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Economic Issues

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Are Speculators to Blame for High Gas Prices?

How do bets about the future price of oil affect current oil prices? They can do so if and only if those bets increase or decrease oil supply in the here-and-now through changes in inventory or production, say Jerry Taylor and Peter Van Doren, senior fellows at the Cato Institute.

If the price for crude oil tomorrow -- thanks to the speculators -- is higher than the cost of crude oil today plus the cost of storage, then everyone could make money by buying crude in the spot market, storing it somewhere, and guaranteeing its higher selling price through the purchase of a futures contract. This would reduce current supply and increase current price while increasing future supply and decreasing future price. If this is going on we would expect to see some sort of inventory buildup.

- While crude inventories in the United States are increasing, they always increase at this time of year, and this year's increase is well within the normal range.
- More important, gasoline inventories are decreasing and decreasing much more rapidly than normal.
- Hence, there is no evidence that speculators are reducing the supply of crude or gasoline through increased storage.
- Producers, however, could react in the same way to higher futures prices by decreasing current production to allow more future production at higher prices.
- Alas, we see no evidence of suspicious reductions in producer output that might give this story credence.

Source: Jerry Taylor and Peter Van Doren, "Are Speculators Gouging Us At The Pump?" Forbes, April 19, 2011.

For text:

http://www.forbes.com/2011/04/19/oil-futures-prices.html

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http://www.ncpa.org/sub/dpd/index.php?Article_Category=17