The IEA SPR release: open thread

Posted by Euan Mearns on June 24, 2011 - 11:00am

Drowning in debt, the OECD did have one little nest egg tucked away in the form of strategic petroleum reserves (SPR). Yesterday the International Energy Agency (IEA), an OECD organisation, decided to raid these meagre savings in order to try and keep the global growth party alive. The recognition that high oil and energy prices were threatening a weak and faltering recovery is an admission by the OECD that high oil prices were threatening recession.

The decision yesterday to release 60 million barrels from strategic reserves over a 30 day period sent already weak and falling oil prices through the floor with Brent futures down 8% at one point. This represents 4% of total OECD public stocks of crude oil and refined products that totals 1547 million barrels.

Many believe that the $900 billion of quantitative easing in the USA has underpinned the most recent commodities spike. Ask the question where the global economy would be right now without QE? Rising demand colliding with inelastic supply is the technical cause of high and volatile oil prices. The logical solution is to boost supply and reduce demand. Yesterday's action by the IEA is designed to do the exact opposite of that since the aim is to reduce price. This will boost demand and hurt high cost oil producers in the OECD.

My own view on the OECD economies is that anaemic growth in many countries has likely already turned negative mirrored by already falling oil prices. Higher taxes, reduced public spending and the burden of high energy prices lie at the heart of this problem. But there seems no way out. OECD consumers also face the ever present risk of higher interest rates which must rise some day when buyers of government bonds demand higher rents for growing risk of default. Countries like the UK require strong economic growth to repair their public balance sheets to avoid the risk of default. This growth requires growing supplies of cheap energy. 60 million barrels of oil, 18 hours of global consumption, is the latest sticking plaster to be rolled out.

This is an open thread to gather opinion on yesterday's move by the IEA.
