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CFTC charges traders over oil price

By Jack Farchy and Javier Blas in London and Gregory Meyer in New York

The US commodities regulator has charged a trading house and two individuals with manipulating oil prices in 2008 by amassing dominant positions in the physical market that created the impression of a shortage.

The charge is only the second oil manipulation case the US Commodity Futures Trading Commission has filed since launching a "nationwide crude oil investigation" three years ago as the cost of West Texas Intermediate, the US benchmark, surged towards a record high of $147 a barrel.

The CFTC's complaint comes as high oil prices have again triggered a political backlash in Washington, with a group of lawmakers demanding a crackdown on speculators and oil companies.

The regulator alleged that Parnon Energy, a US oil trader, together with its Swiss and UK affiliates Arcadia Energy (Suisse) and Arcadia Petroleum, made more than $50m from the scheme in January and March 2008.

The CFTC alleged that two traders at the company amassed large positions in the physical market at Cushing, the pipeline hub in Oklahoma that serves as the delivery point for the WTI futures contract.

The CFTC complaint alleges that by mid-January the traders had accumulated 4.6m barrels of physical oil, or two-thirds of oil available for delivery against the February WTI futures contract. In March they bought 6.3m barrels, equal to 84 per cent of oil available for delivery against the April contract.

The buying created the impression of a shortage and pushed up the price of WTI futures on the New York Mercantile Exchange. Ahead of their move in the physical market, the traders allegedly bought large amounts of futures and other financial instruments that would profit from a price rise.

"They wanted to lull market participants into believing that supply would remain tight," the CFTC said. "They knew that as long as the market believed that supply was tight and getting even tighter, there would be upward pressure on the prices of WTI for February delivery relative to March delivery, which was their goal."

While the traders were only able to move the price by $1, compared with a $20 rise in the price of oil between January and April 2008, the large volumes involved allowed them to generate their profit.

After cashing in the profits from their futures positions, the CFTC alleges, they opened bearish bets – or "short" positions – that would profit from a drop in prices.

They then allegedly surprised the market by dumping their physical oil, driving down prices and making further profit on their bearish futures bets.

In an interchange of e-mails, one of the traders said the dumping of oil into the market – which he described as an "inevitable puking" – was having the "desired effect".

The traders put an end to the scheme in April 2008, after the CFTC asked for documents regarding their trading activities.

Parnon referred calls to its London affiliate, Arcadia Petroleum, which did not respond to requests for comment. The two traders could not be reached for comment on Tuesday.

However, John Fredriksen, the Norwegian-born shipowner who controls Arcadia and Parnon through his Farahead Holdings group, on Wednesday said the CFTC charge against them was "rubbish", according to Bloomberg.

The UK Financial Services Authority and the Australian Securities and Investments Commission assisted the CFTC investigation.