

Oil crashes by most since 1991 as Saudi Arabia launches price war

New York (CNN Business) Oil prices suffered a historic collapse overnight after Saudi Arabia shocked the market by launching a price war against onetime ally Russia.

US oil prices crashed as much as 34% to a four-year low of \$27.34 a barrel as traders brace for Saudi Arabia to flood the market with crude in a bid to recapture market share.

Crude was recently trading down 27% to \$30.04 a barrel. Brent crude, the global benchmark, plunged 26% to \$33.49 a barrel. Both oil contracts are on track for their worst day since 1991, according to Refinitiv.

The shock to oil also rattled stock markets, which were already in a panic because of the novel coronavirus outbreak. The market in Asia plunged during Monday trading hours, while US futures recorded massive declines.

The turmoil comes after the implosion of an alliance between OPEC and Russia, which had been restraining oil supply since the start of 2017 in an attempt to support prices.

Russia refused to go along with OPEC's proposal to rescue the coronavirus-battered oil market by further cutting production at a meeting in Vienna on Friday. The standoff left the oil industry shell-shocked and sparked a 10% plunge in oil prices Friday. Crude oil was already stuck in a bear market because of a sharp drop in demand linked to the coronavirus outbreak.

Saudi Arabia escalated the situation further over the weekend. The kingdom slashed its April official selling prices by \$6 to \$8, according to analysts, in a bid to retake market share and heap pressure on Russia.

"The signal is Saudi Arabia is looking to open the spigots and fight for market share," said Matt Smith, director of commodity research at ClipperData. "Saudi is rolling up its sleeves for a price war."

Analysts said that Russia's refusal to cut production amounted to a slap to US shale oil producers, many of which need higher oil prices to survive.

"Russia has been dropping hints that the real target is the US shale oil producers because it is fed up with cutting output and just leaving them with space," analysts at energy consulting firm FGE wrote in a note to clients Sunday. "Such an attack may be doomed to failure unless prices remain low for a long time."

The 2014-2016 oil crash caused dozens of oil and gas companies to file for bankruptcy and hundreds of thousands of layoffs. However, the US shale industry

emerged from that period stronger and the United States would eventually become the world's leading oil producer.

"The perils of playing a game of brinksmanship with Vladimir Putin were proven in dramatic fashion," Helima Croft, head of global commodity strategy at RBC Capital Markets, wrote in a Friday note to clients. "It is hard to see how the relationship can easily be put back on a solid footing."

— *Laura He contributed to this report.*

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