Gas Persistently Pricey? Wall Street Is Partly to Blame

By Javier E. David

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Many consumers, frustrated at pricey pump prices, have laid the blame at the feet of Wall Street speculators.

They may be onto something, although, as with most things having to do with oil and gas, there are several factors going into how they are priced.

Geopolitics is the primary cause of oil price swings, though growth expectations, central bank policy and fuel exports are also major factors that come into play.

Though the average U.S. gasoline price has declined by about 4 cents since April 28, to $3.62 a gallon, according to GasBuddy.com, it's up substantially since early February, when a gallon cost about $3.27 on average.

Both Wall Street and Big Oil take heat from frustrated consumers who blame them for energy prices. Energy companies such as ExxonMobil, Chevron, ConocoPhillips and Valero benefit when oil and gas prices are on the rise. Yet for Big Oil, the boost from energy prices has been marginal at best for their bottom line. Meanwhile, nobody benefits in the long-term if high energy prices eat into disposable income.

That said, at least some of the run-up can be attributed to speculators, who have been accused in the past of manipulating crude prices. The latest data from the Commodity Futures Trading Commission showed speculators—who as a group haven't been short oil for nearly two years—loading up on bets that crude will continue to climb.

"Typically traders, speculators and money managers are trying to gauge (the) current supply situation and medium-term outlook," said Justin Jenkins, research analyst at Raymond James. "When you combine tensions outside the U.S. with relatively limited (domestic) supply, it makes the market ripe for more than usual speculation."

'Purely on speculation'

Fadel Gheit, energy analyst at Oppenheimer, said in an email to CNBC that geopolitical factors such as turmoil in Libya and Ukraine are the main factors buttressing oil and gas prices. Still, "the entire energy complex is elevated by $20 per barrel, purely on speculation," Gheit said.

"My expectation has been for some time that energy prices should be going south, but they haven't."

However esoteric the factors, they matter because of the spillover effect on retail gas, which is tightly linked to the price of Brent crude. With retail gasoline recently hovering uncomfortably close to $4 a gallon in some places, it acts as a de facto tax on consumers and dampens economic growth. Frothy oil and gas prices in the context of an underwhelming recovery have bedeviled many economists.

"We're still in the great recession, in Europe and the U.S.," said Steve H. Hanke, professor of applied economics at The Johns Hopkins University and a scholar at the Libertarian Cato Institute. "My expectation has been for some time that energy prices should be going south, but they haven't."

Some analysts say the seemingly inexorable climb in energy prices also can be traced back to U.S. fuel exports. Even though America has an insatiable demand of its own for oil and gas, it ships a combined 3 million barrels of gas, diesel, distillates and propane abroad per day, according to Energy Information Administration statistics. During the recent, tundra-like winter, export volumes actually surged to 3.7 million barrels per day, which may help explain why domestic energy prices skyrocketed.

U.S., oil exporter

That amounts to more than a billion barrels a year, an amount Richard Hastings, macro strategist at Global Hunter Securities, said is nearly 70 percent more than what the U.S. exported back in 2008.

"The U.S. has become such a big exporter of fuel that it winds up getting priced at international market prices," represented by the Brent crude contract, Hastings said. Brent trades at a premium to West Texas Intermediate, the customary domestic benchmark.

For the last five years, domestic gas prices rose alongside export volumes nearly 75 percent of the time, said Hastings, who added that fuel shipments exert far more upward pressure on energy prices than speculators. Service stations also tend to mark up gas prices to account for the price of ethanol, Hastings added, which in March soared to a seven-year high.

"Gasoline stations know you can't get control over ethanol or crude, so they smooth it out and mark up (gasoline prices) even if ethanol costs go down," Hastings said. "The retail part of the business knows costs are going to go right back up."