

Eyes on the contango play of 2015

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The plummet of the price per barrel of Brent crude oil has shocked nearly every major domestic and international producer. However, in the case of some energy companies and investors, buying and selling physical barrels of oil highlight a fantastic moneymaking opportunity. In technical terms, this opportunity is referred to as contango.

A contango play exists when the current price of a commodity, in this case oil, is lower than the price for delivery of that commodity. Many traders capitalize on this opportunity by buying oil now at cheaper rates, storing it and then selling it in the future when prices increase in accordance with demand. Contango plays are generally driven by a commodity's production surpassing its demand, ultimately creating a

surplus in that commodity's market. During a contango play, typically traders and integrated oil companies, along with shipping and storage companies, have the greatest ability to profit.

The last time the entire international market for oil fell into a contango play was during the fourth fiscal quarter of 2009, when markets were slowly re-emerging from the 2008-2009 U.S. financial crisis. According to ship brokers, during that time, traders were storing 100 million barrels at sea. Currently, there is a race for storage amongst traders, particularly at Cushing, the world's largest commercial tank hub. According to analysts at Goldman Sachs, a big increase in storage capacity in recent years means the oil market will be able to run a surplus for quite some time, resulting in lower consumer prices.

As it relates to storage, usage of natural gas storage is increasing year after year. Storage facilities play a critical role in ensuring that excess supply of natural gas delivered during summer months is available during the winter months when demand increases. Additionally, natural gas storage serves as insurance against any unforeseen occurrences that may affect production or delivery. In addition to the aforementioned scenarios, in cases of a contango play, natural gas storage is necessary to major traders wanting to capitalize on the financial opportunity.

With levels of natural gas storage fluctuating depending on the season, the overall amount of natural gas available in storage facilities is a supply-side factor that has the potential of affecting prices. Ultimately, natural gas in storage facilities assists the market in adapting to sudden shifts in supply and demand, helping to accommodate stable production rates and helping to support pipeline operations and hub services.

Keep your eye on contango in 2015 – it's coming to a storage

facility near you.