# North America – Awash in Oil.

North America is awash in oil and this was never more evident than yesterday when the monthly contract rollover for WTI caused traders to pay rather than take physical delivery of the May contract.

Unprecedented is how some industry executives have described it. And while it makes for shocking headlines, oil producing companies will typically price their sales of the monthly average price and few if any sell oil on a spot/uncontracted basis.

At issue is North American crude oil storage. At a time of the year when US refiners would be getting ready to make and distribute gasoline for the upcoming (and probably now non-existent “driving season” that normally kicks off Memorial Day weekend), expect that US stockpiles at Cushing (WTI home) could hit 60 million barrels this week, leaving a scant ~16 million barrels of remaining excess storage capacity. Yes, that is still 20%, but most if not all of that capacity is already spoken for and it could be filled in weeks. Even before driving season, US gasoline demand was down by more than 30% this month, compared to a year ago according to the US-based Energy Information Administration (EIA).

Global oil tanker rental rates have skyrocketed in the past month as producers look for any possible storage space. Media reports have cited the use of any possible old tanks in the US as the industry struggles to find available storage. Everything that is capable of holding oil is being sought out and used. At some point in time, the costs to store the oil will become prohibitive and producers will be forced to shut-in production. This is already happening in both the US and Canada, but arguably not quickly enough to offset the precipitous fall in demand

With US consumption way down, yesterday’s contract expiry and negative WTI crude oil price foreshadows continued weak crude oil prices in North America until the supply-demand balance comes back in line. Expect one or two more contract expiration’s in the months ahead to again display negative pricing.

Notwithstanding North American pricing woes, Brent crude oil, which much of the world outside of North America uses as a pricing benchmark, is also under pressure, trading the low US$20s/bbl. While unsustainable as a long term price for producers, even out of the Middle East, volatility will remain until global supply/demand is balanced. Expect OPEC+ to have to cut production again – it can’t be soon enough!