

Manipulation Triggered!

Late last week I released a description of how my new proprietary trading system (the Σ Algorithm) handicaps investment moves to compensate for one of two treatments of risk by calculating a political risk coefficient (PRC). The other risk element in the approach comprises a market risk indicator (MRI). These are two of six Key Sequencing Triggers (KSTs).

However, in the course of applying both risk triggers to underlying crude oil pricing dynamics, a trend emerged for the second time in less than a year. In both cases, the trend indicates that risk applications in the current environment indicate accelerating manipulation.

Over the past four days, my network has identified two specific venues in which this is being accomplished. The more concrete of these will be outlined later in this installment of ECRG Intelligence.

As Brent and WTI move to stabilize after another protracted slide, signals are once again flashing among my global contacts pointing toward active trader manipulation. These most recent indicators began surfacing on May 20, the trading session before the latest decline of 14.3% in WTI and 12.1% in Brent benchmarks by close on Friday.

And that is after a recovery of sorts – 4.5% in WTI and 4.4% in Brent – over the last two days.

Before explaining what the trends are conveying, some background is in order.

The last time this pricing curve manifested itself was between October 3 and December 24 of last year. Both WTI and Brent closed on October 3 at the highest prices in almost four years (WTI had closed at \$76.70 on November 21, 2014; Brent at \$87.12 on October 29, 2014). They lost 44.3% and 41.6%, respectively, by close on December 24.

Brent tends to be more sensitive to global developments, both in market dynamics and external geopolitical pressures. That's because it is the preferred yardstick for international trades, despite having a grade slightly below that of WTI. Almost 75% of all oil traded globally on any given day is of lower quality than either Brent or WTI. As a result, most of the trading is at discount to the benchmark prices with Brent selling at a premium to WTI.

That has been the case for all but a few trading sessions since the middle of August 2010.

You Down With ECP?

When converging, as they have over the past week, two overriding triggers indicate that the direction of pricing has increasingly resulted from manipulative pressure.

The first element is when the Brent-WTI spread (i.e., the difference in price as a percentage of WTI, the more accurate way of measuring it) exceeds 10% for any extended period. That spread has now been in evidence for every daily trading session since April 10. But it has been expanding of late. And that means a distortion in the underlying market.

Now some divergence is expected, given the greater sensitivity of Brent to events impacting on the global market and its traditional higher price vis-à-vis WTI. But the spread is much higher than can be explained by the usually market descriptive elements.

The spread moved above 10% most recently on April 10 and has remained there for every trading session since then. It then accelerated, reaching over 12% on April 25, and rising further to an average of almost 15% (14.9%) over the past ten sessions.

Putting this in perspective, this is well above three times the average daily spread for the entire October 3-December 24 period last year.

Second, almost two years ago, I developed a second yardstick to determine the actual market price of crude in trade, labeled the Effective Crude Price (ECP). The rationale was to ascertain what factor was played by artificial attempts to influence price.

ECP weighs several factors to estimate the external pressure to influence price.

It reviews external attempts to influence price (i.e., those reflecting intentions of traders rather than the play of fundamentals). In rising price trends, ECP estimates move to increase the price by limiting either “wet” barrel volume (actual crude available for trade) or changing the ratio of that volume against “paper” barrels (futures contracts).

However, the most effective calculation emerges when an estimation is made to gauge the influence of trading short contracts to force down the price of oil. We are in another of those cycles presently.

To be sure, what the ECP concludes is more comparative than absolute. Running sequential calculations will

allow over time to approximate base line ranges of ECP results versus what the shipping carriage and futures contracts convey as market indicators. This exercise, therefore, seeks a relational divergence.

Suspect As Usual

OK, with all such disclaimers out of the way, this is what the number crunching concluded after trading through Friday (June 7). The closing price of WTI was a full \$8 (14.8%) and Brent was \$12.50 (19.7%) below ECP estimates.

These are the highest divergences resulting in the almost two years of calculating ECPs. This also points to a matter quite atypical, one that simply cannot be explained except by looking for pricing manipulation. It likewise dovetails with the trend witnessed in the expanding spread between Brent and WTI.

Brent traditionally compensates for global risk more quickly than WTI. But not to this extent.

Cutting to the conclusion from an extended algorithmic exercise, if there is an outlier being injected into the process, it would emerge in a discordance between European- and Asian-based futures contracts and those written in New York. And further, for this manipulation to succeed, it would need access to control over “wet” barrels against which a maneuvering of “paper” barrels is applied.

In short, either a primary trading company or syndicate would need to be at the center of the move.

As I noted at the outset of this briefing, analysis has identified two venues. One appears centered in contracts issuing from Singapore, the other traverses along a well-known trading route to Paris and London through Frankfurt.

I have suspicions about the main actor(s) in the Asian move, but that still requires some further work. Estimations of what is unfolding here is made more difficult by transparency practices in Singapore, augmented by Hong Kong and Chinese mainland involvement, both of which have brought in players as far afield as Dubai and Doha.

The other venue (Europe) is more certain. Artificial risk factors have been deliberately introduced by manipulation of physical oil available for trade against investment contracts leveraging lower short-term strike prices.

I discussed the conclusions of analysis with a wide number of European network contacts over the weekend. We

compared the wet and paper barrel positions traveling over, or impacting upon, the Frankfurt-Paris-London route.

The conclusion is unanimous.

The primary European manipulation is caused by, or at minimum centered on, actions surrounding contracts issuing from, Swiss trading major Glencore.

More to follow.

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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