

Our View: Oil Price Myth Mongers

Philip Verleger
November 13, 2023

An oil price “myth monger” is someone who spreads falsehoods regarding what forces move oil prices. We nominate Grant Smith and Stanley Reed, reporters for Bloomberg and *The New York Times*, for the title (see [Notes at the Margin](#), November 13, 2023).

Many today worry about the ability of artificial intelligence (AI) to spread disinformation. Those writing on oil do not need AI to spread myths about the fluctuations and direction of oil prices. They are doing it themselves.

Oil prices are falling for fundamental reasons and will likely keep falling. Seldom, though, do the myth mongers cite these reasons.

The three forces driving oil prices down are weak demand for petroleum products, the low distillate yield of US light sweet crudes, and the oil price “casinos” operated by CME and ICE.

Demand for oil products is softening, and product prices are dropping. Refiners that confront decreasing product prices cut their offers for crudes.

US light sweet crudes are also a problem. The strength in the product markets, to the extent there is any, is in diesel. US crudes produce little diesel but large amounts of gasoline, an unwanted product today. The price drop of US crude pulls down Brent given how Platts has altered its reporting of the Dated Brent price.

Lastly, the casinos operated by CME and ICE are exaggerating price movements. OPEC officials like to blame speculators for pushing prices down and their statements are magnified by the myth mongers. The truth is that few speculators short oil prices. Those wanting to short markets have far better choices for doing so, such as equities and exchange rates.

However, speculators will pile into call options on oil futures when they think markets will move higher because of disruptions, as could happen now given the Israeli-Hamas war, or when oil ministers threaten to “ouch” speculators. Firms that write calls buy futures to hedge their obligations to speculators. These same firms sell futures when a disruption fails to occur or when oil ministers do not follow through on threats.

The oil myth mongers see the sale of oil futures purchased to cover calls that finish out of the money as speculation. In truth, it is only the oil casino croupiers raking in profits from the speculators’ bad gambles.

Oil markets will be volatile and out of control until the myth mongers and oil ministers learn how the casinos work.