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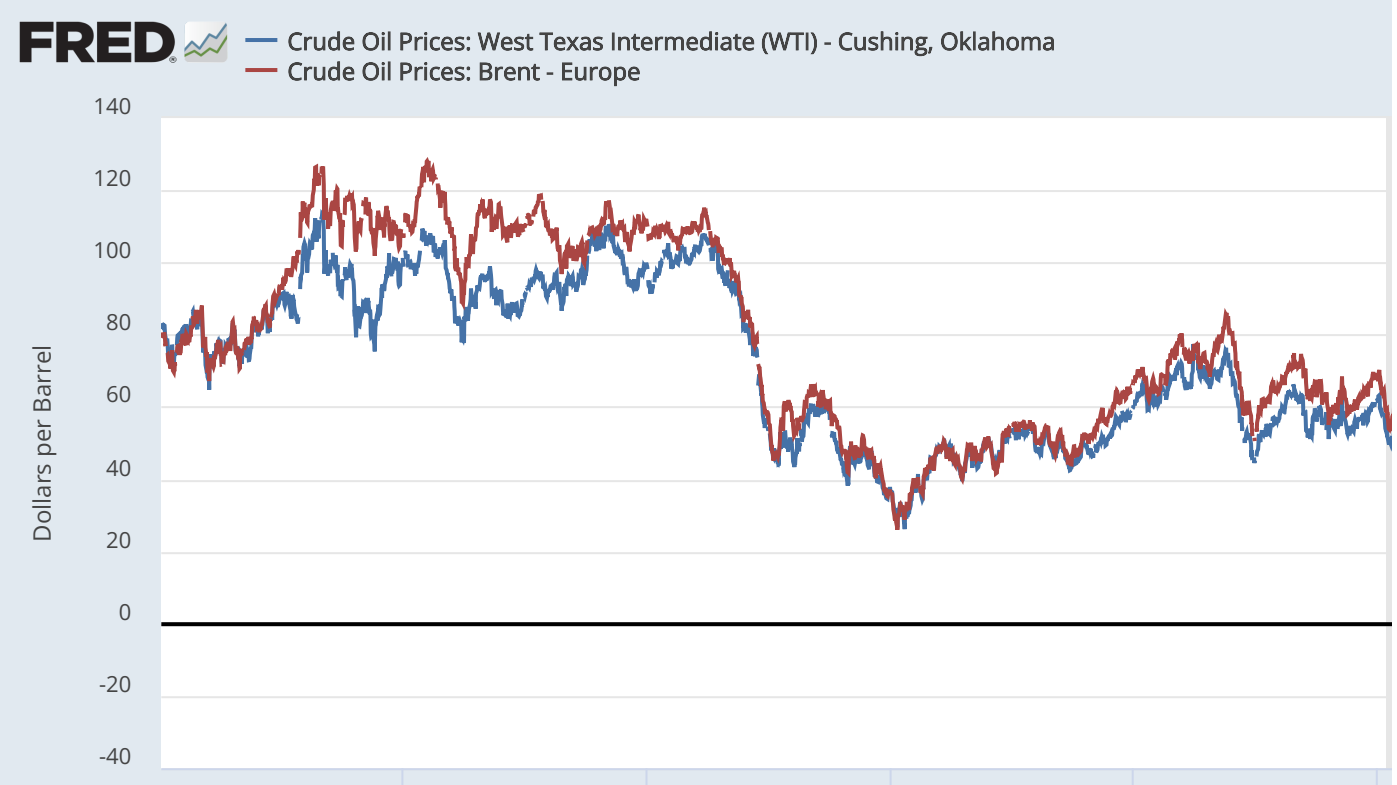
WTI vs. Brent oil prices: When and why do they diverge?

Posted on May 18, 2020



West Texas Intermediate (WTI) and Brent crude oil prices generally track each other pretty closely,* although their levels can be different. In 2011, though, the two prices diverged. You can also read more here and here, but let's talk about the details.

The FRED graph above shows the prices per barrel of WTI and Brent crude from 2010 to present. Before 2011, the average price of a barrel of WTI was $35.34 and the average price of a barrel of Brent was $34.00.

Price differences can reflect the ease of refining, the geography of where the oil is produced, costs of transportation to where the contracts are fulfilled, and political and economic conditions in the regions where the oil is sold. But the increasing price differential in 2011 is often attributed to the bottleneck in transportation of the product to Cushing, Oklahoma, where WTI oil futures contracts are settled. The gap began to narrow in 2014 when these bottlenecks eased, but it widened again in 2017.

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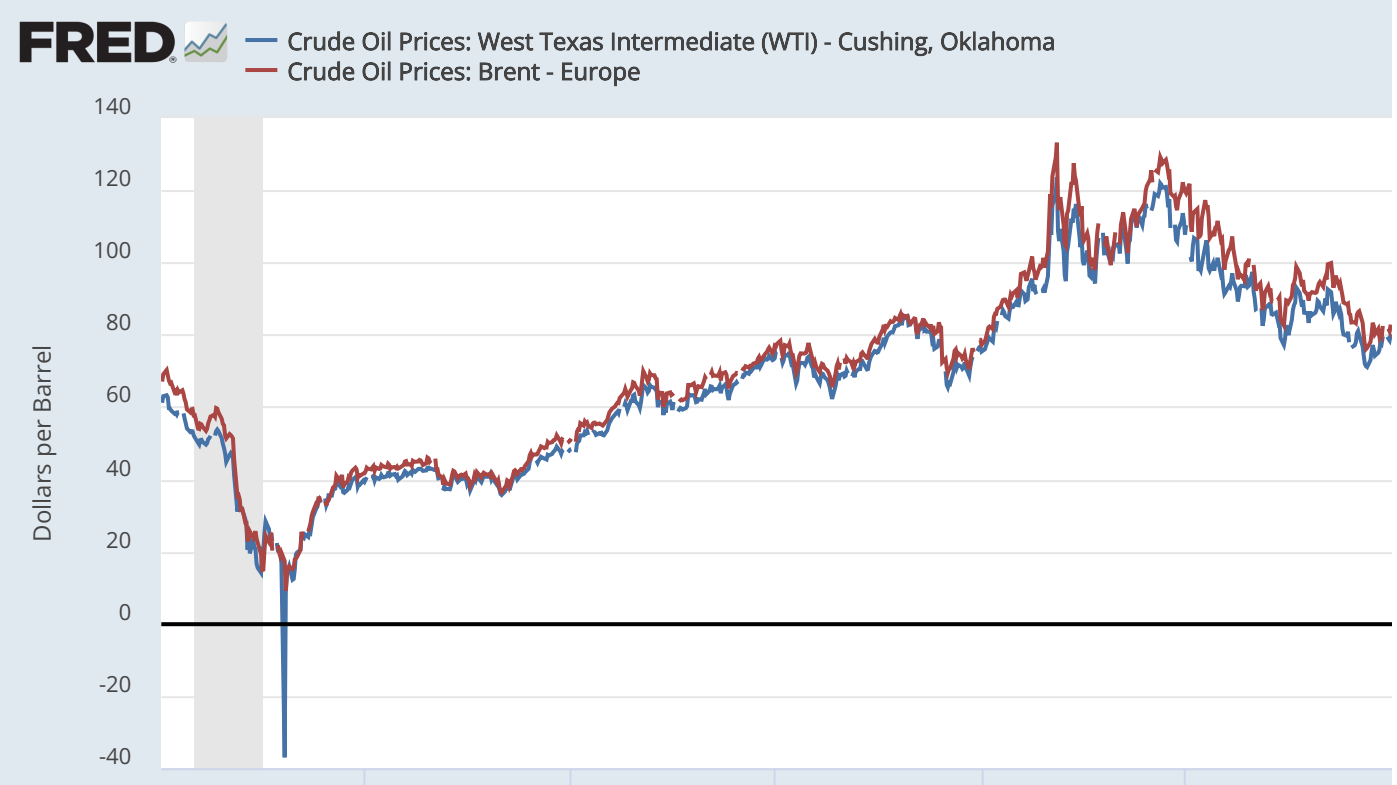

With the onset of the COVID-19 pandemic, the WTI price fell precipitously; the Brent price also fell, but not as much. Our second FRED graph shows the current drop in prices since January 1, 2020. This difference in the behavior of the two oil prices may be caused by differences in the storage technologies at settlement. In Cushing, where WTI is settled, storage is fixed and the cost of transporting the crude to another storage facility is high. Brent, on the other hand, is produced in the North Sea and can be more easily transported to waterborne tankers for temporary storage.

*Correlation = 0.99 for May 20, 1987, to April 27, 2020.

How these graphs were created: Search for “Crude Oil Prices: West Texas Intermediate (WTI) Cushing, Oklahoma.” From the “Edit Graph” panel, use the “Add Line” feature to search for and select “Crude Oil Prices: Brent – Europe” and click “Add data series.” Adjust the date span by using the slider at the bottom of the graph or the date entry boxes at the top right of the graph.

Suggested by Michael Owyang.