Our View

Hot Money Is Driving Oil Prices

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Crude oil prices have risen sharply after Israel's February 28 assassination of Iran's leadership. The increase had already begun earlier, however, as tensions mounted. Through Monday night (March 23), the Dated Brent price, which determines the cost of crude purchased by most refiners, was up by $47.49 per barrel from January 2. WTI has risen by $31.94 over the same period, while the cash price of Dubai, the key crude for Asian refiners, has increased by $96.39.

Some of the increases can be attributed to buying by refiners. However, for WTI and Brent, a portion is also due to purchases by speculators, commodity funds, and hedge funds seeking to profit from refiners and traders bidding up crude to meet their requirements amid reduced supply. During March alone, they added 150,000 contracts to their futures positions on the three major exchanges.

These trades accrued the right to 150 million barrels of oil during this period, which would cover a day and a half of global consumption at a time when global supplies have been cut by more than 10 million barrels per day. During the same period, market participants who use futures to manage their business bought a similar amount of oil.

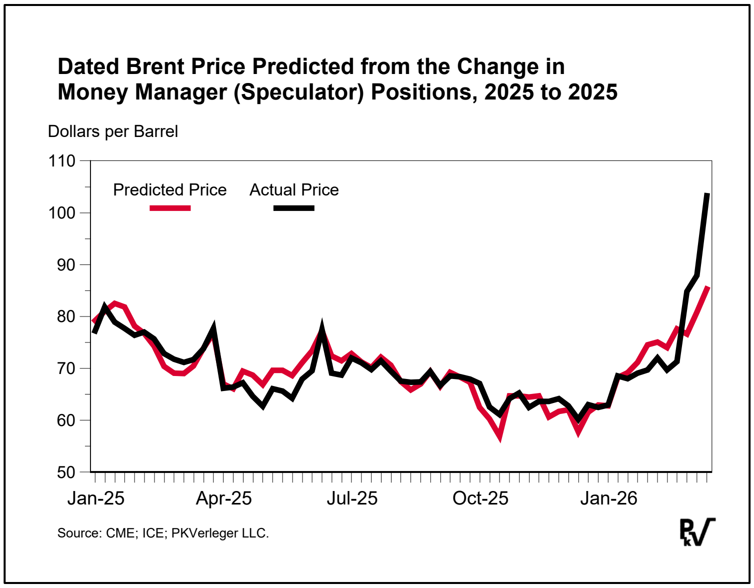
The speculative activity, though, really started at the beginning of the year as Israel and the United States ramped up pressure on Iran. In mid-December 2025, commodity funds and others were ignoring oil, holding a net long position of only 12,000 contracts. By March 17, they had bought another 540,000 contracts, while the firms that use oil added 200,000 contracts. The speculative buying added $24 per barrel to the price of dated Brent.

The price increase predicted from the change in positions comes from a simple econometric test. That calculation shows that speculative buying accounts for half of the increase in the Dated Brent price since January 2.

In the test, I regress the change in the Brent price on the change in the speculative position, using weekly data from 2021 to 2026. I then use the results to predict Brent prices from the end of 2024. Thus, the predicted Brent price for this St. Patrick's Day of $85.29 per barrel is based on the actual price on December 31, 2024, and the change in the speculative position over the next 62 weeks. (St. Patrick's Day is the last day this year for which the positions of speculators have been published.)

The figure below shows how close the predicted value tracks the actual price. One can also observe that the attacks on Iran, which began on February 28, have recently caused a significant upward deviation. For the first three weeks of March, increased speculation accounted for 24% of the price increase.

These results highlight the significant influence that speculators have on oil prices, a fact known to most who follow oil markets, including company executives, traders, analysts, and economists. These speculative gambles can reap rich rewards. For example, Bloomberg's Kishan and Smith noted on March 19 that "oil trader Pierre Andurand's main hedge fund surged 20% in the first half of the month on bullish oil bets as the conflict in the Middle East triggered a supply shock."[1] They added that one of Andurand's funds also gained 20% over the first three months of the year.



Consumers, including individuals, truckers, marine shippers, and airlines who confront rising gasoline, diesel, and jet fuel prices, have a right to ask whether they are being well served by financial markets that allow hedge funds and speculators to drive up the price of necessities during global market disruptions. Forty-six years ago, policymakers in the United States concluded that such speculative activity needed to be curbed after the Hunt Brothers' trading drove silver prices up by over 700%. In response, the CME and CFTC imposed heavy restrictions on purchasing commodities on margin and limited trading to liquidation only.

The situation today is analogous to the Hunt episode. The Chicago Mercantile Exchange, for example, offers "zero-day crude oil options" that allow traders to bet on the single-day price movements. The CME claims that firms can use such options to hedge. However, in my view, these are merely speculative vehicles that promote betting on oil. The existence of such contracts converts a futures exchange into a casino.

Today, we need to tighten the regulation of the casinos until the situation in the Middle East settles. This could be achieved by raising margins, that is, the amount of money a trader must deposit to buy a contract. Imposing a 50% margin requirement would quickly reduce speculative activity.

For the Nerds like Me

The econometric test is simple. The change in the Brent price from the previous week, ΔP_t, is regressed on the change in the speculative position, ΔS_t, as shown below. There is no constant in the regression.

$$\Delta P_t = \beta \Delta S_t + \varepsilon_t$$

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[1] Saijel Kishan and Grant Smith," Pierre Andurand's Hedge Fund Soared 20% by Mid-Month on Oil Bets," Bloomberg, March 19, 2026 [https://tinyurl.com/ysdekdwz].

The predicted price in period t is then determined using the estimated value of β by the calculation

$$P_t = P_0 + \sum_{i=1}^{t} \hat{\beta} S_t$$

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where $\hat{\beta}$ is the estimated value of β.

The equation estimation uses weekly data from 2021 to March 17, 2026. The estimated value of β was .000051 per contract, meaning a speculative purchase of 10,000 contracts raises prices by $0.50 per barrel. The fit (R^2) was 0.32. The "t" statistic for the estimate of β was 11.3.