



THE EFFECT OF COVID 19 ON OIL TRADING

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Article history:	Abstract:
Received: 28 th May 2022 Accepted: 30 th June 2022 Published: 4 th August 2022	In 2020, a serious turn of events took place that altered history forever as a result by influencing several sectors of countries around the world in a negative manner. The international widespread of the covid-19 crisis came with little to no merits yet many negative impacts on a variety of aspects on an international scale, including but not limited to the fluctuating sudden slump in the crude oil prices that the world has witnessed. Despite the fact that simultaneity does not necessarily mean causality, however, the linkage between the international oil prices drops and the pandemic is evident according to expert commentators, and various researchers. Independently, the events of the occurrence of the COVID-19 pandemic and the collapse of the crude oil prices on an international level had a great impact on the sustainable economy. Finally, the increase in the positive COVID-19 cases contributed greatly to the fall of crude oil prices worldwide

Keywords:

1. INTRODUCTION

Ever since 2020, the international economy has been struggling not only due to the widespread positive covid-19 cases that resulted in human losses but also because of the uncertainty in the economic situation which led to a lot of troubles, including the sudden drop in the crude oil prices. These two major troubles are very likely the main cause of an economic recession that takes place on a wide scale. Due to the fact that crude oil is known as the lifeblood of the economy, the alterations and oil prices have a rooted effect on various countries worldwide (Lee, et al., 2021).

It only makes sense that the restrictions in movements, travel and transportation that resulted due to the spread of the pandemic basically caused a drop in demand in various countries around the world, thus causing slump in oil prices accordingly. The movement blockheads that have been imposed by the pandemic made the situation worse than ever and caused the happening of the steepest slump in the prices of oil in the history of man. Despite the fact that the pandemic crisis is perceived differently according to different parameters by different sectors, it is non-negotiable that the pandemic was deemed a crisis in the economic situation worldwide. Therefore, policymakers needed to bring urgent solutions to the table.

1.1 The History of Covid-19:

The crisis of covid-19 started first in Wuhan China in 2019. In the month of January within the next year, namely 2020, the World Health Organization WHO

deemed the covid-19 situation as a hazardous emergency and listed it as a serious concern on an international level (Sharif et al., 2020). The disease was named in the month of February by the World Health Organization WHO as coronavirus disease. The said pandemic succeeded in spreading all over the world triggering a case of panic worldwide. Consequently, oil price concerns became a reality in the early beginnings of 2020, prompting a serious effect all over the world.

The serious rampant of the pandemic situation all over the world was considered a serious concern to the economic situation worldwide. One of those concerns manifested in the slump in oil prices due to the drop in oil demand, closing a stagnation in the oil trading during the covid-19 pandemic.

1.2 Oil Price:

Within the early beginnings of 2020, the crude oil price witnessed an immediate and sudden drop on an international scale as an axiomatic response to the covid-19 lockdowns that happened internationally, bringing along stagnations in movements regionally and globally. These lockdowns forced the policymakers to impose stay-at-home policies that meant less road traffic on a regional scale in each single country, thus meaningless oil demand at that. Moreover, the cancellation of flights between different countries that the majority of the airline companies were forced to take as a measure caused a slump in oil demand worldwide. This consequently had a substantial and



serious influence on the crude oil market supply and demand.

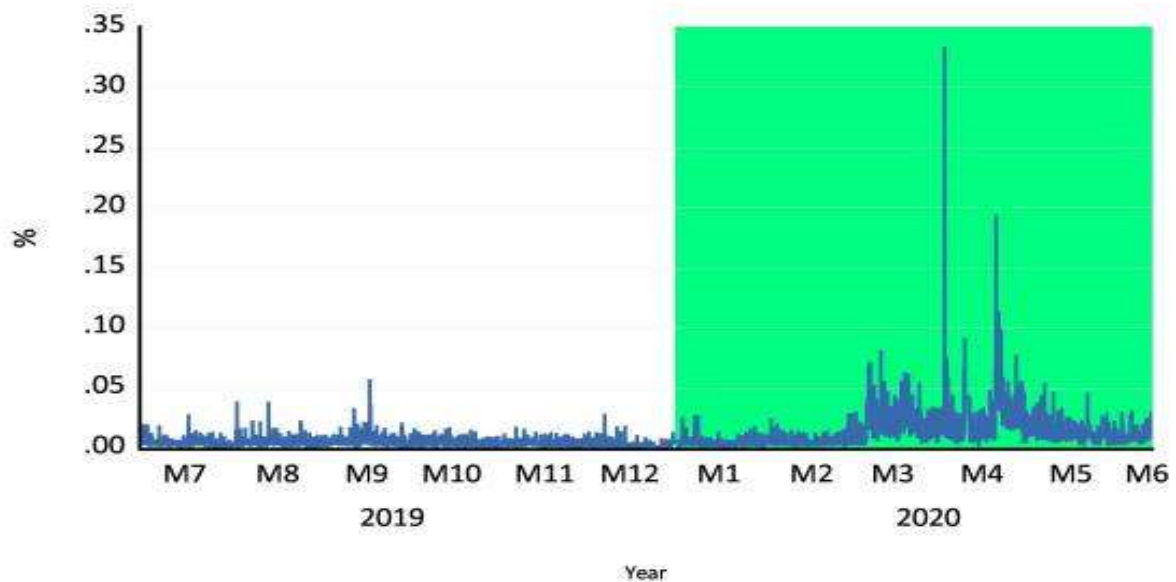
1.3: Oil Trade Disruptions:

The unexpected and unfortunate events of covid-19 have put the economic situation all around the world to adult, not only by causing turmoil to the health sectors but also by prompting travel suspensions and stay-at-home policies. These were some of the underlying parameters that caused activism all over the world to reach a stagnation level beyond imaginable.

Le, et al., (2021) demonstrate the various parameters that impacted the fall in the crude oil prices.

In an article that they wrote, they highlighted those factors as the increases in covid-19 cases, the US and worldwide uncertainty of policies, as well as the foreseen stock market volatility. It presented all of those three factors as contributing factors to the fall in the crude oil price on a large scale worldwide. As per the fact that the increase in covid-19 cases is a vital reason and the fall of oil price, it only makes sense to jump to the conclusion that the key solution to resolve this oil crisis would be to defeat the coronavirus epidemic in order to increase all demand on a global scale.

Panel A: Oil price volatility



Panel B: Bid-ask spread of oil price

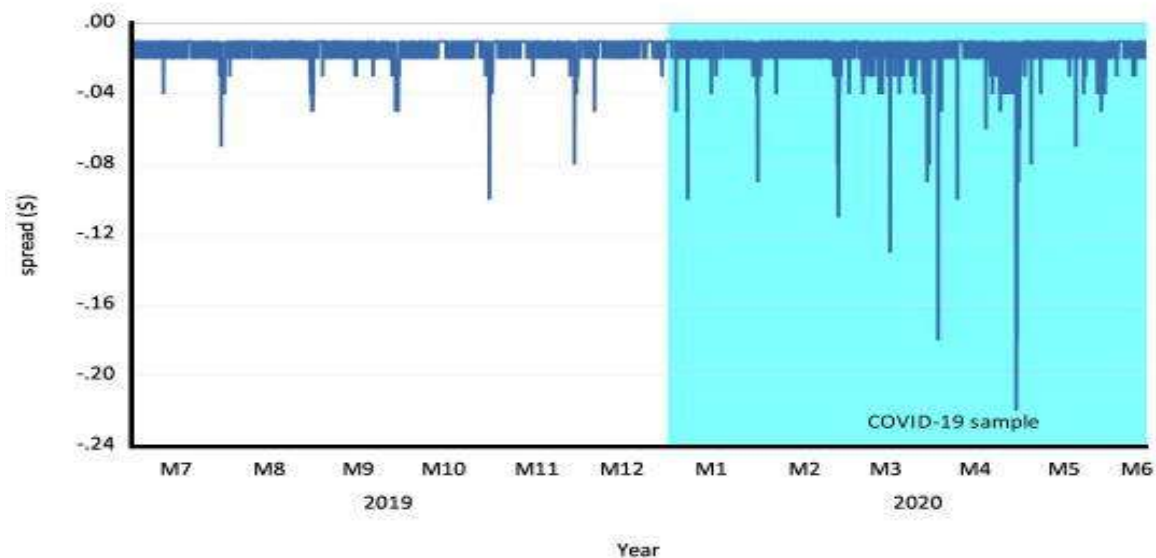


Figure 1: Oil volatility and bid-ask spread of oil price (Narayan, 2022)

Figure 1 above shows the fluctuations that the oil price underwent during the pandemic, as well as the bid-ask spread of oil within the same period of time.



Despite the fact that the coronavirus pandemic started in China, yet the unprecedented troubles that face the economic activities quickly found their way to spread all over the world, with the spread of the pandemic itself thus affecting the economic situation worldwide and creating disruptions in the economic situation especially for the trading sector in general and oil trading in particular. When coronavirus pandemic broke initially on a limited scale in China, several countries all over the world try to compensate for the supply gap that China left when was battling the crisis of Corona (Allam, 2020). Only soon after, the situation found its way to all of those countries prompting various look down measures thus leaving the situation unresolved.

These lockdowns made it difficult for the public to even have access to already available products, let alone the products that are yet to be manufactured. Therefore, hoarding products that the manufacturing of which was put to a halt due to the situation became a trend on an international level. On the same front yet, on the other hand, the demand for different types of products significantly dropped as a result of the restrictive situation that immersed from the spread of coronavirus.

At one point during the pandemic, China was able to restore back its balance and was able to pick up the production processes as a continuation from where it stopped. However, it was difficult to ship and export these products China was able to resume manufacturing due to the yet still ongoing lockdowns and travel restrictions at the time, as well as the major layoffs of employees resulting in a case of shortage and manpower. In other countries where the oil production processes take place, covid-19 affected the situation seriously. So much so, that the drop and demand that was prompted by the covid-19 situation due to the travel and movement restriction measures caused a serious plummeting in the oil prices in those countries according to the organization of the petroleum exporting countries OPEC. These plummets went down as far as 55% (Turak, 2020).

2. LITERATURE SURVEY

(Gharib et al (2021) did an analytical study targeting the prices of crude oil, diesel, and gasoline within the coronavirus pandemic period. Their results implied that the crude oil trade and crude oil prices witnessed a serious downfall during the pandemic outbreak.

Salisu et al (2021) made an evaluative study on the role that gold plays as a hedge or a safety measure against the oil price uncertainties that rise in unpredictable times such as the coronavirus pandemic unprecedented period. To that aim, the researchers

adopted a symmetric model and used published data for the benefit of their own study within the period January 2016 to August 2020. In order for them to be able to emphasize the effect that gold played as a safety measure for the oil price risks, they divided the period into two sections, the one before the pandemic and the one during the pandemic. These results emphasized the hedging positive effect of gold that it played against the risks linked to oil.

A study that was meant to assist the impact of the pandemic on oil prices was conducted by Adedeji et al. (2021). Within it, they employed frequency data as well as structural vector autoregressive ways in order to perform the analysis of the study. Astonishingly, the results demonstrated the effect of the covid-19 situation being a short-term effect that leaves a minor influence on the economic situation. And according to that, they predicted the futurize of oil demand and a recovery in the economic situation.

Another research that aims to evaluate the influence of the pandemic on the energy market, was conducted by Wang et al. (2022). Their study included a comparison that covered oil and coal. The study in essence wanted to comprehend the effect of the quantitative easing QE policy on the energy market under the influence of extreme conditions. The target period of study extended from the beginning of January 2018 all the way to May 7th, 2021. Having said that I can person between the situation before the pandemic and the situation during the pandemic is included.

The study highlighted the disruptions in supply and demand of the energy market, due to the pandemic situation, and it demonstrated the positive effect that the quantitative easing QE has played in helping the market recover during the pandemic period of time.

A study that attempted to discuss the situation of the crude oil market and the stock markets during the covid-19 pandemic was conducted by Zhang & Hamori (2021), which included true evidence from the US, Japan, and Germany. The study aimed to address the fluctuations that occurred during the pandemic in the oil market and the stock market. For that purpose, the researchers adopted empirical methods. The study came to the conclusion that the return spillover in the situation happens in the short term, however, addresses the volatility of the situation to occur in the long term.

The study addresses the rescue situation that covid-19 wrote about to the scene, such as the plummeting in oil prices which in turn affected the stock market in the said countries.

3. CONCLUSION

All in all, the unprecedented times of the coronavirus pandemic wrote about many challenges to the scene worldwide. One of those challenges



manifested and the economic situation by how much the oil trade was affected by the situation. It has been established that the supply and demand of oil were witnessed worldwide, and a seriously dangerous plummet in oil prices took place due to the pandemic. Both of those factors affected the economic situation of several countries on a global level.

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