Opinion **Markets Insight**

Trump's ability to talk down oil prices is being tested

As Iran conflict drags on, verbal intervention may no longer be enough to suppress prices

MICHAEL HAIGH

There is a limit to how long verbal intervention can suppress prices before tightening balances reassert themselves in the market narrative © Angela Weiss/AFP/Getty Images

Michael Haigh

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The writer is head of FIC and commodities research at Société Générale

As the Iran war drags on, President Donald Trump's power to talk down oil prices is being tested.

Oil prices slumped on Monday after an apparent pause in conflict in the Strait of Hormuz. But with vessel flow through the Strait still effectively at a halt and global inventories for both crude and products declining at record pace, the risk of another ascent in oil prices remains.

In such a situation, what can leaders do to prevent oil prices from getting out of control, other than release inventories from strategic petroleum reserves? Country leaders almost always try to shape perception ahead of fundamentals by making statements.

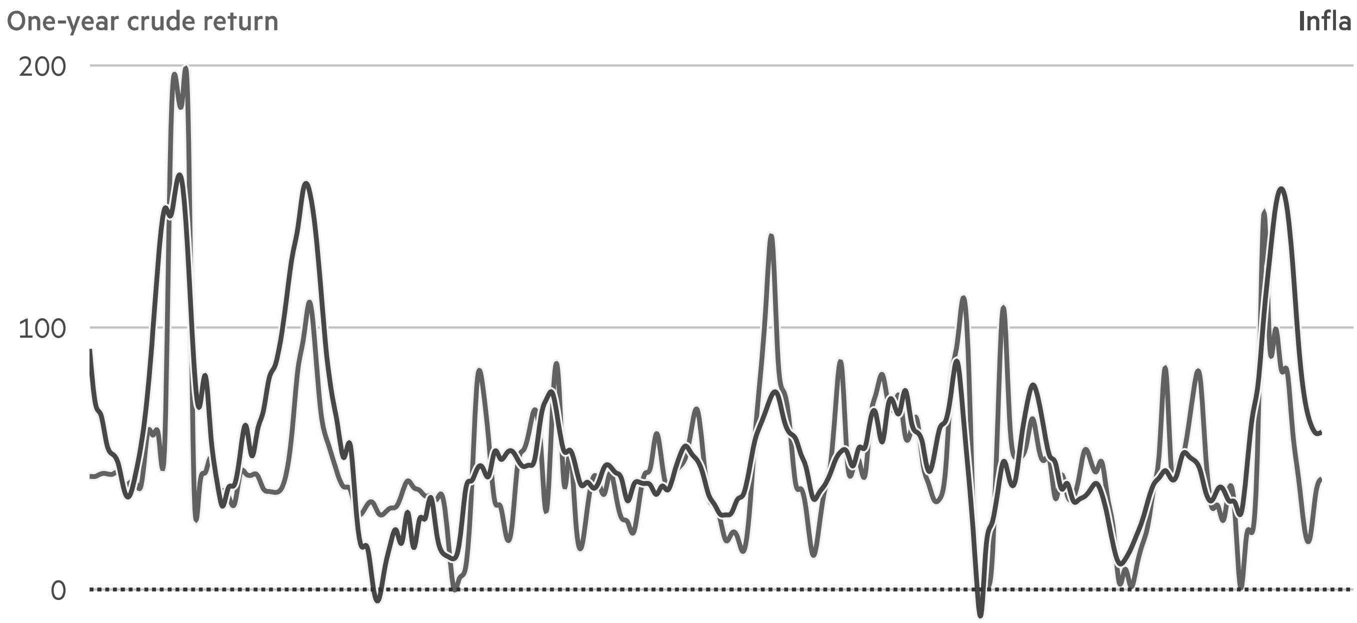
They have learnt from previous errors, notably the most famous one from 1977. President Jimmy Carter took the approach of emphasising scarcity rather than downplaying it. Warning that Americans would need to make sacrifices, Carter said “oil and natural gas were running out” and global production would eventually fail to keep up with demand. This might have been politically courageous but economically difficult.

Not surprisingly, Carter could not calm the market. In fact, he might have made things worse. Oil prices continued to rise and along with it inflation surprises. This mistake would not be repeated.

Messaging is so critical because energy shocks feed directly into inflation expectations, consumer confidence, and financial market positioning. This is why official statements often lean towards reassurance, emphasising that “supplies are stable”, inventories are adequate, and policy tools are ready, even when underlying supply-demand balances are tightening.

Inflation surprises have often followed oil-price shocks

One-year crude oil return and US inflation surprise 12 months later, per cent and percentage points



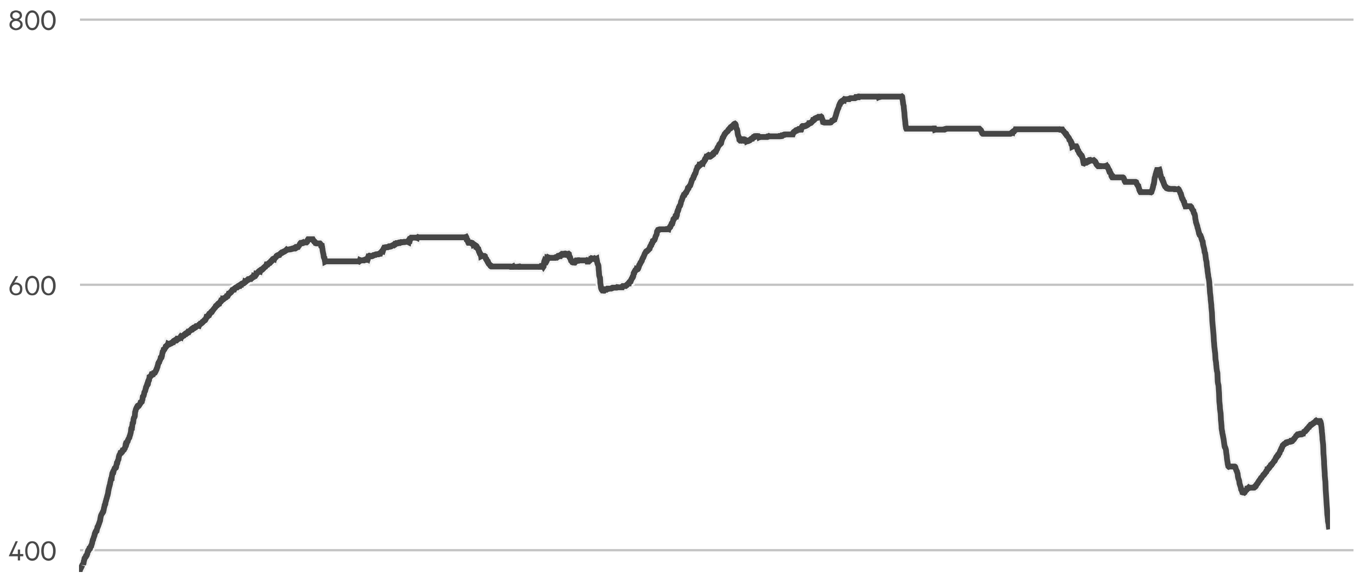
After Carter, Ronald Reagan reversed his predecessor’s tone. Instead of scarcity, Reagan emphasised abundance, production and perhaps most importantly, deregulation. During the Gulf war crisis in 1990-1991, President George HW Bush did not deny risks, but he consistently framed them as manageable. He emphasised that reserves would be deployed “to promote stability in world markets”, used releases to counter panic rather than shortages, and co-ordinated globally to reinforce the message that supply would be maintained.

Barack Obama’s messaging during the 2011 Libyan oil disruption followed the same core playbook. He moved quickly to reassure markets that the shock would be temporary, stating that prices would “stabilise” and that the world could “weather” surging prices.

Following Russia's invasion of Ukraine, Joe Biden's messaging emphasised co-ordinated global action, noting that over 30 countries would release strategic reserves, while stressing that the US stood ready to "release additional barrels as conditions warrant".

US oil reserves at lowest level since 1983

Crude oil stocks in the US Strategic Petroleum Reserve (mn barrels)



Until the breakdown of the memorandum of understanding on a ceasefire between the US and Iran, Trump's communication strategy appears to have played an important role in containing oil prices through confident messaging aimed at convincing markets that disruption will be short-lived and well contained.

Trump repeatedly signalled that tensions are close to resolution or under control, often suggesting that escalation is limited and that normal supply flows will resume quickly. This added to signals of diplomatic progress, implied supply relief, and efforts to contain escalation risks.

At the same time, Trump has reinforced the idea that US production strength and global supply capacity can offset any temporary shortfall, implicitly telling markets that there is no structural shortage. A study of price reactions from the US president's statements is very telling.

Out of the 27 Trump statements on the development of the Iran war that we evaluated, from late February up to the MoU in mid-June, oil prices declined on average 0.31 per cent the following day, with the largest decline at 13.2 per cent. Simply put, his messaging worked.

While it is certainly true the US is in a comfortable production position, its stocks are also actually very low, and global supply capacity is dropping rapidly. But with the market locked in a supply-constrained stalemate, deteriorating inventory fundamentals are likely to increasingly overwhelm policy rhetoric. There is a limit to how long verbal intervention can suppress prices before tightening balances reassert themselves in the market narrative.

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