PETROMATRIX GMBH
A TRADE ADVISORY COMPANY

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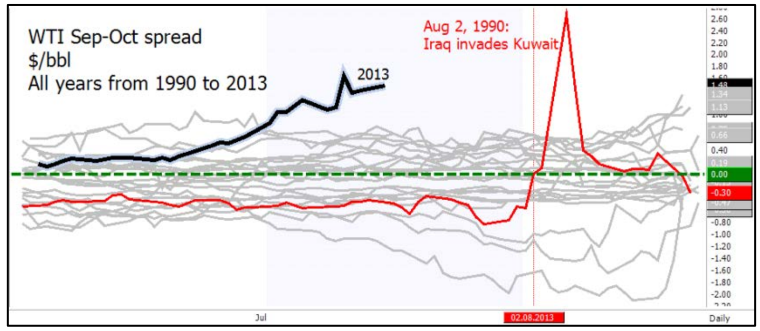
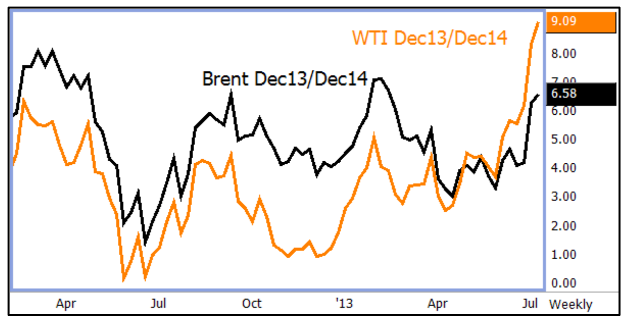
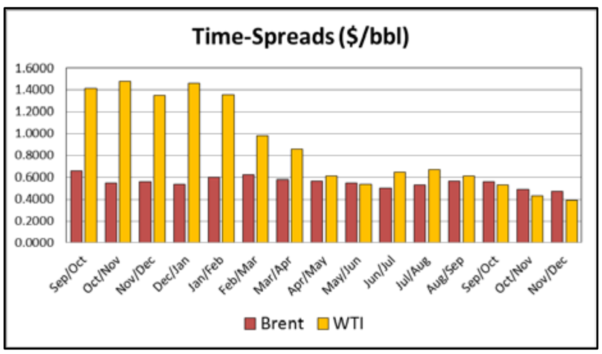
WTI as tight as during Iraq's invasion of Kuwait



The WTI August futures contract will expire on Monday July 22nd and then we will start to enter a period of very deep backwardation for WTI. The Cushing glut and the WTI super-contango are now just a memory as the September/October WTI backwardation is at the highest level since… the invasion of Kuwait by Iraq in August 1990.
The pricing dynamics for WTI have of course changed since 1990 but the above illustrates the very significant tightness currently in the WTI time-structure.





The Dec-RedDec backwardation in WTI is now above the backwardation in Brent but it is at the front of the curve that the difference between the backwardation in WTI and Brent is the most striking, with WTI having a backwardation between two and three times larger than Brent.
With such a level of backwardation in WTI, all the enhanced commodity indices are and will be shifting their allocations in crude oil to the front months of WTI. If the front WTI backwardation can be sustained and rolled then WTI will offer close to 17 $/bbl of positive roll yields over 12 months, compared with about 8 $/bbl for Brent.

With a backwardation both in Brent and WTI, the US should have an economic incentive to move to minimum-of-inventory in crude oil. US imports of crude oil have been coming down due to the increase in US domestic production but now imports should face the double-hit of the crude oil backwardation that will favor running down stocks rather than importing.

But can WTI hold and roll this level of backwardation? Financial flows moving back into WTI have significantly reduced the Brent-WTI spread which is then also reducing the economics of rail transportation from the US Midwest to the coasts, and the higher flat price is giving an incentive for producers to maximize their output. The flat price of WTI is high enough for producers to give a discount to offset the negative storage economics from the backwardation; therefore an easing of physical differentials for crude oil from Canada and North Dakota will be the first warning signs against the sustainability of the current WTI backwardation.