Why there is no single oil price

> **BENCHMARK**
>
> A specific, tradeable reference contract that a wider market prices against. WTI and Brent are both crude oil benchmarks; they are different instruments at different places with different mechanics, and they do not have to agree. Most physical commodity business is priced as a premium or discount to a benchmark, not at it.

The news says oil rose two per cent. Which oil?

There are two headline crude prices, and they disagree every single day. WTI is light sweet crude delivered into pipelines at Cushing, Oklahoma. Brent is light sweet crude loaded onto ships in the North Sea. Similar molecules. Different places, different delivery mechanics, different buyers - and therefore different prices.

The spread is information, not noise

Most of the time the two trade within a few dollars of each other, and the difference quietly reports the cost and constraint of moving oil between the middle of America and the sea. When that plumbing breaks, the spread stops being quiet. In 2011, rising US production flooded into Cushing faster than pipelines could take it out, and landlocked WTI traded more than $20 below Brent for long stretches. Same news, same global oil market, twenty dollars apart - because place is part of the instrument.

This is the single most useful idea in this entire track. A commodity price is a price for a specific thing at a specific place for a specific month. Change any of the three and you are looking at a different instrument. Almost nobody teaches this, and traders who miss it spend years confused about why their chart disagrees with the news.

It is not just oil

US natural gas and European natural gas are the same molecule on different continents, and in 2022 the European price briefly traded near ten times the American one. No pipeline connects them; liquefied gas shipping was maxed out; so there was no arbitrage left to force them together. Wheat splits into Chicago soft red winter, Kansas hard red winter and Minneapolis spring - different plants, different protein, different contracts.

Gold is the deliberate exception. It is chemically identical everywhere, cheap to move relative to its value, and vaulted rather than consumed - so one global price holds to within pennies. Gold behaves like a currency wearing a commodity costume, and that difference runs through the whole track.

What this means for you

Every commodity chart, CFD and news headline references one specific benchmark, and the first question to ask of any instrument is: which one? A 'crude oil' CFD is a WTI contract or a Brent contract - the broker's page says which - and the two can move differently on the same day for entirely mechanical reasons.

There is no single oil price. Once that stops sounding strange, you are thinking like a commodities trader.

Check your understanding

1. WTI and Brent both rose on the same news, but by different amounts. What is the most likely explanation?

a. One of the two prices is wrong and will correct

b. They are different instruments at different places, and their spread carries its own supply and demand

c. Brent always moves more because it is European

Answer: b. Neither is 'the' oil price. Each reflects its own delivery point and its own buyers, and the spread between them moves on transport constraints and local gluts - as it did by over $20 in 2011.

2. Why does gold have one world price when oil does not?

a. Gold is more heavily regulated

b. Gold is identical everywhere, cheap to move for its value, and stored rather than consumed - so arbitrage works almost perfectly

c. Central banks fix the gold price daily

Answer: b. Arbitrage needs the good to be movable and fungible. Gold is both, so location barely matters. Oil and gas are expensive to move and consumed where they land, so place is part of the price.

3. Your broker offers a 'crude oil' CFD. What should you establish first?

a. The spread being charged

b. Which benchmark contract it references

c. Whether it pays dividends

Answer: b. WTI and Brent can and do move differently on the same day. Until you know which one your instrument follows, you do not know what you are trading. Costs matter too - they are module 3.