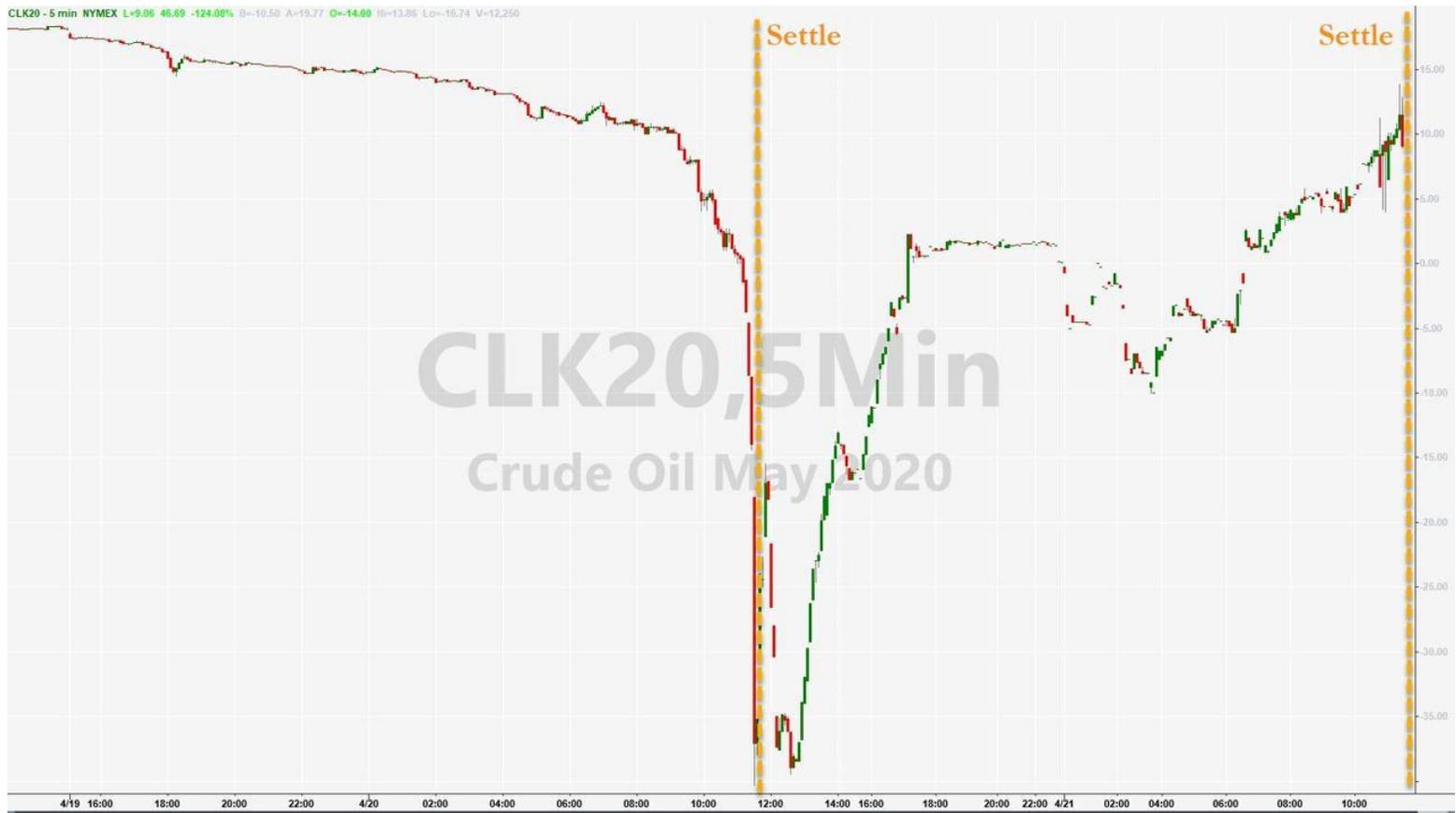


## Whistling By the Grave

The year 2020 has been a storied one for crude oil. First, we had the big spike following the death of an Iranian General, when we witnessed per-barrel prices soar into the \$60s.<sup>1</sup> Second, enter coronavirus and the initial damper on demand which resulted. The third blow came shortly after that, as Saudi Arabia effectively abandoned OPEC+ and flooded an oversupplied market with more supply. In hindsight, this only accelerated what was coming. The final move, which had been telegraphed for some time, was the reality that available storage for oil in the US was nearing capacity. This last straw finally broke as the May futures contract was nearing settlement Tuesday. Crude oil settles in physical delivery, meaning whoever is holding the contract will be delivered 1,000 barrels of oil.<sup>2</sup> With no place to store the physical inventory, the cost becomes “priceless.” As a result, we saw oil trade as low as -\$39.44, which is reflected in the chart of the week below.



Source: <https://www.zerohedge.com/energy/wti-maintains-losses-crude-inventories-rise-13th-straight-week>

# CHART OF THE WEEK

April 23, 2020



Kevin Churchill, CFA®, CFP®  
Chief Investment Officer

The second chart is where things get more troubling regarding the “knock-on” effects. We are now trading the June contract, which saw prices drop from \$21.52 to \$6.50<sup>3</sup> intraday on April 21<sup>st</sup>. Clearly, the oil industry is going to experience pain with prices so low, and some companies may go bankrupt or be sold for “spare parts.” At this point, the derivative effects need to be evaluated. Banks and bondholders connected to the soon-to-be defunct oil companies would be impacted. Do they have the wherewithal to absorb the credit losses? What effect would this have on the high-yield space in terms of widening credit spreads spilling into other industries? Will we see a repeat of May at the June settlement? We continue to be in very uncertain times and will reemphasize the potential merits of caution and reduced risk.



Source: <https://www.zerohedge.com/energy/wti-maintains-losses-crude-inventories-rise-13th-straight-week>

<sup>1</sup> <https://finance.yahoo.com/news/crude-oil-price-63-87-084051288.html>

<sup>2</sup> <https://www.cmegroup.com/trading/why-futures/welcome-to-ny-mex-wti-light-sweet-crude-oil-futures.html>

<sup>3</sup> <https://finance.yahoo.com/quote/CLM20.NYM/history?p=CLK20.NYM>

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