Oil

Goldman Sachs says oil could fall to $20 a barrel

US investment bank expects oversupply to continue into next year

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An oil well near Tioga, North Dakota. Crude oil prices could fall to $20 a barrel, Goldman Sachs says. Photograph: Karen Bleier/AFP/Getty Images

The price of oil could more than halve again, to just $20 (£13) a barrel, experts at Goldman Sachs are predicting, a shift which would spell big savings for motorists but cast doubt on the viability of North Sea oilfields.

Homeowners, motorists and many industries would gain although a further price collapse could prompt thousands more job losses in the struggling North Sea sector and could eventually hit Treasury tax revenues.

Oil prices could fall to $20 a barrel says Goldman Sachs - as it happened

...but the IEA thinks OPEC's strategy is working and forcing expensive oil out of the market.

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The value of the benchmark West Texas Intermediate crude has already fallen from $107 last June to less than $44 but analysts at Goldman Sachs forecast another huge plunge in WTI. It last traded at $20 a barrel in 2002.

"The oil market is even more oversupplied than we had expected and we now forecast this surplus to persist in 2016 ... the potential for oil prices to fall to such levels, which we estimate near $20/bbl, is becoming greater", the US investment bank said in a research note.

Chris Williamson, the chief economist at financial services provider Markit, said a further fall in energy costs could only be a net positive for the UK economy.

"It would be hugely beneficial to households as lower petrol and fuel costs would leave more money to spend on other nicer things. It would also bring down inflation and keep interest rates lower for longer which would help homeowners with mortgages. But it will be of huge concern to our offshore oil industry."

The trigger for the original energy price collapse which started last summer was a realisation that new oil production, particularly from new US shale wells and Iraq, was expanding much faster than expected.

At the same time an expected strong rise in demand on the back of global economic growth has failed to materialise due to faltering performance by key countries such as China.

The Opec cartel of Middle East oil producers has traditionally tried to balance the market by reducing output in time of low oil prices but this time it has chosen to try to drive its US shale rivals out of business, something that it has so far failed to do.

The fall in oil prices has partly been passed on to the petrol forecourt where diesel can cost 112p per litre - the lowest level in five years - and unleaded petrol 114p. A year ago motorists were paying 133p for diesel and for 129p for unleaded petrol.

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It has also helped drive down the cost of gas, which heats many homes, because many major gas contracts are tied to the price of oil.

Goldman admits the $20 level is a worst-case scenario and it has been wrong in the past by predicting $200 oil. But other banks are also cutting their price expectations for this year and next.

Meanwhile the International Energy Agency said output cuts had started around the world which would eventually drive up prices again.

In its latest monthly report out on Friday the Paris-based organisation said: "Oil's price collapse is closing down high-cost production from Eagle Ford in Texas to Russia and the North Sea."

Aberdeen, the centre of the UK offshore oil industry, has already seen a dramatic slump in drilling levels and thousands of job cuts as oil companies cut their budgets in line with the collapse in crude prices.

The annual economic report for Oil & Gas UK disclosed on Wednesday that the total number of people employed in the sector had fallen from 440,000 to 375,000 since the beginning of 2014. The lobby group said many oilfields were now operating at a loss and predicted more redundancies were likely.

The collapse of prices make oil companies reluctant to commit to new fields, something that would undermine the Scottish National party's hopes of funding future public spending on an expansion of North Sea oil.

Falling fossil fuel prices will also be potentially be bad for climate change as it can lead to higher usage and CO_2 production while undermining the competitiveness of rival renewable energy technologies.