Our View: GameStop and the Price of Crude

Philip Verleger
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Crude oil prices have risen inexorably over the last three weeks, pushed higher by "meme investors." Analysts at major investment banks, whose economic survival is threatened by the increasing investor shunning of oil stocks, keep boosting their price forecasts based on their "supply and demand" view in hopes that investors will resume their aggressive buying of the stocks the analysts promote and preserve their jobs. More and more, these individuals sound like "Roaring Kitty," a.k.a. Keith Patrick Gill, a blogger who infamously touted GameStop shares in 2021 and 2022. Gill's blogs helped send the share price of GameStop, a computer game retail company on the verge of collapse, from $4 in July 2020 to $483 in January 2021.[1] In the process, the retail investors listening to Roaring Kitty inflicted extreme pain on the hedge funds betting on GameStop's demise, even causing one to fail.

The analogy between GameStop and crude oil and petroleum products is imperfect. Few, if any, hedge funds take outright short positions in oil. Indeed, hedge funds generally take long positions, boosting their holdings when the "Roaring Kitties" of oil promise higher prices. Instead, it is the commercial firms that produce, trade, or process oil that take short positions. As prices rise, the cost and risk of such hedging increases. Still, today, firms are boosting hedges and reducing inventories, actions that push crude and product prices higher while raising the chances for a significant price decline.

The likely consequence of this speculative cycle, like prior speculative cycles, will be a significant price drop. The International Energy Agency, for example, anticipates a reduction in world oil consumption and the "call on OPEC" in 2024 while Iran and other countries try to ramp up production, both developments putting downward pressure on oil prices.

Oil markets could face a "Falling Kitty" moment like the day GameStop traded between $468 and $153 per share within a one-hour period.[2]

Oil's Roaring Kitties exert their influence through the futures and options market. As *Financial Times*' George Steer and David Sheppard explain, "Hedge funds are piling into the crude oil market, betting that prices will soon pass $100 a barrel and adding impetus to a rally sparked by output and export cuts from Saudi Arabia and Russia."[3]

Steer and Sheppard have a point. Of late, the movement of the long position of "money managers," as defined by the Commodity Futures Trading Commission, has closely tracked oil price fluctuations. The WTI price and the long position of money managers have recently moved in concert, as the graph on our

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[1] Jill E. Fisch, "GameStop and the Reemergence of the Retail Investor," *Boston University Law Review* 102 (2022) [https://tinyurl.com/msz95zyx], p. 1799.

[2] Julia-Ambra Verlaine and Gunjan Banerji, "Keith Gill Drove the GameStop Reddit Mania. He Talked to the Journal," *The Wall Street Journal*, January 29, 2021 [https://tinyurl.com/yfb5k8h4].

[3] George Steer and David Sheppard, "Hedge funds add fuel to oil price rally with bets on rise above $100," *Financial Times*, September 21, 2023 [https://tinyurl.com/tvp496yw].

landing page illustrates. Thus, while the current long position of 614,000 contracts is only half that of the record of 1.2 million contracts, the rise from four hundred thousand to six hundred thousand contracts is closely tied to the $20 per barrel rise in the cash WTI price. This is the Roaring Kitty effect.

Going forward, one can anticipate further price increases as the oil Kitties continue to predict $100 oil and then $110 oil and maybe even $120 oil. However, an event will break the price increase, just as events have broken prior increases, and oil prices will drop just as GameStop shares declined. The decrease will likely occur before 2023 ends as some money managers liquidate holdings to lock in the gains achieved earlier in the year.

It will be interesting to see how OPEC and the Roaring Kitties respond when prices begin their seasonal drop. A remark by *The Wall Street Journal*'s Gunjan Banerji, who followed the GameStop saga closely, offers a caution to those cheering for and betting on rising oil prices:

> What I've come to realize since the GameStop era is that traders who won big are the exception, not the norm.[4]

[4] Gunjan Banerji, "'Dumb Money': The Movie vs. What Really Happened," *The Wall Street Journal*, September 15, 2023 [https://tinyurl.com/mtpvrdrf].