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***COVID-19: Analysis: As Oversupply Looms, US Crude Oil Set for Storage Play

Unprecedented demand destruction brought by the coronavirus disease 2019 (COVID-19) pandemic and a sharp increase in Saudi Arabia's exports is expected to continue to widen the contango structure in West Texas Intermediate futures, signaling that excess U.S. crude oil will now head into storage as the export window shuts.

As the front-month WTI contract has lost almost two-thirds of its value year to date, WTI's forward curve is turning deep in contango, when longer-dated futures trade at a premium to spot, encouraging participants to keep oil in storage and sell it for profits later in a record surplus market, analysts said.

On Friday, the one-year WTI premium between May 2020 and May 2021 climbed to nearly $10/bbl this week, a level last seen in early 2016, and the three-month May-August WTI spread widened toward $4/bbl.

Saudi Arabia's decision to relinquish its role as the supplier of last resort and join other producers in flooding the spot market with cheap heavy sour oil should put more pressure on Brent, making WTI unattractive for export, analysts said. They also expect the WTI-Brent discounts to turn into premiums, as U.S.
refiners buy the cheaper heavier crude and as U.S. shale producers shut in production at lower prices.

Tank Tiger, a Princeton, New Jersey-based broker in the U.S., Caribbean and South American tank space and terminaling services, reported its busiest week since the company started business in 2015, with six times more customer activities than it has in a normal week.

"All of the storage that everyone wants is basically gone, and what's left isn't cheap anymore," said Tank Tiger CEO Ernie Barsamian, a 30-year veteran in the petroleum terminal business. While traders and users have already hoarded available tanks, Barsamian said that storage on a sub-lease basis is still available for the right price.

Andy Lipow, president of Houston-based consultant Lipow Oil Associates, said he expects to see keen interest in the biggest U.S. storage facilities such as the Cushing, Okla., storage hub, the LOOP underground caverns in Louisiana and the Pierce Junction storage facility in south Houston. "The crude oil market is oversupplied, and excess volumes are seeking storage locations," said Lipow.

Products in Contango Too; WTI at Premiums to Brent

On refined products, Lipow said he expects gasoline inventories are going to build due to social isolation as COVID-19 hits the U.S., and a contango will develop in New York Harbor, the delivery point of NYMEX RBOB futures, as stockpiles in the U.S. East Coast start rising.

The one-year contango spread for NYMEX RBOB between April 2020 and April 2021 widened to nearly 30cts/gal on Monday, a level last seen at the height of the

2008 global economic crisis, highlighting the historic drop in fuel demand.
Similarly, the one-year contango for NYMEX ultra-low-sulfur diesel has climbed to 20cts/gal, last occurring in 2016.

On Thursday, Colonial Pipeline Co. said it will slow fuel flows by 20% on its main route supplying refined products to the U.S. Northeast from U.S. Gulf Coast refiners, underscoring reduced downstream demand due to COVID-19.

Michael Tran, commodities strategist at RBC Capital Markets in New York, said the cost of storing a barrel at Cushing has doubled in the past several weeks, and floating storage costs on Very Large Crude Carriers (VLCC) have also risen significantly as Saudi Arabia chartered a number of VLCCs to move its crude for export.

Tran said higher tanker freight costs and the small WTI discounts to Brent at just over $3/bbl on Friday discourage U.S. crude export.

"Given the current pricing economics. We don't see exports as being economically viable at this point. We expect the U.S. crude exports are going to be quite tepid over the coming weeks," Tran said.

Sandy Fielden, director of oil and products research at Morningstar in Austin, Texas, said Brent's rapidly collapsing premiums to WTI at $1.74/gal on March 13 barely covered the pipeline shipping costs for WTI from Cushing to the U.S.
Gulf Coast, let alone the freight costs to overseas markets, rendering WTI less competitive versus Brent from Saudi and Russian barrels in international markets.

"In effect, the narrow Brent premium traps WTI in the U.S. market," Fielden said.

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***Bulk Storage Leasing Frenzy Expanding on US Shores and Cushing: Sources

Diesel, crude oil and even gasoline are generally much more expensive as one advances through the calendar, and that has created an unprecedented frenzy to secure storage for cash-and-carry places, sources tell OPIS.

Ernie Barsamian, who handles clean and dirty products storage throughout the U.S. for The Tank Tiger, noted in his weekly bulletin Monday that his firm had seen business inquiries soar sixfold. All of the easy-to-manage storage in the Northeast, for example, is generally taken with demand for distillate tankage particularly keen.

That's no wonder given that the price of December ULSD is nearly $1.21/gal Friday afternoon, versus cash prices for ULSD of about $1.06/gal. That "contango" could possibly morph into "super-contango," according to many supply personnel and there is even more than 10cts/gal separating April (summer grade) RBOB and

December winter blends. Toss in the ability to swell volumes with cheap butane and other components, and the storage play for gasoline is compelling.

Companies that acted as 2020 began could procure tanks for a cost of about 35cts/bbl per month. That price for distillate storage has now swelled to 55-60cts/bbl with firms scouring points from Baltimore south.

Most of the business is being conducted by the normal logistical players, but some nibbles have been witnessed from private equity and hedge funds.

Terms vary, with Tank Tiger CEO Barsamian noting that a company just locked in an 18-month deal for tankage at Cushing. The contango for WTI is quite severe with December barrels fetching about $9/bbl above May material.

Many analysts believe that the looming oversupply thanks to the Saudi Arabian/Russian oil production war and coronavirus disease 2019 (COVID-19) demand destruction may result in virtual full tanks in the second quarter.

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