

The changing and unchanging aspects of the relationship with rising oil prices

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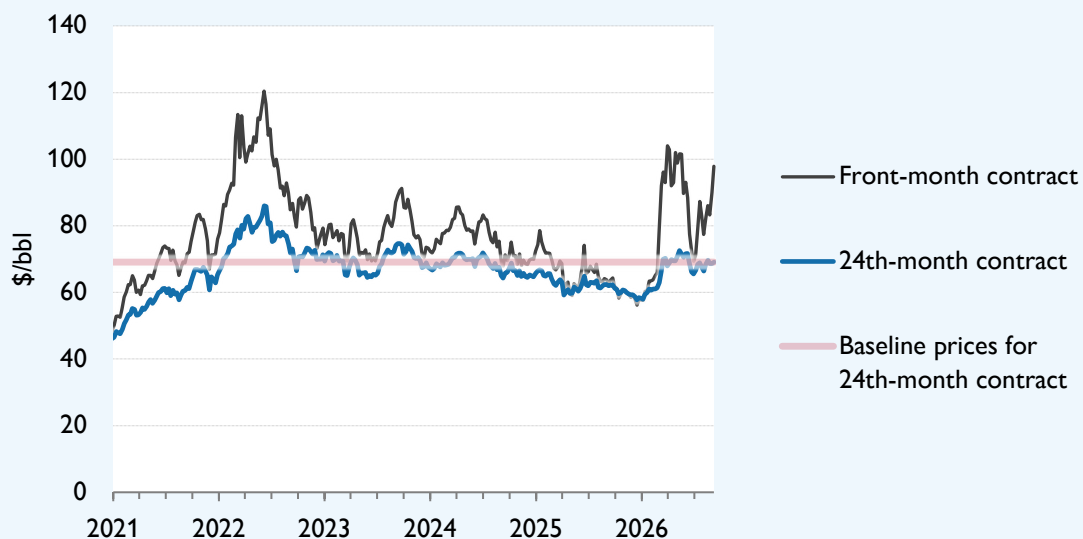
Summary

Crude oil prices soared following the attacks on Iran by the United States and Israel, which began in February 2026, and the subsequent blockade of the Strait of Hormuz. After a temporary dip, the prices are currently rising again following the resumption of attacks. Against this backdrop, a back spread—where the front-month contract is more expensive than forward-month contracts—has become pronounced.

When examining the quantitative relationship between the front-month futures prices of West Texas Intermediate (WTI) crude oil and its forward-month futures prices, it is evident—as one might intuitively expect—that the influence of the front-month futures price weakens for more distant forward-month futures prices. Whilst the link between front-month futures and forward-month futures tends to weaken during periods of rising crude oil prices, this trend is particularly pronounced at present.

Whilst it is not unexpected that crude oil price levels should alter the relationship between front-month and forward-month futures contracts, it is worth noting as a point of interest that these changes are not random but exhibit a consistent relationship. The ‘baseline price’ of WTI crude oil futures derived from this is approximately \$70/bbl for the 12th-, 24th- and 36th-month contracts. For Brent crude oil, this stands at around \$73/bbl, and the difference between the baseline prices of WTI and Brent crude oils broadly corresponds to the value widely recognised as the inter-crude oil price differential.

Figure 1 | WTI crude oil futures prices and their ‘baseline prices’



The significant back spread that has emerged as a result of the weakening link between front-month and forward-month contracts is a boon to financial investors employing a long-only strategy. Furthermore, the absence of strong bullish sentiment, which is not driving further price skyrocketing, offers a small measure of relief to oil consumers struggling with high oil prices. On the other hand, the market's signal that future oil prices are not expected to rise as sharply as front-month contracts suggest is likely to make crude oil suppliers hesitant to invest in increasing supply. Viewed through the lens of the futures market, it may be entirely natural that efforts to expand supply capacity have not yet gained significant momentum.