

Our View: Introducing the Trump Call

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The Trump call on oil is similar to the “Greenspan put” that equity traders relied on in the 1990s. Miller, Weller, and Zhang explained the Greenspan Put in an article published in *The Economic Journal* in 2002 as follows:

When the risk premium in the US stock market fell substantially, Shiller (2000) attributed this to a bubble driven by psychological factors. An alternative explanation is that the observed risk premium may be reduced by one-sided intervention policy on the part of the Federal Reserve which leads investors into the erroneous belief that they are insured against downside risk.¹

The Trump call has a similar effect on speculators betting on price declines. It would be described as follows:

When the risk premium in crude oil prices rises, the observed risk premium may be reduced by one-sided intervention on the part of the president of the United States, which leads those speculating on a decline in oil prices into the possibly erroneous belief that they are insured against upside risk.

The existence of the Trump call seems to have been sufficient to cause several macro hedge funds that focus on oil prices to close. Investors and upside speculators seeking to profit from a rise in crude prices may have concluded that the president might use his powers to dampen any price increase, reducing the odds on their bet that oil prices would rise.

Going forward, a black cloud continues to hang over the market in the form of impending tweets. The “Trump call” remains the greatest threat to the oil market. If gasoline or diesel prices rise to levels deemed excessive at the White House or Mar-a-Lago, one can expect new Twitter[®] missives demanding that OPEC boost production. The White House (or Mar-a-Lago) might even move to release heavy crude from the US Strategic Petroleum Reserve to lower prices.

¹ Marcus Miller, Paul Weller, and Lei Zhang, “Moral Hazard and the US Stock Market: Analyzing the Greenspan Put,” *The Economic Journal* 112, March 2002 [<https://tinyurl.com/y6g2zc47>], p. c171.