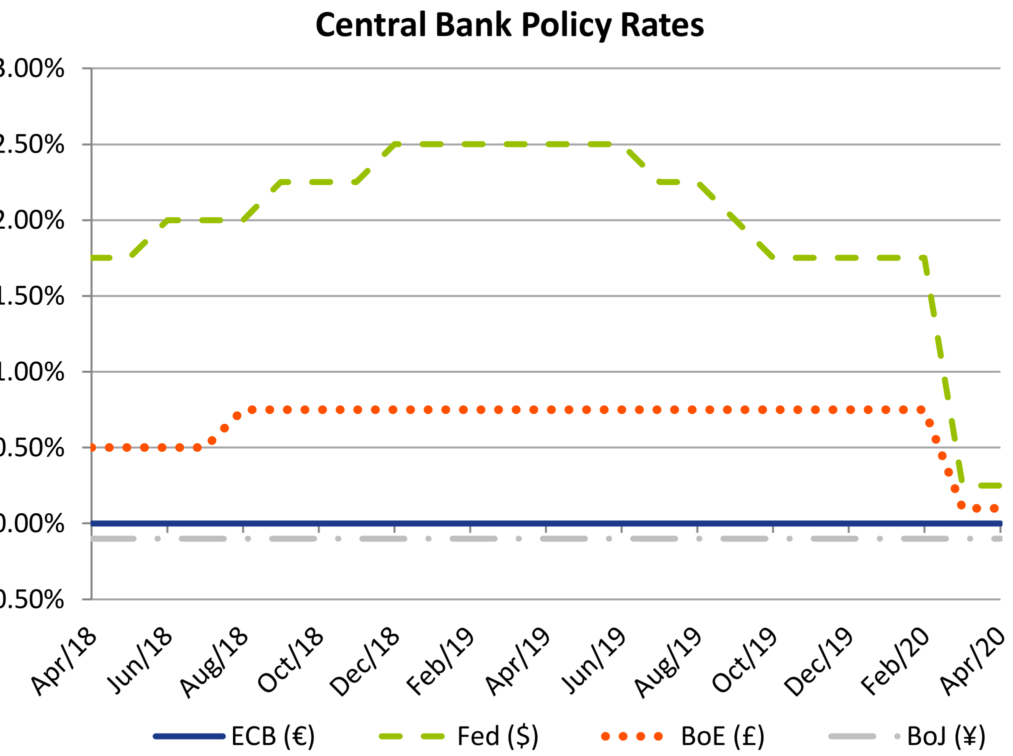
At the end of April, the price for a barrel of Brent oil stood at USD 25.27, compared to USD 66.00 on January 1 this year. WTI oil fell from USD 61.06 in early January to USD 18.84 in late April. Although prices have recovered slightly from the dip on April 20, demand has not yet resolved and stocks remain high for the time being. It is therefore questionable whether we will see the same development at the end of May, or whether traders are now better prepared.











Country Ratings	S&P	Moody's	Fitch
Netherlands	AAA	Aaa	AAA
Germany	AAA	Aaa	AAA
France	AA	Aa2	AA
United Kingdom	AA	Aa2	AA-
Russia	BBB-	Baa3	BBB
United States	AA+	Aaa	AAA
Japan	A+	A1	A
China	A+	A1	A+
Australia	AAA	Aaa	AAA

ZANDERS
TREASURY ▪ RISK ▪ FINANCE

Review and outlook

Because of the lockdown measures, the number of unemployed is increasing fast in the past weeks. Figures published by the US Department of Labor on Thursday show for instance that in the past weeks, a total of 26.5 million Americans have claimed social assistance benefits. This is the fastest increase in the number of unemployed since the 1930s. Also, Statistics Netherlands has reported that the number of new applications for unemployment benefits in the Netherlands rose to 38,000. As a result, the number of people currently on unemployment benefits in the Netherlands has risen to 250,000.

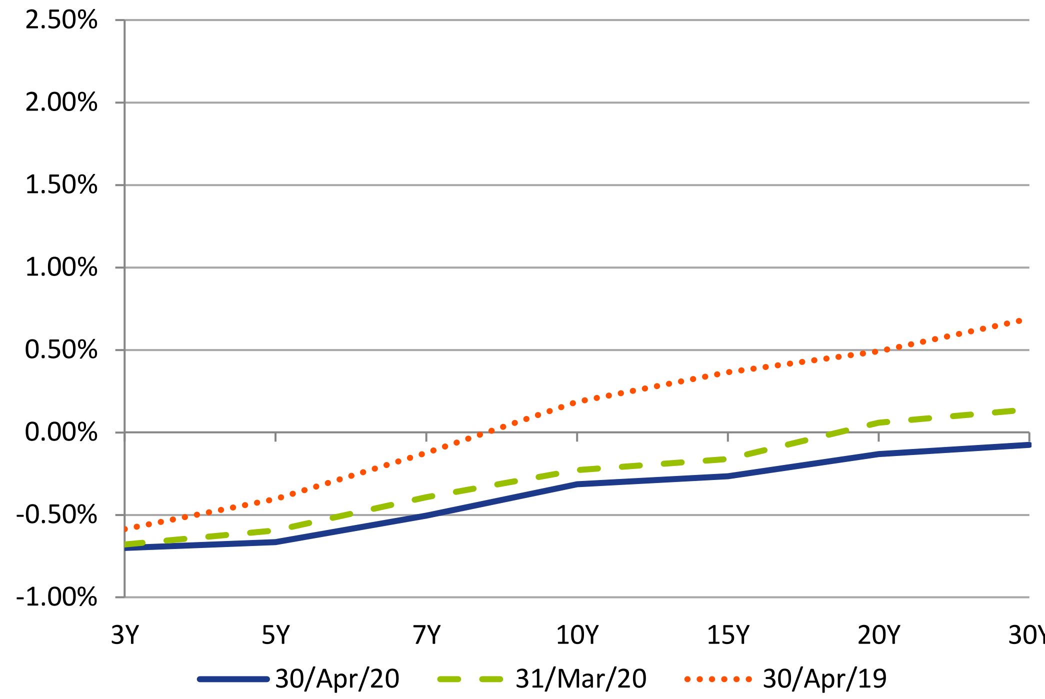
Central banks have been busy with purchase programmes to ease tensions in the capital markets. As a result, central banks' balance sheets are expanding at record rates. Some analysts therefore question how extensive the buyback programs can be and whether these acquired assets can eventually be sold back to the market. Central banks of the G7 countries jointly bought USD 1.4 trillion of financial assets in March, nearly five times the previous record in April 2009, according to an analysis performed by Bloomberg Economics. Morgan Stanley analysts estimate that the Federal Reserve, the European Central Bank, the Bank of Japan and the Bank of England will have expanded their balance sheets by a cumulative USD 6.8 trillion at the end of the corona crisis.

In April, the forecasts for economic growth were revised considerably. The International Monetary Fund predicts that the global economy will shrink by 3% this year and that the damage could be even greater if the pandemic lasts longer. This is a significant adjustment compared to the 3.3% growth forecast for 2020 published in January. The calculations show that the economies of rich countries are hit hardest. Forecasts show a contraction of the eurozone economy of 7.5% in 2020 and a 5.9% contraction of the US economy. The Chinese economy is not shrinking, but the forecasted growth is unprecedentedly low at 1.2%.

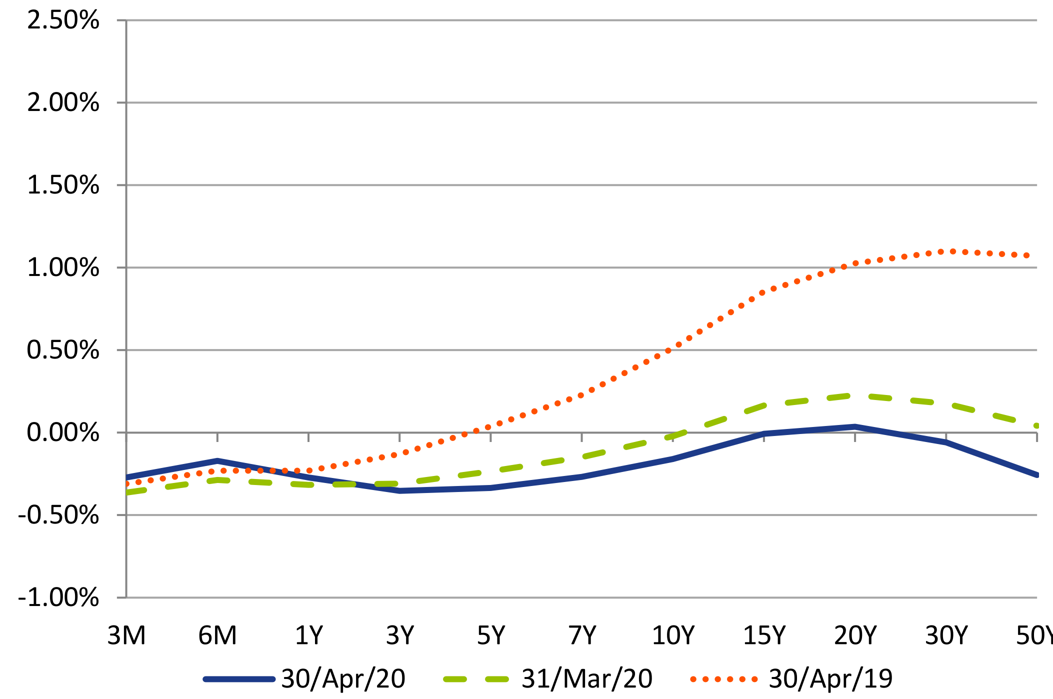
Credit rating agency Standard & Poor's (S&P) expects the euro area economy to contract by 7.3%, while last month forecasts still assumed 2%. The outlook has worsened as a result of the extension of lockdown measures in European countries.

7 May	Interest rate decision BoE
8 May	Unemployment US
12 May	Inflation NL
12 May	Inflation US
20 May	Inflation UK

Dutch Government Bond Curve



Euro Swap Curve



Bank Ratings	S&P	Moody's	Fitch
Rabobank	A+	Aa3	AA-
ING Bank	A+	Aa3	AA-
ABN AMRO	A	A1	A+
BNG Bank	AAA	Aaa	AAA
NWB Bank	AAA	Aaa	n.a.
Deutsche Bank	BBB+	A3	BBB
BNP Paribas	A+	Aa3	AA-
Barclays Bank	A	A1	A+
Credit Suisse Int.	A+	A1	A

Currencies	30/Apr/20	31/Mar/20	30/Apr/19
EUR/USD	1.096	1.103	1.122
EUR/GBP	0.870	0.888	0.860
EUR/CHF	1.058	1.060	1.143
EUR/JPY	117.425	118.640	125.020
EUR/DKK	7.462	7.466	7.466
EUR/SEK	10.690	10.929	10.641
EUR/CAD	1.528	1.551	1.501
EUR/AUD	1.682	1.799	1.591
EUR/CNY	7.735	7.816	7.553

Yields 10Y Government Bonds