Our View: OPEC+'s Don Quixotes

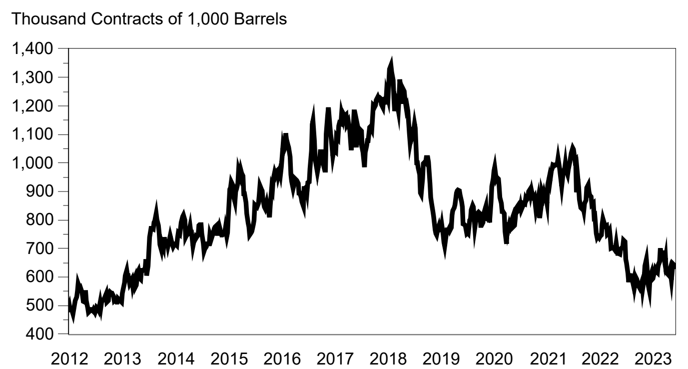
Philip Verleger
May 30, 2023

Oil ministers seem fixated on speculation in oil. Like Cervantes' Don Quixote, they continue to tilt against financial markets every time prices fall, blaming speculators for the decline. The Saudi oil minister, Prince Abdulaziz bin Salman, frequently states he will make those selling oil short "ouch."

Those with alternative places to invest their money have gotten the message. They do not short oil futures. They also do not take long positions in oil futures, probably because they now view OPEC+ as incapable of managing the oil market.

The data reported by the Commodity Futures Trading Commission and the InterContinental Exchange present a clear picture. Start with the total positions of money managers, the traders that Horsnell and others classify as speculators. Figure 1 here shows the long and short positions of these managers, which peaked at almost 1.4 million contracts (1.4 billion barrels of oil) in 2018. The total has now declined by more than fifty percent to around six hundred thousand contracts.

Figure 1
Total Long and Short Positions of Money Managers in the Three Major Crude Oil Futures Contracts, 2012 to 2023



Source: CFTC; ICE.

Those with money to invest for profit seem to have found more appealing options. The net long position (longs minus shorts) has declined, as shown in Figure 2 (page 2) and on our home page. As of May 23, the net long position of money managers was only two hundred seventy-five thousand contracts. Longs totaled four hundred fifty-six thousand contracts, while shorts totaled two hundred nineteen thousand contracts. Shorts accounted for around three percent of total open interest. The detailed data suggest there has not been a huge effort to be short. In fact, shorts are exiting the market.

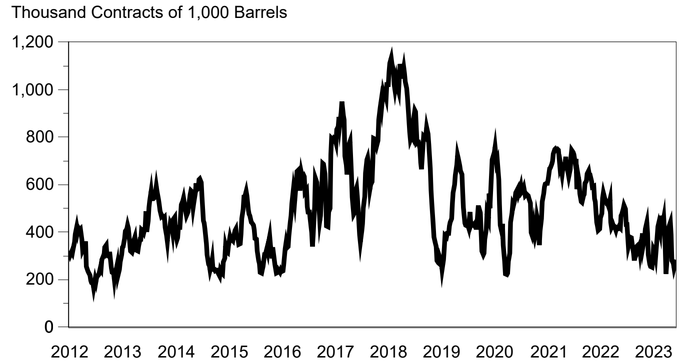
The Don Quixotes of oil are primarily responsible for the diminished willingness of speculators and other investors to put money into oil markets. These individuals and organizations have many less risky alternatives.

A May 27 *Wall Street Journal* article by Summer Said and Benoit Faucon *e*xplains the cause of the uncertainty among traders and the substantive increase in the spread position:

> Saudi Arabia, the de facto leader of the Organization of the Petroleum Exporting Countries, has expressed its anger to Russia for not following through fully on its pledge to throttle production in response to Western sanctions, the people said.[1]

The situation is murky because Russia has limited the data it supplies on production and exports. Said and Faucon report that Russia's energy ministry has tried to convince trade publications that it has reduced output. These claims, though, seem unsupported by secondary sources.

Figure 2
Net Long Positions of Money Managers in the Three Major Crude Oil Futures Contracts, 2012 to 2023



Source: CFTC; ICE.

Meanwhile, Saudi Arabia is getting desperate for cash, as Said and Faucon explain:

> Saudi officials and other people familiar with Saudi oil policy say Riyadh is under pressure to maintain higher oil prices with its budget requiring an estimated $81 a barrel—about $5 more than current levels. The kingdom needs to pay for massive development projects at home, some of which are so big that the Saudis call them gigaprojects. These include a Red Sea resort the size of Belgium with Maldives-style hotels hovering above the water and a $500 billion futuristic, high-tech city in the desert that is 33 times bigger than New York City.

The *Journal* reporters offer this conclusion:

> In recent months, Saudi economic advisers have privately warned senior policymakers that the kingdom needs elevated oil prices for the next five years to keep spending billions of dollars on projects that have so far attracted meager investment from abroad.

The oil market implications markets are ominous. In the past, Saudi leaders have not altered their ambitious plans—whether to build refineries and infrastructure or other edifices—choosing instead to "ouch" those they blame for their shortfall.

---

[1] Summer Said and Benoit Faucon, "Saudi Arabia, Russa Ties Under Strain Over Oil-Production Cuts," *The Wall Street Journal*, May 27, 2023 [https://tinyurl.com/3e28jhzc].