VOLATILE OIL PRICES: The Geopolitics of Speculation: Oil-price makers and takers

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Every market is a process of social and power relationships. In every market there are price makers and price takers. The oil market, however, is no ordinary market, and the struggle to control the oil market, therefore, is no ordinary struggle. With oil being rudimentary to global accumulation and the monetary system remaining in part commodity-based, the degree of control of the oil market translates into some degree of enhanced power in all other markets. But to control an oil market, the principal player, which is undoubtedly the US, has to develop a strategy of intervention at the source, military or otherwise, which cuts down to size other players. Consequently, the extent to which the US infuses tensions in oil producing areas, calibrates the degree to which oil-states relinquish sovereignty over oil and keeps at bay other major players are measures that represent the collateral necessary to lay the foundation of the oil-dollar standard. This unending power exercise constitutes the cornerstone of the commodity-money or, more concretely, oil-dollar based global monetary system.

On the surface of things, oil prices change in response to economic and geopolitical factors. In recent history, however, the amplitude of oil-price variations has been more systematically attributed to growing Iran-related geopolitical risks and abundant liquidity as distinct from refinery margins and smaller cushions- a cushion is the size of the band between supply and demand. The oil bubble has come to siphon part of excess liquidity, strengthen the dollar, and bolster US imperial rents. Despite the fact that very high international oil prices may thwart an already fragile global recovery, which has been running on empty insofar as jobs are concerned, US raucous war-on-Iran hubris continues to rattle the market.

Below the surface, however, oil prices are too important to be left to the 'market.' With the oil-dollar standard holding, rising oil prices dampen the performance of all importing economies to a higher degree than they do the US economy. Oil price variations therefore engender a shift in the degree of power enjoyed by the US economy vis-à-vis others. In the ongoing depressive cycle, which does not nudge in spite of rising debts, reasserting US stature through the oil control mechanism gains ground. Financial capital has been altogether content as a result of expanding US indebtedness and rising fictitious capital. Capital as whole has shown robustness as a result of debts burdening working people in ways that reduce their means to acquire a decent living. Pauperising working folk, in times of a predominant crisis in social ideology, raises the share of real value and wealth acquired by the ruling classes. In a sense, rising debts or fictitious capital have had non-fictitious and dire effects on the working classes in the more advanced economies. But the real dire consequences of expanding fictitious capital fall upon the peoples of the Middle East. Wars of aggression meant to underwrite expanding US debts by staking claims to oil rise in intensity by the weakness of the bond tying oil to the dollar. Oil prices therefore have much more to say about the state of the global economy than simply the cost of petrol at the pump.

Volatile oil prices

Crude oil prices exhibit high variability. More recently, the OPEC Reference Basket Price reached U$140 per barrel in July 2008, it declined to US$35 by the end of that year, and now prices are over the US$ 100 once more. Financial speculation, mainly the buying of crude oil futures, was behind the 2008 price surge and the present hike is driven by speculation around a very geopolitically charged future. It is worth noting that the much talked about geological considerations relating to oil-finiteness are not responsible for the oil price rises of either 1973 or 2004. Oil reserves matter in the long run; current oil prices have not been determined by beliefs that pertain to the long run. These geological considerations have an impact only on the forward looking or long-term price. But geopolitical problems unnerve the market instantaneously and are becoming portentous by the minute. Problems in the Gulf, past and present, have gained the semblance of permanence and, with talks of an inevitable attack on Iran, they are rising in intensity. The foremost short-term concern influencing oil-price relates to a sudden disruption of supply and a higher risk of a diminution in the cushion provided by Saudi Arabia which provides the bulk of surplus capacity.

On the consumption side, demand for oil continues to rise by one to one and a half percent on average yearly. An increase in the rate of growth of China and other parts of Asia over the past two decades has meant that demand for oil has steadily risen. Constraints on the production capacity of the cheaply extracted and sweet oil both in the upstream sector (OPEC countries) and in the downstream USA are slowly coming into evidence. However, until this moment, supply constraints have not represented a problem per se because more refineries are accepting the sour quality crude and, the cushion has been anything but tight. One ought to note that the petroleum market cannot function effectively unless a certain volume of surplus production capacity is available. The extra volume is needed to offset the effects of strikes, storms and smaller wars. No cushion however would suffice for a war that would result in the closure of the Straits of Hormuz. The fear factor developing around this trumped-up story, in particular, is of unusual significance to feeding sharp oil price movements. Neither the integrated market nor intelligence services, however, are daft enough to believe this fabrication around Iran's military capability. Imagine that Iran's capabilities are potentially able to block the straits and withstand a US assault in the Gulf, would the dollar, the US, the world as we know it be the same? Like Iraq, Iran's power is being exaggerated in order to justify aggression. Militarism and US control of the Eastern flank of the Persian Gulf are far more relevant as provinces of capital accumulation than the contribution of puny oil revenues.

The price of oil is increasingly realised in futures markets. It rests on an assemblage of futures, spot, physical forward and derivative markets where, with expanding liquidity, the futures markets lead. Participants in these markets include major financial institutions such as Goldman Sachs, Morgan Stanley, Merrill Lynch, Société Générale, and J.P. Morgan. A large number of hedge funds and individual punters also take part in this market. Hedgers, one may add, are also speculators in view of their fear that the actual price is liable to be less favourable than the price that they are willing to ensure. In today's oil market, therefore, the major players are speculators. The principal point to discern from this is that the price of oil also moves in response to differential rates of return from investment in other markets and not solely demand-supply concerns. Thus, in the presence of ample liquidity and low rates of return in other markets, concocted perceptions or expectations of what the supply-demand balance is likely to be in the months ahead including, fear of sudden future Gulf-war related shortage, draw the excess liquidity and become the most powerful driving forces of this market.

Heightened worries

Gulf-related geopolitical concerns and talk of sanctions on Iran are not new and have always seeped into the oil market in one form or another. The market has operated with these grim analyses in the background and cohabitated with these conditions for many years. Recently, however, the stakes rose. The views propagated in the USA by think-tanks and the mainstream media about an inevitable strike on Iran elevate the stress level. Whoever feeds this information into the market further destabilises, in no haphazard fashion, an already unstable oil price. The power emanating from US geostrategic control of oil areas and high oil price variability are self-reinforcing elements of the same equation by which the US boosts its own clout and negotiating position relative to other players. The dilemma for importers, specifically China, is to strike a balance between reducing US control in oil areas so as not to become strategically squeezed in terms of oil supply, and not weakening the US too much or to the point of loosening the US dollar-standard, eventually, precipitating a dollar devaluation/debt deflation process. Much of the handling of this fluid relationship depends on the US expanding and calibrating the intensity of conflicts in oil strategic areas and its financial-sector skewed monetary policy, relative to how it desires the impact from oil price fluctuation to be distributed between its own economy and others.

US oil control, or the degree to which regimes in oil areas relinquish sovereignty to the US, is the principal collateral held against expanding US indebtedness. In that sense, adventurous wars in oil regions allowing for more US leverage over oil, mediate the contradiction between the US's waning economic performance and indebtedness feeding financialisation. The omnipresence of conflicts and proxy wars in the Middle East and Africa reflect lingering rivalries relating to the contradiction between the US and others over its disproportionate acquisition of unearned or imperial rents. At present, there is to be sure a continuous effort by the US to redress power relations in view of the persistence of the tepid credit cycle, precarious financial profitability and the lacklustre outcomes of the Iraq and Afghanistan campaigns. The sanctions on Iran are not intended to halt the nuclear program. These sanctions are a prelude to war. They weaken Iran structurally as a developing formation and ready it for assault, as was the case in Iraq.

The oil-dollar standard is not an identity in which the value of a given currency has to be stable in terms of commodities, which would, a priori, require the dollar maintaining a stable value in terms of commodities. At no time in recent history was there a shortage of oil and, at no time, were oil prices even mildly steady. The strong link between the dollar and the price of oil, which is inherently unstable, is set by the degree to which US power is established in relation to direct producers and importers. To qualify Prof. Patnaik's point, this is a power-based commodity/money system. The variability of oil prices is partly managed to preserve US imperial stature within a band in which global imbalances would press for dollar devaluation on one end, and the US uses the threat of devaluation and debt deflation to extort holders of US debts, on the other. The principal concern for the US arises from the level of liquidity which would raise the prices of oil at the pump to politically intolerable levels, and that is why of late, there is talk of releasing strategic reserves, which may ominously signal that prices will be managed if Iran is attacked. The oil-dollar standard is in this sense a power defined commodity-money instrument both furthering and furthered by imperialist conquest.

Global capital is split on the issue of aggression against Iran along two lines: national capital acting within a controlled capital account environment and an internationally financialised free capital. The tacit collaboration of capital-account constrained global elites, e.g. Chinese elites, with the US's aggressive stance over Iran will hold up only to the point at which strategic losses in oil areas begin to critically destabilise their national economies relative to the erosion sustained to their dollar denominated wealth holdings. Third-world and other financial free-flow capitals, in particular those who share in the grab resulting from increased financialisation (free riders upon US imperial ventures), know well that a stable dollar relies heavily on the degree of US control in oil areas. Financialised or free riding capital will continue to support the US unconditionally. As to the more nationally based elites, keeping their wealth steady in the dollar is one thing and forfeiting the real source of their wealth, which is their hold on and performance of their national economies, is another. In one indication of the growing dissatisfaction over the US's overly aggressive stance towards Iran, China, which has sparingly used its veto power in the past outside its own vicinity, vetoed the UN Security Council resolution over Syria, which is the gateway to Iran. The struggle within China between the 'left and right wings' can be detected from the way capital controls has been settled so far in favour of the left. China has been the main force breaking the embargo on Iran. The way an alternative petro-Renminbi is forming in Asia to pay for Iranian oil is disconcerting to America and may precipitate war sooner than thought. Has the push come to shove and are the class alliances underpinning US imperial racketeering coming undone?

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