Is EVERY Market Rigged?

By Washington's Blog

Theme: Global Economy

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Washington's Blog

European Union Launches Investigation Into Manipulation of Oil Prices Since 2002

CNN reports:

> The European Commission raided the offices of Shell, BP and Norway's Statoil this week as part of an investigation into suspected attempts to manipulate global oil prices spanning more than a decade.
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> None of the companies have been accused of wrongdoing, but the controversy has brought back memories of the Libor rate-rigging scandal that rocked the financial world last year.
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> A review ordered by the British government last year in the wake of the Libor revelations cited "clear" parallels between the work of the oil-price-reporting agencies and Libor.
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> "[T]hey are both widely used benchmarks that are compiled by private organizations and that are subject to minimal regulation and oversight by regulatory authorities," the review, led by former financial regulator Martin Wheatley, said in August . "To that extent they are also likely to be vulnerable to similar issues with regards to the motivation and opportunity for manipulation and distortion."
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> In a report issued in October, the International Organization of Securities Commissions — an association of regulators — said the ability "to selectively report data on a voluntary basis creates an opportunity for manipulating the commodity market data" submitted to Platts and its competitors.
> Responding to questions from IOSCO last year, French oil giant Total said the price-reporting agencies, or PRAs, sometimes "do not assure an accurate representation of the market and consequently deform the real price levels paid at every level of the price chain, including by the consumer." But Total called Platts and its competitors "generally… conscientious and professional."
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> "Even small distortions of assessed prices may have a huge impact on the prices of crude oil, refined oil products and biofuels purchases and sales, potentially harming final consumers," the European Commission said this week.

USA Today notes:

> The Commission … said, however, that its probe covers a wide range of oil products — crude oil, biofuels, and refined oil products, which include gasoline, heating oil, petrochemicals and others.
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> The EU said it has concerns that some companies may have tried to manipulate the pricing process by colluding to report distorted prices and by preventing other companies from submitting their own prices.
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> Unlike oil futures, which set prices for contracts, the data used in the MOC process is based on the physical sale and purchase of actual shipments of oil and oil products.
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> According to Statoil, the EU investigation stretches back to 2002, which is when Platts launched its MOC price system in Europe. The suspicion is that some companies may have provided inaccurate information to Platts to affect the oil products' pricing, presumably for financial gain.

Fox notes:

> At issue is whether there was collusion to distort prices of crude, refined oil products and ethanol traded during Platts' market-on-close (MOC) system – a daily half-hour "window" in which it sets prices.
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> But the European Commission also is examining whether companies were prevented from taking part in the price assessment process.

The Guardian notes:

> The commission said the alleged price collusion, which may have been going on since 2002, could have had a "huge impact" on the price of petrol at the pumps "potentially harming final consumers".
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> Lord Oakeshott, former Liberal Democrat Treasury spokesman, said the alleged rigging of oil prices was "as serious as rigging Libor" – which led to banks being fined hundreds of millions of pounds.
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> He demanded to know why the UK authorities had not taken action earlier and said he would ask questions of the British regulator in Parliament. "Why have we had to wait for Brussels to find out if British oil giants are ripping off British consumers?" he said. "The price of energy ripples right through our economy and really matters to every business and families."
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> Shadow energy and climate change secretary Caroline Flint said: "These are very concerning reports, which if true, suggest shocking behaviour in the oil market that should be dealt with strongly.

> "When the allegations of price fixing in the gas market were made, Labour warned that opaque over-the-counter deals and relying on price reporting agencies left the market vulnerable to abuse.
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> "These latest allegations of price fixing in the oil market raise very similar questions. Consumers need to know that the prices they pay for their energy or petrol are fair, transparent and not being manipulated by traders."
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> Shadow financial secretary to the Treasury Chris Leslie said: "If oil price fixing has taken place it would be a shocking scandal for our financial markets.

The Telegraph reports:

> "97 per cent of all we eat, drink, wear or build has spent some time in a diesel lorry," said a spokesman for FairFuel UK, the lobbyists. "If it is proved, they have been gambling with the very oxygen of our economy."
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> Platts – to determine the benchmark price – examines just trades in the final 30 minutes of the trading day. A group of half a dozen analysts gather round a trading screen and decide on the final price. As with much that goes on in the City, it is a surprisingly old-fashioned method, reliant on gentlemanly conduct. Critics say it leaves the market open to abuse, and the price can suddenly spike or fall in the final minutes of the day.

The New York Times notes of agencies like Platt and Argus Media:

> Their influence is extensive. Total, the French oil giant, estimated last year that 75 to 80 percent of crude oil and refined product transactions were linked to the prices published by such agencies.

The Observer points out that manipulation of the oil markets has long been an open secret:

> Robert Campbell, a former price reporter at another PRA, Argus – he is now a staffer at Thomson Reuters, which also competes with Platts and others on providing energy news and data – said this a few days ago in a little-noticed commentary: "The vulnerability of physical crude price assessments to manipulation is an open secret within the oil industry. The surprise is that it took regulators so long to open a formal probe."

Reuters reported yesterday that the probe may be expanding to the U.S.:

> In Washington, the chairman of the Senate energy committee asked the Justice Department to investigate whether alleged price manipulation has boosted fuel prices for U.S. consumers.
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> "Efforts to manipulate the European oil indices, if proven, may have already impacted U.S. consumers and businesses, because of the interrelationships among world oil markets and hedging practices," Sen. Ron Wyden (D-Ore.), chairman of the Senate Energy and Natural Resources Committee, wrote in a letter to Attorney General Eric H. Holder Jr.

> Wyden also asked Justice to investigate whether oil market manipulation was taking place in the United States.

Not only are petroleum products a multi-trillion dollar market on their own, but manipulation of petroleum prices would effect virtually every market in the world.

For example, the Cato Institute notes how many industries use oil:

> U.S. industries use petroleum to produce the synthetic fiber used in textile mills making carpeting and fabric from polyester and nylon. U.S. tire plants use petroleum to make synthetic rubber. Other U.S. industries use petroleum to produce plastic, drugs, detergent, deodorant, fertilizer, pesticides, paint, eyeglasses, heart valves, crayons, bubble gum and Vaseline.

The India Times reports that:

> The price variation in crude oil impacts the sentiments and hence the volatility in stock markets all over the world. The rise in crude oil prices is not good for the global economy. Price rise in crude oil virtually impacts industries and businesses across the board. Higher crude oil prices mean higher energy prices, which can cause a ripple effect on virtually all business aspects that are dependent on energy (directly or indirectly).

The Federal Reserve Bank of San Francisco notes:

> When gasoline prices increase, a larger share of households' budgets is likely to be spent on it, which leaves less to spend on other goods and services. The same goes for businesses whose goods must be shipped from place to place or that use fuel as a major input (such as the airline industry). Higher oil prices tend to make production more expensive for businesses, just as they make it more expensive for households to do the things they normally do.
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> Oil price increases are generally thought to increase inflation and reduce economic growth.
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> Oil prices indirectly affect costs such as transportation, manufacturing, and heating. The increase in these costs can in turn affect the prices of a variety of goods and services, as producers may pass production costs on to consumers.
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> Oil price increases can also stifle the growth of the economy through their effect on the supply and demand for goods other than oil. Increases in oil prices can depress the supply of other goods because they increase the costs of producing them. In economics terminology, high oil prices can shift up the supply curve for the goods and services for which oil is an input.
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> High oil prices also can reduce demand for other goods because they reduce wealth, as well as induce uncertainty about the future (Sill 2007). One way to analyze the effects of higher oil prices is to think about the higher prices as a

> tax on consumers (Fernald and Trehan 2005).

The Post Carbon Institute notes (via OilPrice.com) that high oil prices raise food prices as well:

> The connection between food and oil is systemic, and the prices of both food and fuel have risen and fallen more or less in tandem in recent years (figure 1). Modern agriculture uses oil products to fuel farm machinery, to transport other inputs to the farm, and to transport farm output to the ultimate consumer. Oil is often also used as input in agricultural chemicals. Oil price increases therefore put pressure on all these aspects of commercial food systems.
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> *Figure 1: Evolution of food and fuel prices, 2000 to 2009*
> *Sources: US Energy Information Administration and FAO.*

Economists Nouriel Roubini and Setser note that all recessions after 1973 were associated with oil shocks.

Interest Rates Are Manipulated

Unless you live under a rock, you know about the Libor scandal.

For those just now emerging from a coma, here's a recap:

- The big banks have conspired for years to rig interest rates … upon which $800 trillion in assets are pegged
- This was the largest insider trading scandal ever … and the largest financial scam in world history
- Local governments got ripped off bigtime by the Libor manipulation
- Libor is still being manipulated

Derivatives Are Manipulated

The big banks have long manipulated derivatives … a *$1,200 Trillion* Dollar market.

Indeed, many trillions of dollars of derivatives are being manipulated in the exact same same way that interest rates are fixed: through gamed self-reporting.

Gold and Silver Are Manipulated

The Guardian and Telegraph report that gold and silver prices are "fixed" in the same way as interest rates and derivatives – in daily conference calls by the powers-that-be.

Everything Can Be Manipulated through High-Frequency Trading

Traders with high-tech computers can manipulate stocks, bonds, options, currency and commodities. And see this.

Manipulating Numerous Markets In Myriad Ways

The big banks and other giants manipulate numerous markets in myriad ways, for example:

- Engaging in mafia-style big-rigging fraud against local governments. See this, this and this
- Shaving money off of virtually every pension transaction they handled over the course of decades, stealing collectively billions of dollars from pensions worldwide. Details here, here, here, here, here, here, here, here, here, here, here and here
- Charging "storage fees" to store gold bullion … without even buying or storing any gold . And raiding allocated gold accounts
- Committing massive and pervasive fraud both when they initiated mortgage loans and when they foreclosed on them (and see this)
- Pledging the *same* mortgage *multiple* times to *different* buyers. See this, this, this, this and this. This would be like selling your car, and collecting money from 10 different buyers for the same car
- Cheating homeowners by gaming laws meant to protect people from unfair foreclosure
- Pushing investments which they knew were terrible, and then betting against the same investments to make money for themselves. See this, this, this, this and this
- Engaging in unlawful "frontrunning" to manipulate markets. See this, this, this, this, this and this
- Engaging in unlawful "Wash Trades" to manipulate asset prices. See this, this and this
- Otherwise manipulating markets. And see this
- Participating in various Ponzi schemes. See this, this and this
- Charging veterans unlawful mortgage fees
- Cooking their books (and see this)
- Bribing and bullying ratings agencies to inflate ratings on their risky investments

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