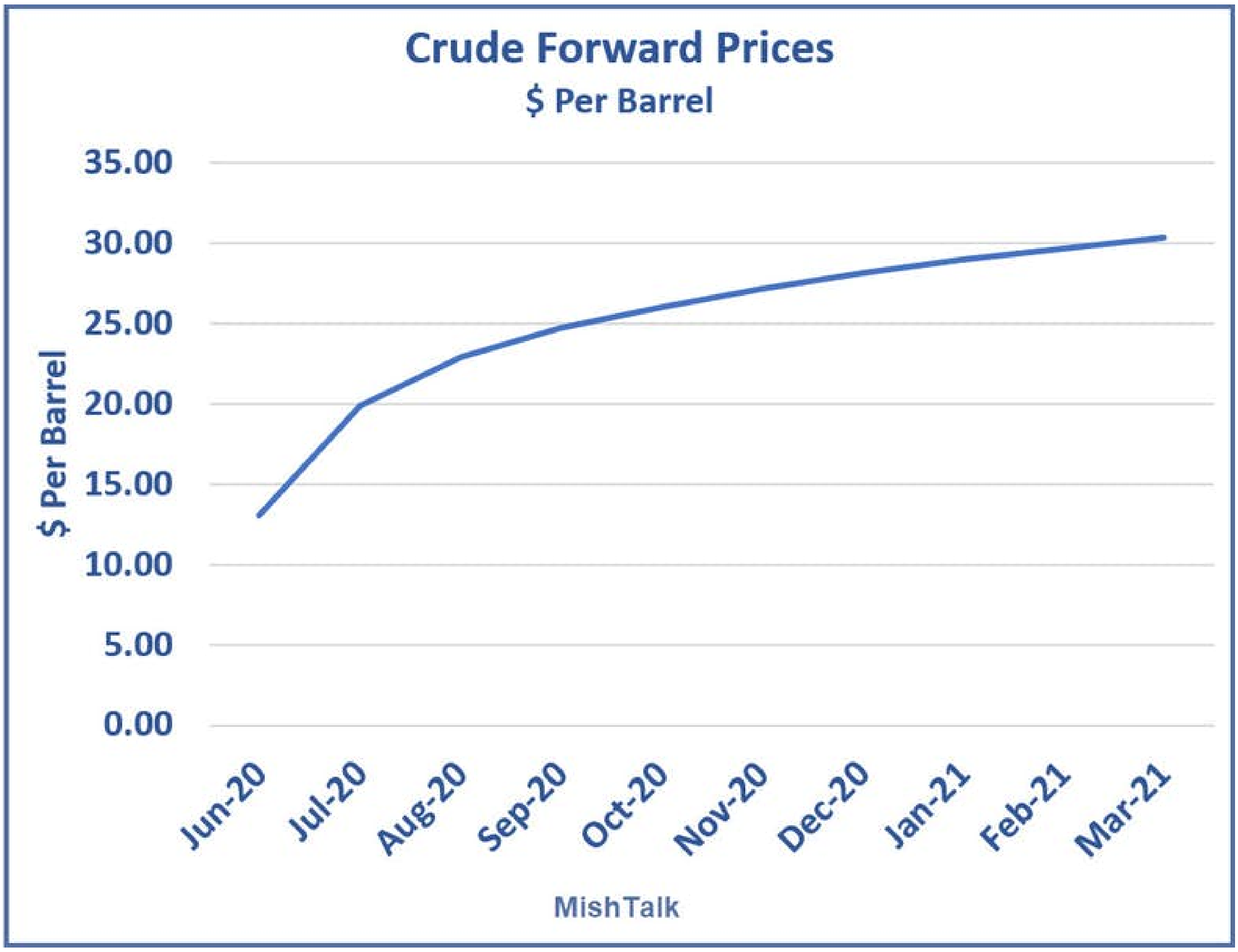
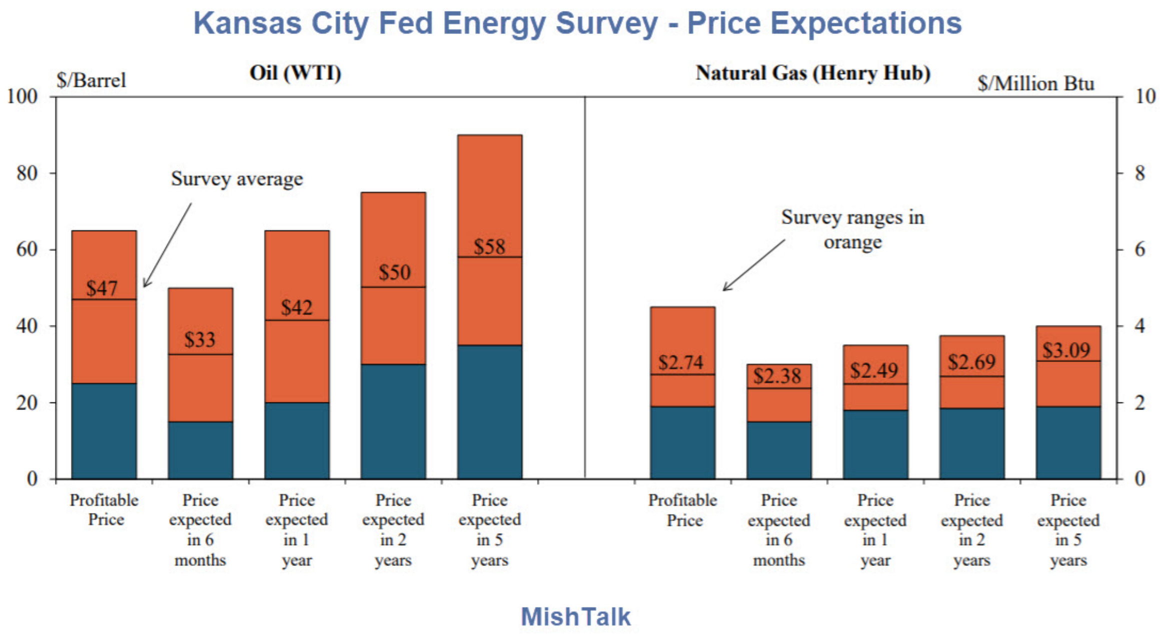
Based on forward charts at least 40% of US oil producers are headed for bankruptcy.

Inquiring minds are diving into the Kansas City Fed Energy Survey by Chad Wilkerson, to get a better grip on problems facing oil producers. The results are grim.



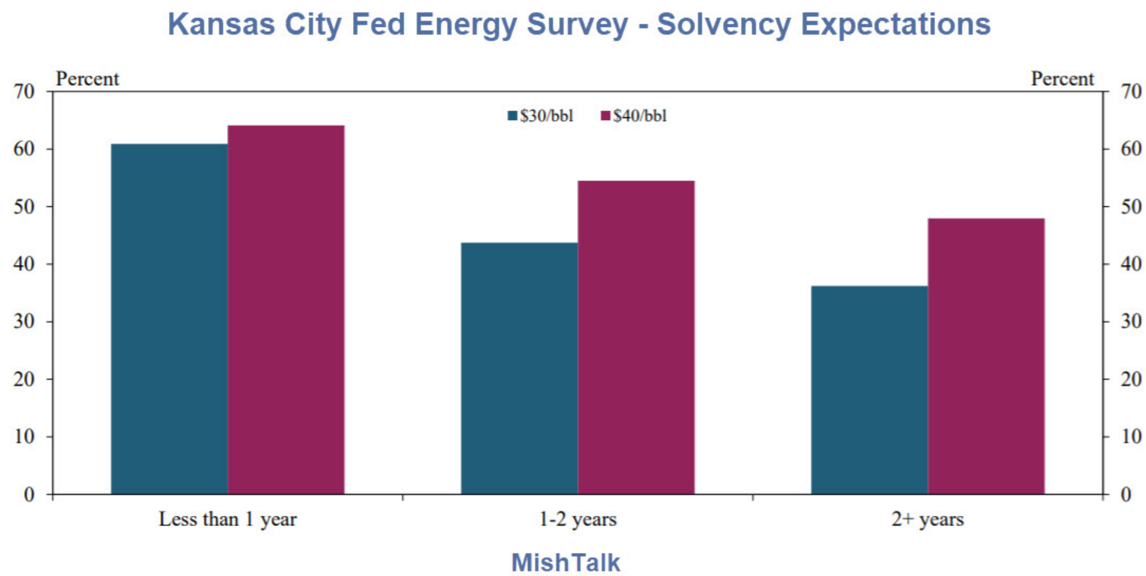
?District energy activity fell sharply during the first quarter of 2020, with our index dropping to its lowest level since we began the survey in early 2014,? said Wilkerson. ?Expectations for future activity also fell to their lowest level since late 2014, as most firms do not expect energy prices to return to profitable levels this year.?

WTI Survey Price Expectations



- 6 Months: $33
- 1 Year: $42
- 2 Years: $50
- 5 Years: $58

Solvency



61 percent of firms would remain solvent in the next year if the WTI price of oil would stay at $30 per barrel, and 64 percent of firms would remain solvent if the WTI price of oil would stay at $40.

Forward Prices

WTI Oil Futures Through March 2021					
Month	Price	Change	Open	High	Low
Jun-20	13.03	-7.40	21.32	22.58	6.50
Jul-20	19.89	-6.39	27.18	28.14	17.29
Aug-20	22.91	-5.60	28.85	30.08	20.82
Sep-20	24.72	-5.12	30.01	31.10	22.77
Oct-20	26.04	-4.77	30.94	32.00	24.22
Nov-20	27.18	-4.48	31.90	32.60	25.44
Dec-20	28.14	-4.27	32.42	33.47	26.39
Jan-21	29.00	-4.02	32.87	33.69	27.28
Feb-21	29.68	-3.85	33.29	34.34	28.00
Mar-21	30.40	-3.58	33.97	34.68	28.74

MishTalk

Price data in the above table from MarketWatch.

If those prices hold, the survey estimates about 39% of the oil producers will go bankrupt.

Even at $40, 36% of the firms would go bankrupt.

Oil Crash Resumes: When Does It Stop?

Earlier today I asked Oil Crash Resumes: When Does It Stop?

When Does the Crash Stop?

1. When producers stop drilling oil that is not needed.
2. When the speculators putting on "paper oil" trades get wiped out.

Paper Oil

Oil is another example of leveraged trades. Even more so than gold, speculators will not take delivery.

There were net 554,489 speculative "paper" contracts in play as of a week ago.

Gain or Losses Per $10 Price Move

These speculators just took a massive hit. They cannot and never intended to take delivery of oil.

Trump Wants to Form a Plan

My Plan

- Stop the bailouts.
- Let the oil speculators go bankrupt.
- Let the financers take it on the chin as well.

When Does the Crash Stop?

1. When producers stop drilling oil that is not needed.
2. When the speculators putting on "paper oil" trades get wiped out.

Energy Q&A

Paper Oil

Oil is another example of leveraged trades. Even more so than gold, speculators will not take delivery.

For discussion of delivery issues related to gold, please see Gold "What If?" Silliness

It's time for personal responsibility, not bailouts of favored industries.
That's the only plan we need.

Fed Bailout Not Possible

Some readers suggested the Fed would bail out the sector. It cannot. There is no place to store the oil if the Fed bought futures and I do not believe the Fed would even if it could.

Those expecting hyperinflation out of forced debt writeoffs and plunging prices understand neither hyperinflation nor inflation.

Moreover, hyperinflationists and strong inflation proponents do not even understand what is most important in general: credit and the balance sheets of lenders.