Our View

The Four-Month Oil Price Speculative Bubble Ends

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The rise and fall in crude oil prices was driven by passive investors (speculators). These players have departed. Refiners now are in no hurry to buy crude.

Brent futures peaked on April 30 at $126 per barrel. A week later, cash Brent hit $144 per barrel, while WTI languished at $112. Then, on June 26, oil prices settled at $0.38 per barrel lower than the level on February 27, 2026, the day before the unprovoked attack on Iran by the United States and Israel.

The rapid decline has puzzled analysts, some of whom refuse to believe the facts. For example, on June 2, Robert McNally, a widely quoted consultant, said this to Politico, "After a moment of panic the market settled into a **delusional** [emphasis added] expectation it's all going to end soon, with a stroke of Donald Trump's pen."

Markets are rational. The rise and fall in crude prices from March 2 to June 26 was driven primarily by speculative activity. It was speculators (referred to as "money managers" by commodity regulators) who drove crude prices up and then back down. They were the big players in futures markets, and their activity moved prices then and will move them going forward. Ilia Bouchouev, author of *Virtual Barrels* and a well-known trader, explained the process:

> Recall that financial investors gain exposure to oil prices by buying and selling futures. It is tempting to think that the closer one can hold futures to expiration, the more closely the futures price should mimic the price of the physical barrel. This argument is somewhat dubious though, because the **futures market is where the price for the physical barrel is determined, and not the other way around** [emphasis added].[1]

The activity of these traders is shown in Figure 1 below, which tracks their net long position in WTI and Brent futures and options contracts. Two vertical lines mark the beginning of the Russian invasion of Ukraine and the US-Israeli attack on Iran. Note that in 2026, the speculative position in oil surged to its highest level since the start of the war in Ukraine. Note also that the starting position was a record low for the period covered by the graph. Also note that the net position of money managers has declined back to the level observed for much of the period since 2022.

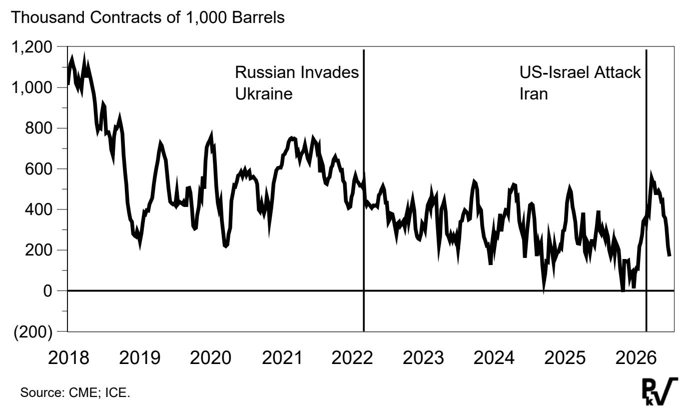
[1] Philip K. Verleger, "Book Review: Virtual Barrels: Quantitative Trading in the Oil Market edited by Ilia Bouchouev," *The Energy Journal* 46, No. 2 (March 1, 2025) [https://tinyurl.com/3ctuxpxs].

The trading activity of money managers explains most of the rise and fall in prices, according to our models. Apparently, McNally thinks these traders were “delusional.”

Refiners are also not delusional. Refiners are the principal buyers—indeed the only buyers—of crude oil. At the beginning of the crisis, they rushed to secure crude oil supplies. However, the release of strategic stocks by IEA member nations and, more significantly, China’s dramatic reduction in crude oil purchases took pressure off the market. Thus, today, crude markets have returned to balance with refiners seeking to limit crude purchases, fearing a surge in supply that will drive prices even lower.

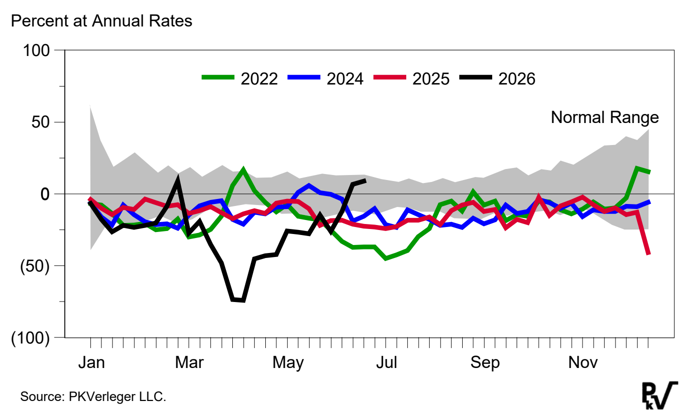
Evidence of the crude surplus can be found in the excess returns to storage for Brent as shown in Figure 2, which compares excess returns for the second Brent contract by week in 2026 with the normal range and three prior years. One can observe that 2026 returns are near the top of the normal range and above excess returns in the three earlier years. According to the data, the Brent market is in balance and nearly in surplus.

Figure 1
Net Long Position of Money Managers in WTI and Brent Crude Futures and Options, 2018 to 2026



Source: CME; ICE.

Figure 2
Excess Returns to Storage for Brent, Second Contract: 2022, 2024, 2025, 2026, and Normal Range



Source: PKVerleger LLC.