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The Great Oil Swindle

How much did the Fed really know?

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Theme: Global Economy

Global Research, May 30, 2008
Information Clearing House 30 May 2008

The Commodity Futures and Trading Commission (CFTC) is investigating trading in oil futures to determine whether the surge in prices to record levels is the result of manipulation or fraud. They might want to take a look at wheat, rice and corn futures while they're at it. The whole thing is a hoax cooked up by the investment banks and hedge funds who are trying to dig their way out of the trillion dollar mortgage-backed securities (MBS) mess that they created by turning garbage loans into securities. That scam blew up in their face last August and left them scrounging for handouts from the Federal Reserve. Now the billions of dollars they're getting from the Fed is being diverted into commodities which is destabilizing the world economy; driving gas prices to the moon and triggering food riots across the planet.

For months we've been told that the soaring price of oil has been the result of Peak Oil, fighting in Iraq, attacks on oil facilities in Nigeria, labor problems in Norway, and (the all-time favorite)growth in China. It's all baloney. Just like Goldman Sachs prediction of $200 per barrel oil is baloney. If oil is about to skyrocket then why has G-Sax kept a neutral rating on some of its oil holdings like Exxon Mobile? Could it be that they know that oil is just another mega-inflated equity bubble—like housing, corporate bonds and dot.com stocks—that is about to crash to earth as soon as the big players grab a parachute?

There are three things that are driving up the price of oil: the falling dollar, speculation and buying on margin.

The dollar is tanking because of the Federal Reserve's low interest monetary policies have kept interest rates below the rate of inflation for most of the last decade. Add that to the $700 billion current account deficit and a National Debt that has increased from $5.8 trillion when Bush first took office to over $9 trillion today and it's a wonder the dollar hasn't gone "Poof" already.

According to a January 4 editorial in the Wall Street Journal: "If the dollar had remained 'as good as gold' since 2001, oil today would be selling at about $30 per barrel, not $99. (today $126 per barrel) The decline of the dollar against gold and oil suggests a US monetary that is supplying too many dollars." Wall Street Journal 1-4-08

The price of oil has more than quadrupled since 2001, from roughly $30 per barrel to $126, WITHOUT ANY DISRUPTIONS TO SUPPLY. There's no shortage; it's just gibberish.

As far as "buying on margin" consider this summary from author William Engdahl:

"A conservative calculation is that at least 60% of today's $128 per barrel price of crude oil comes from unregulated futures speculation by hedge funds, banks and financial groups using the London ICE Futures and New York NYMEX futures exchanges and uncontrolled inter-bank or Over-The-Counter trading to avoid scrutiny. US margin rules of the government's Commodity Futures Trading Commission allow speculators to buy a crude oil futures contract on the Nymex, by having to pay only 6% of the value of the contract. At today's price of $128 per barrel, that means a futures trader only has to put up about $8 for every barrel. He borrows the other $120. This extreme "leverage" of 16 to 1 helps drive prices to wildly unrealistic levels and offset bank losses in sub-prime and other disasters at the expense of the overall population."

So the investment banks and their trading partners at the hedge funds can game the system for a mere 8 bucks per barrel or 16 to 1 leverage. Not bad, eh?

Is it possible that gambling on oil futures might be a temptation for banks that are already underwater from a trillion dollars worth of mortgage-related deals that have "gone south" leaving the banking system essentially bankrupt?

And if the banks and hedgies are not playing this game, then where is the money coming from? I have compiled charts and graphs that show that nearly two-thirds of the big investment banks' revenue came from the securitization of commercial and residential real estate loans. That market is frozen. Besides, this is not just a matter of "loan delinquencies" or MBS that have to be written off. The banks are "revenue starved". How are they filling the coffers? They're either neck-deep in interest rate swaps, derivatives trading, or gaming the futures market. Which is it?

Of course, there is one other possibility, but if that possibility turned out to be right than it would cast doubt on the legitimacy of the entire financial system. In fact, it would prove that the system is being rigged from the top-down by our friends at the Banking Politburo, the Federal Reserve. Here goes:

What if the investment banks are trading their worthless MBS and CDOs at the Fed's auction facilities and using the money ($400 billion) to drive up the price of raw materials like rice, corn, wheat, and oil?

Could it be? Could the Fed really be looking the other way so it can bail out its banking buddies while they drive prices skyward?

If it is true; (and I suspect it is) it hasn't done much good. As the Associated Press reported yesterday:

"The Federal Reserve announced Thursday that it will make a fresh batch of short-term cash loans available to squeezed banks as part of an ongoing effort to ease stressed credit markets. The Fed said it will conduct three auctions in June, with each one making $75 billion available in short-term cash loans. Banks can bid for a slice of the available funds. It would mark the latest round in a program that the Fed launched in December to help banks overcome credit problems so they will keep lending to customers."

Another $225 billion for the bankers and not a dime for the struggling homeowner! The Fed is bankrupting the country with their permanent rotating loans to keep reckless speculators from going under. So much for moral hazard.

As far as speculation, there is ample evidence that the system is being manipulated. According to MarketWatch:

"Speculative activity in commodity markets has grown "enormously" over the past several years, the Homeland Security and Governmental Affairs Committee said in a news release. It pointed out that in five years, from 2003 to 2008, investment in the index funds tied to commodities has grown by 20-fold — to $260 billion from $13 billion."

And here's a revealing clip from the testimony of Michael W. Masters of Masters Capital Management, LLC, who addressed the issue of "Commodities Speculation" before the Committee on Homeland Security and Governmental Affairs this week:

"Today, Index Speculators are pouring billions of dollars into the commodities futures markets, speculating that commodity prices will increase. …In the popular press the explanation given most often for rising oil prices is the increased demand for oil from China. According to the DOE, annual Chinese demand for petroleum has increased over the last five years from 1.88 billion barrels to 2.8 billion barrels, an increase of 920 million barrels.8 Over the same five-year period, Index Speculators' demand for petroleum futures has increased by 848 million barrels.

THE INCREASE IN DEMAND FROM INDEX SPECULATORS IS ALMOST EQUAL TO THE INCREASE IN DEMAND FROM CHINA.

Index Speculators have now stockpiled, via the futures market, the equivalent of 1.1 billion barrels of petroleum, effectively adding eight times as much oil to their own stockpile as the United States has added to the Strategic Petroleum Reserve over the last five years.

Today, in many commodities futures markets, they are the single largest force.15 The huge growth in their demand has gone virtually undetected by classically-trained economists who almost never analyze demand in futures markets.

As money pours into the markets, two things happen concurrently: the markets expand and prices rise. One particularly troubling aspect of Index Speculator demand is that it actually increases the more prices increase. This explains the accelerating rate at which commodity futures prices (and actual commodity prices) are increasing. The CFTC has taken deliberate steps to allow CERTAIN SPECULATORS VIRTUALLY UNLIMITED ACCESS TO THE COMMODITIES FUTURES MARKETS. The CFTC has granted Wall Street banks an exemption from speculative position limits when these banks hedge over-the-counter swaps transactions. This has effectively opened a loophole for unlimited speculation. When Index Speculators enter into commodity index swaps, which 85-90% of them do, they face no speculative position limits…. The result is a gross distortion in data that effectively hides the full impact of Index Speculation." (Thanks to Mish's Global Economic Trend Analysis; the one "indispensable" financial blog on the Internet)

Masters adds that the CFTC is pressing to make "Index Speculators exempt from all position limits" so they can make "unlimited" bets on the futures which are wreaking havoc on the global economy and pushing millions towards starvation. Of course, these things pale in comparison to the higher priority of fatting the bottom line of the parasitic investor class.

Brimming oil tankers are presently sitting off the coasts of Iran and Louisiana. The Strategic Petroleum Reserve has been filled. Demand is flat. The world's biggest consumer of energy (guess who?) is cutting back . As CNN reports:

"At a time when gas prices are at an all-time high, Americans have curtailed their driving at a historic rate. The Department of Transportation said figures from March show the steepest decrease in driving ever recorded. Compared with March a year earlier, Americans drove an estimated 4.3 percent less — that's 11 billion fewer miles, the DOT's Federal Highway Administration said Monday, calling it "the sharpest yearly drop for any month in FHWA history." (CNN)

The great oil crunch is another fabricated crisis; another "smoke and mirrors" fiasco; another Enron-type shell-game engineered by banksters and hedge fund managers. Once again, the bloody footprints can be traced right back to the front door of the Federal Reserve. Don't expect help from the regulators either; they've all been replaced with business reps like Harvey Pitt or Hank Paulson. The only time anyone in the Bush administration finds their conscience is when they're offered a multi-million dollar "tell all" book deal.

Can you hear me, Scotty?

The original source of this article is Information Clearing House

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