Abstract

The thesis deals with the topic of speculation on the crude oil market. This topic has been frequently discussed in association with the price hikes in 2008, but since the oil price has recently repeatedly reached levels over USD 100, the topic is still very present. In our thesis we analyze the connection between the increasing open interest on the New York Mercantile Exchange crude oil futures market, the supply and demand factors for the crude oil and the crude oil price. Based on an error correction model analysis of monthly observations between 1994 and 2011, we show how an increase in the open interest, which is currently already comprised by the non-commercial traders by one half, can lead to a persistent increase in the crude oil prices. We believe it is the risk premium on the market which stands for the long-run equilibrium of the open interest and prices. Such a risk premium on the market of crude oil could explain the part of the increase in prices which could have not been captured by the simple supply and demand, as for example the concern about the Hubbert's peak oil. We also test whether the oil price volatility increases the open interest on the market, which would mean that the price volatility could attract more speculative traders. Although we find Granger causality, we cannot conclude a simply positive or negative effect.

Keywords: Speculation, crude oil market, fundamental price of oil