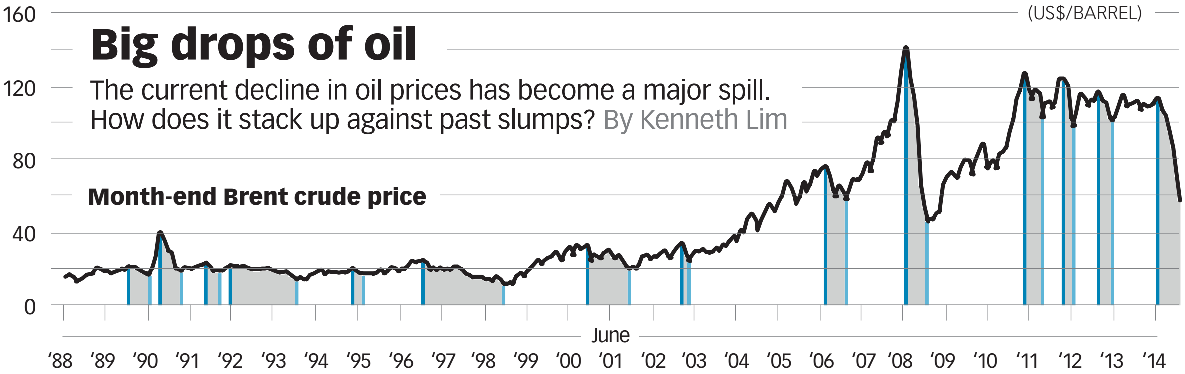
BT Explains

Big drops of oil

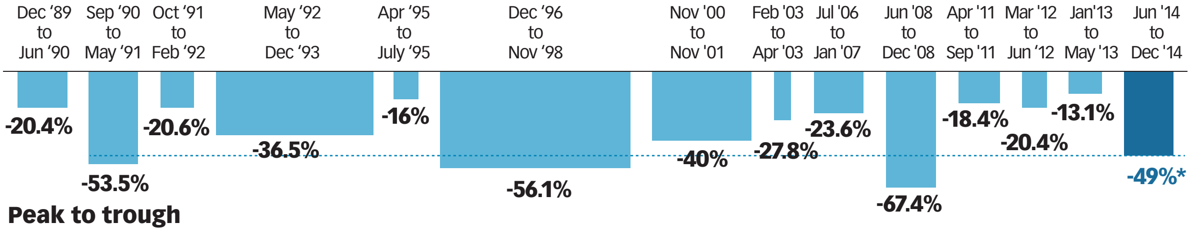
The current decline in oil prices has become a major spill. How does it stack up against past slumps? By Kenneth Lim

Month-end Brent crude price



Before the current fall, there were 13 troughs over the last 26 years when the price of oil was lower than its value six months earlier and later. For each of those major declines, the depth of each block below shows the percentage drop in price from the previous peak, while the widths show how long the decline lasted.

Major slumps

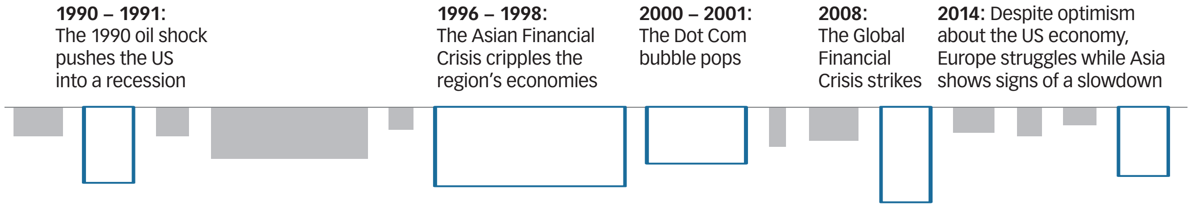


The pace and magnitude of the current decline makes it one of the biggest tumbles since 1988. The recovery remains a wild card. For seven of the past 13 slumps, or just over half, clawing back 75 per cent of their drop took as long or longer than the time it took to fall to the bottom.

Time to reach bottom (months)	**6**	6	4	**19**	3	**23**	**12**	2	**6**	6	5	3	**4**	6*
Time to recover 75% of fall (months)	1	**157**	**55**	16	**5**	9	10	**10**	5	**27**	**5**	**–**	3	–

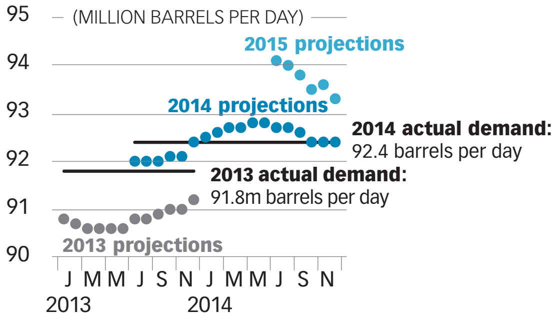
** As at end-December 2014*

The biggest slumps were largely demand driven, coinciding with major economic downturns

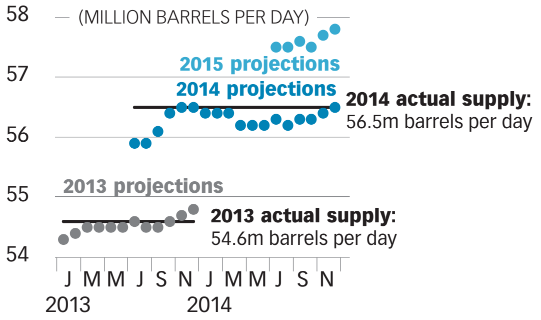


But supply plays a big role in the current decline as well. The industry overestimated demand and underestimated supply in 2014, and the Organization of Petroleum Exporting Countries' (Opec) November 2014 decision not to cut production continues to weigh on prices.

Global oil demand projections



Non-Opec oil supply projections



The supply factor and the ever-changing geo-political landscape make it difficult to extrapolate from historical slumps into the current downturn.

'At the moment markets are trying to work out at what price operators won't drill new wells, and then at what price they will shut existing production, or where the cash cost is higher than the prevailing crude price. Crude recovers to the marginal cost to produce at some point.'

— David Hewitt, Credit Suisse co-head of oil and gas equity research

BT Graphics: Ludwig Ilio Sources: Bloomberg, International Energy Agency, World Bank