The New Stage of Global Manipulation

Putting the 'Intel' in ECRG Intelligence

I was writing something over the weekend about our latest meetings at Windsor Castle. In those comments, I remarked that to attend the consultation one needed to have a security clearance since it is held within the castle grounds while the royal family is in residence.

The timing is intentional and results from the specifics contained in the queen's proclamation fifteen years ago, setting up the annual conclave called the Windsor Energy Consultation. Any member of the royal entourage can show up at any time and participate in the proceedings. The guarantee that the royal family is in residence and able to show up at the event makes for a far more difficult security "event."

The credentials mandated by the British Secret Service, better known in certain quarters as MI5 (its older designation), require that a security file be established. Part of that file is a photo.

And that brings me to why I brought it up. My MI5 file is rather old, spanning back more than two decades to my career as a counter intelligence officer based for part of that time in London.

It explains why the photo on my security badge at Windsor seems to be of a much younger man (with a fuller head of hair, by the way).

However, over the past 48 hours, events have thrust me back to that period in my life, a time in which my primary focus in life was to trace undercurrents in the fabric of global espionage and the manipulations accompanying those machinations. This serves as the basis for today's ECRG Intel.

Upon occasion, some editions of ECRG Intelligence are more strictly intel than others. Today's issue is certainly one of those occasions.

For the past week I have been assembling the latest read from my network of international sources on how current oil and natural gas practices are impacting global pricing. This reached some important levels of both intensity and information over the weekend.

As with former times in intel proper, one always has to separate the kernels of fact from the chaff of innuendo and "false positives." So this ECRG Intelligence will be limited to what I currently can confirm about what may be a massive shift in international trading emphasis.

Whole Product Manipulation

It is certainly true that we are at a critical juncture in the determination of pricing for both the global crude oil and natural gas markets. However, there is a primary element that distinguishes the present situation from previous attempts to manipulate the market.

To take a phrase from my previous career, these are the elements known with “a high level of certainty” (i.e., 90% or higher).

Globally, more than half of the recent downturn in both crude oil and natural gas prices has been the result of non-market factors. There are several components here, but the main dynamic boils down to playing the interrelationship between paper barrels (futures contracts) and wet barrels (actual underlying consignments for trade).

That interplay acts out more clearly in oil than in gas, given the longer-term contract requirements still in force for primarily pipelined gas into the international market. Yet the latter consideration is also beginning to change.

With the major injection of liquefied natural gas (LNG) into the equation, global gas trade will become far more short-term in nature, emphasizing hub pricing and spot contracts. Among my contacts, initial financing is already under design to support a rapid expansion of futures contracts in the monetizing of LNG. That, in turn, will have a profound impact on how pipeline contracts will be negotiated and revised.

In short, natural gas is showing indications of following what is already unfolding in crude oil. And that unfolding involves a rising attempt to control both the paper and wet components of the trade.

It is happening this way. Sources are confirming that entities cutting either futures contracts in crude oil or – and this is becoming a more concerted part of the process – paper controlling the finance, credit and forex swaps/spreads, hedges, syndications, collateralizations, arbitrage, options, and transaction locations of such contracts are also moving to control the underlying consignments of oil.

To be clear, my sources are identifying some of the movers in this. Just to be clear, to yo-yo the prices of futures contracts by dumping or withholding oil supply is illegal in the U.S. It is not elsewhere.

No surprise, therefore, that some jurisdictions in Europe, banking interests in Dubai and Doha, and trading houses in Singapore are coming into view. It is at this point that one needs to be careful about what is accepted as fact versus what is out there as supposition.

Storage Tankers Suspiciously Nearing Capacity

So here is what I can confirm at this point.

First, both of the two primary internationally ranked tanker companies now used almost exclusively for the storage rather than the transit of crude are rapidly reaching volume capacity. Anecdotal information suggested that one of these has exceeded its book capacity. That can only happen by leasing additional capacity from other companies.

Just to be clear here, there is no reason to store oil and withhold it from the market if one has concluded the downward trajectory of prices will continue, or is even warranted by actual market dynamics.

Second, the historic and counter-productive unraveling of long positions in oil makes little sense unless new ones are being designed to replace them. There is a simple reason for this. While short positions (those anticipating a decline in price) have increased in the U.S. market – ostensibly because of the overused excuse of rising American supply – there has been a far less significant move in international markets.

An artificial manipulation of supply by withholding it from market makes sense only if the paper contracts remaining long are to be written knowing that additional supply withheld will tighten the market pricing mechanisms.

Of course, relaxing that hold and releasing wet volume into the market when prices rise merely augments profits on that side as well.

Third, private funds are being mobilized to extend the manipulation. Not only have I been advised by non-American fiduciary contacts in my network that this is underway, I have it on a more personal level, as well. The financing of what is increasingly being called CSHs ("contract spread hedges") among my associates—and the potential for running derivative paper on them—is now on the agenda for our next meeting.

That one will likely take place in the Gulf (Abu Dhabi, Dubai, or Doha) and may involve Iranian participation. As I have noted here previously, there is much happening on that front in what I have labeled investment "layering" (moving on more than one component in the project-company-productdebt-collateralization-synthetic paper sequence at the same time in a series of coordinated investments). The Iranians have a decided interest in this entire process.

And there will be much more coming in ECRG Intelligence as we move forward.

About the Author

Dr. Kent Moors is an internationally recognized expert in oil and natural gas policy, risk management, emerging market economic development, and market risk assessment.

He serves as an advisor to the highest levels of 27 countries, including the U.S., Russian, Kazakh, Chinese, Iraqi, and Kurdish governments, to the governors of several U.S. states, and to the premiers of two Canadian provinces. He's served as a consultant to private companies, financial institutions and law firms in 29 countries, and has appeared more than 2,300 times as a featured radio-and-television commentator. He appears regularly on ABC, BBC, Bloomberg TV, CBS, CNBC, CNN, NBC, Russian RTV, and the Fox Business Network.

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