

NYMEX WTI FRONT MONTH FUTURES TRADE NEGATIVE

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21 Apr 2020

The active Nymex West Texas Intermediate (WTI) oil contract (May) that will expire today briefly traded close to -US\$40/bbl yesterday and is currently at US\$1.42/bbl¹. Later today the active contract will become the June contract which is trading at US\$21.40/bbl².

Figure 1: Intraday WTI oil May 2020 contract price



Source: Bloomberg, 21/04/2020.

Historical performance is not an indication of future performance and any investments may go down in value.

Looking at a generic front month WTI price chart (figure 1), one could be tempted to think that you could make close to \$60/bbl out of thin air once we shift to the June contract. But you cannot, unless you have lots of physical storage space to hold the oil delivered for a month.

The reason for the negative price yesterday was because oil storage is getting very tight. People are actually being paid to take the oil and store it. The expiring contract will deliver the oil between May 1st and May 31st, so those who are long the contract and are taking physical delivery need somewhere to store it.

Equally those, who were holding the May 2020 contract, would most likely have rolled out

the contract before yesterday's big price moves, saving themselves from big losses.

As the WTI price in figure 2 below shows, all other WTI oil futures contracts maintained a positive price and did not fall anywhere near as hard as the front month contract.

Figure 2: Comparison of different WTI oil futures contract prices



Key: contracts on above chart: CLK0 – May 2020, CLMO – June 2020, CLNO – July 2020, CLQ0 – August, CLU0 – September. Source: Bloomberg, 20/04/2020.

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Bloomberg Commodity oil subindex

The benchmark Bloomberg Commodity Oil subindex was tracking the May contract until 7th April, but then started rolling over to the July contract between 8th April and 15th April³. So that index would not have experienced the same price drop as the generic WTI price in figure 1.

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¹ 7am GMT on 21/04/2020

² 7am GMT on 21/04/2020

³ As per the Bloomberg methodology, the contracts roll between the 6th and 10th business days of the roll month: <https://data.bloomberglp.com/professional/sites/10/BCOM-Methodology.pdf>

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