Rollover OIL.WTI

In the last days OIL.WTI („Oil“) experienced a volatility and a market behavior not seen in the history of the most important commodity in the world. Due to a collapsing demand in Oil and a way bigger production (lasting for months now) the storage for the commodity became short. Especially the one in a city called Cushion, Oklahoma (USA) where the Oil future contracts are settled. Due to this shortage futures traders with long positions were forced to sell their exposure as otherwise they would become obliged to buy the hundreds and thousands of barrels of Oil …. but with no storage. The selling pressure went into void as it mets a dried out order book without any substantial buying orders. So, the price spiral went down to even prices below zero and mounted in a panic. In the peak the buyer of a barrel of Oil would not only even get the barrel of Oil, but also he would get cash of about 40 US-Dollars.

Of course this unprecedented behavior caused havoc in the financial markets, especially the commodity markets. After the contract – expiring in MAY – was settled, the fear started spreading that also the (new) JUNE contract could go negative. Keep in mind: There are many systems in the execution of trades which are not used to quote negative prices, especially in the OTC market for CFDs. Hence, nobody did know what to expect when the JUNE contracts hits zero or less.. but not also that. It was also that the liquidity in the JUNE contract dried out and any „non-odd-lot“ order would cause execessive price movements in one or the other direction.

In Bernstein Bank the management sat together and discussed the situation, especially what would happen if Oil hits zero or less. But not only in Bernstein Bank. Also all the liquidity providers, who deliver quotes and hedging facilities to the brokers faced the same situation. Hence, yesterday in the evening, around 8 pm our liquidity providers informed us about an unregular – out of schedule – rollover in Oil. The rollover tooks place between the JUNE and the JULY contract. This is due to the fact that our liquidity providers had the same issues everybody has trading the JUNE contract: No liquidity because of a dried out order book. The rollover was necessary to avoid price disruption in the Oil market for CFDs. As the rollover resulted out of a emergency situation in yesterday´s trading. The notice period was pretty short, however in super volatile markets with no liquidity at all, the measure of doing a rollover into a more liquid market, benefits the client significantly more than long announced notifications.

Best regards, Heiko Seibel, MD of Bernstein Bank GmbH