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TRENDMACRO LIVE!

On the WTI Crash

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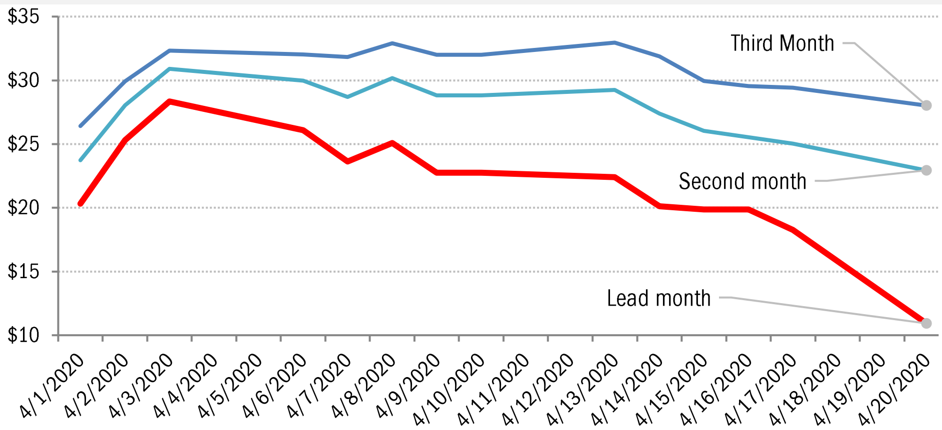
Worst squeeze ever. But even today's demand can't be supplied at twice these prices.

This will be only a brief note on WTI crude oil futures, which as of this writing have traded as low as $10.77 per barrel. Breathless news accounts, like this one posted as the lead story on the *Financial Times* website, explain it only superficially as "a collapse in demand triggered by the coronavirus pandemic" that "leaves the world awash with crude that it is struggling to store." *This is the storage squeeze we predicted a month ago* (see "How Low Can Oil Go?" March 30, 2020). Longs in the lead-month futures contract on the NYMEX face delivery of physical oil that they cannot store, so they must sell at any price. The second-month contract is trading at twice the price of the lead-month, and the third-month contract higher still, about where they were three weeks ago (see the chart below).

- *This move is therefore a transient technical phenomenon.*
- *To be sure, it reflects the severe supply-demand imbalance driven by world-wide lockdowns to fight the spread of Covid-2019.*
- *But demand has seen its worst* (see "Make America Open Again" April 17, 2020).
- *OPEC+'s production cuts last week are imperfect, but will help. Just last month the cartel was in an internal price-war, now a mere memory. It remains the fact that even drastically impaired demand cannot begin to be supplied sustainably at even twice the price of the squeezed lead-month contract.*

WTI crude oil futures



Source: Bloomberg, TrendMacro calculations

Update to strategic view

OIL: Today's crash in WTI oil is a technical phenomenon, the storage-squeeze we predicted a month ago. It is driven by the inability of longs in the expiring lead-month futures to arrange storage for physical delivery. Second- and third-month contracts are trading at twice the price. Demand is impaired to be sure, but it has seen the worst. OPEC+ production cuts are imperfect, but will help, and they make last month's internal price war only a memory. Even severely constrained demand cannot be supplied sustainably at present prices.

[Strategy dashboard]