

Our View: The SPR Success Story

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The United States' release of strategic stocks has been widely panned. Even the editors of the austere *Financial Times* criticized President Biden for his decision, opining that, by taking this action, the United States "risks looking panicked—and so achieving just the opposite of what is intended."

Little did the *FT* editors know—or if they did, they did not say—how much panic economic policymakers were indeed feeling. As oil prices rose after Russia invaded Ukraine, financial officials here and abroad had to have worried that an economic contagion was coming, one possibly worse than the 2008 collapse.

The signs were obvious. One of the world's largest, well-capitalized trading companies had gone begging when it sought an emergency injection of \$2 billion from outside investors. Meanwhile, Shell Oil, a major multinational oil firm, had to infuse \$7 billion cash into its trading activities to meet margin calls.

The situation was so dire that the normally secretive trading fraternity reached out to central banks for credit help. Their suit was denied, but Andrew Bailey, the Bank of England's governor, acknowledged that the situation was perilous, telling an audience in Brussels that the bank must be "alert to the risk of a market failure" and adding that volatility in commodity markets could create a "glitch" in financial markets.

Whatever the talk about trying to lower consumer fuel prices, I see the strategic reserve release as an anticipatory measure taken to ease the potential for financial contagion associated with very high and volatile energy prices. Following the release announcement, the backwardation in the Brent market vanished. Cash Brent went from almost \$140 per barrel on March 8 to under \$101 per barrel on April 7, 2022. An excessively tight oil market threatens financial stability. For more than forty years, I have counseled those in economic policy positions that the strategic reserve could and should be an essential tool for preventing financial disruptions associated with oil market dislocations. My advice went unheard in 1990, and a recession resulted. The downturn made George H.W. Bush a one-term president. In 2022, economic policymakers decided to use the SPR. The oil release worked as expected, removing the extreme backwardation in crude markets that is a primary cause of economic disruptions. From the financial stability viewpoint, then, not its impact on gasoline and diesel prices, the SPR release must be rated a great success.