The Great Oil Crash of 2018: What's really happening
By Matt Egan, CNN Business
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New York (CNN Business) — The meltdown in the oil market has caught almost everyone off guard.

In the span of mere weeks, crude prices went from a four-year high to a full-blown bear market. The oil crash -- crude is down more than 30% from its recent peak -- was triggered by a series of factors that combined to spook traders who once saw $100 oil on the horizon.

"The sheer scale of the move is triggering unpleasant memories of 2014 and 2015," said Michael Tran, director of global energy strategy at RBC Capital Markets, alluding to the last oil downturn.

US oil prices plummeted another 7% on Friday, breaking below $51 a barrel for the first time in 13 months.

President Donald Trump celebrated the oil crash.

"Oil prices getting lower, Great! Like a big Tax Cut for America and the World. Enjoy!" Trump tweeted on Wednesday. "Thank you to Saudi Arabia, but let's go lower!"

But the oil slide can't be explained by a simple tweet.

Iran headfake

Saudi Arabia deserves some of the "credit" -- but certainly not all of it.

Earlier this year, the Trump administration vowed to zero out Iranian oil exports. That tough stance on Iran sanctions lifted prices dramatically.

Under pressure from Trump, Saudi Arabia ramped up production to an all-time high. That's critical because Saudi Arabia is like the central bank of oil. It's the world's largest exporter and the only country with the ability to significantly ramp up output. Russia and the United States also accelerated production.

But the Trump administration shocked the oil market earlier this month by taking a softer approach on Iran. Temporary waivers were granted, allowing India, China and other countries to keep buying crude from Iran.
The Iran headfake left the oil market suddenly facing a potential supply glut. OPEC is now under pressure to significantly cut output at next month's meeting in Vienna to help put a floor beneath the market.

Workers extracting oil from the Permian Basin, the West Texas shale hotbed that has morphed into one of the world's most important oilfields.

American shale oil boom

Although Trump praised Saudi Arabia, his tweet omitted the central role played by America in the oil plunge. Lifted by the shale oil boom, the United States recently overtook Russia and Saudi Arabia to become the world's largest oil producer for the first time since 1973.

The International Energy Agency predicts US output will have soared by more than 2 million barrels per day in 2018. It's expected to climb further next year. No other country has ramped up production to that degree.

The fear among oil traders is that the world may not need all that American shale coming to market. That's what helped cause the last oil crash. US inventory levels have increased nine straight weeks, according to numbers released on Wednesday.

Demand fears

But this oil downturn isn't solely about excess supply. The slowdown in global economic growth appears to already be denting demand.

Appetite for oil in the United States has been "very robust," but the IEA warned last week of "relatively weak" demand in Europe and developed Asian countries. And the IEA flagged a "slowdown" in demand in India, Brazil and Argentina caused by high prices, weak currencies and deteriorating economic activity.

Last month the International Monetary Fund downgraded its 2019 GDP estimates for both China and the United States because of the trade war. Global GDP is expected to slow from 2.9% in 2018 to 2.5% next year. That's never good news for oil, which powers the economy.

Stock market mayhem

Crude has also gotten caught in the shoot-first, ask-questions-later mood on Wall Street. Fears of a slowdown have led investors to flee risky assets, no matter if it's Apple (AAPL) stock, bitcoin or crude oil. Crude oil plunged 7% Tuesday, as the Dow tumbled 552 points.

The oil collapse in part reflects the "broader cross-commodity and cross-asset sell-off as growth concerns continue to mount," Damien Courvalin, head of energy research at Goldman Sachs, wrote to clients on Tuesday.

Courvalin argued that the oil selloff has "overshot" the fundamentals. However, he predicted oil won't recover until OPEC takes action and there's evidence that demand growth is "resilient."

Fast money

Commodities, much like stocks, are influenced by large bets made by hedge funds and other traders. Analysts say the oil plunge was exacerbated by the unwinding of massive bullish bets by financial players.

The managed money community's long positions in crude plunged in late October to the lowest level since early 2016 when crude crashed to $26 a barrel, according to RBC.

Gasoline keeps getting cheaper

The pre-Thanksgiving Day oil crash will make traveling cheaper for millions of Americans. The national average price of gasoline dropped to $2.58 a gallon on Friday, down from $2.85 a month ago, according to AAA.

That could provide an extra boost to the economy heading into the holiday shopping season.

Of course, the sharp decline in oil also clouds the outlook for America's oil industry. The last downturn in energy sparked dozens of bankruptcies and wiped out hundreds of thousands of America's oil jobs in states like Texas, North Dakota and Oklahoma.

"Retail gasoline prices have come off significantly. What more does Trump want?" said RBC's Tran. "At some point you start to hurt your own domestic producers. And a significant portion of the oil and gas industry is his base support."