Now you can't give oil away

By Keith Wade & Mark Lacey

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As countries around the world went into lockdown to curb the spread of the deadly Covid-19 virus, demand for oil collapsed. And on Monday something quite extraordinary happened; the price of West Texas Intermediate (WTI), the grade of crude oil used as a benchmark, turned negative for the first time ever.

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This means that oil producers are paying buyers to take the commodity off their hands due to fears that storage capacity could run out.

Although weaker demand and an uncertain short-term outlook played a part, much of the reason for this sharp fall in the price can be explained by a technicality of the global oil market and a lack of storage capacity. Oil futures contracts relate to specific delivery periods, and the current WTI contract for deliveries of crude oil in May was due to expire on April 21.

Unlike Brent (one of the other main benchmarks for oil prices), WTI contracts are settled by physical delivery, with the owner of the contract on the day of expiry getting the barrels of oil. With many oil traders in the financial markets unable to take physical delivery, there was a rush to offload these holdings to avoid having to incur storage costs. Earlier this month, the Organisation of the Petroleum Exporting Countries (Opec) and its allies agreed a deal to cut global oil output by about 10%. This was the largest reduction in oil production ever agreed and followed a price war between Russia and Saudi Arabia. However, many analysts said that the cuts weren’t big enough to cope with the fall in demand.

President Donald Trump has dismissed the price fall as a short-term problem and has pledged to buy up some of the oil for the country's national reserves. However, with storage capacity at the WTI hub in Cushing, Oklahoma (the main delivery point in the US for oil) set to run out in the middle of May, concerns are growing that this may prove to be a more long-term problem.

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