Why are the big financial institutions selling oil BIG?

A Crude LENR hypothesis

by Sifferkoll® Trading
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sifferkoll@gmail.com

The Commitment of Traders Report reveals interesting data

For two years now, Sifferkoll has been following the energy markets in relation to a possible LENR (cold fusion) technological breakthrough. The basic idea is that, if there is an information advantage, the big banks will acquire it and use it to make as much money as possible. If such actions can be shown, it is in itself good indications of a proven breakthrough.

And there is money to be made. Not yet from the new technology, but from a plunging energy market (oil, coal, natural gas, etc.). The Commitment of Traders report (CoT) published weekly by CFTC (U.S. Commodity Futures Trading Commission) has been analysed. This report shows the actions and positions of the different market participants in the crude oil futures market. It reveals some interesting data.

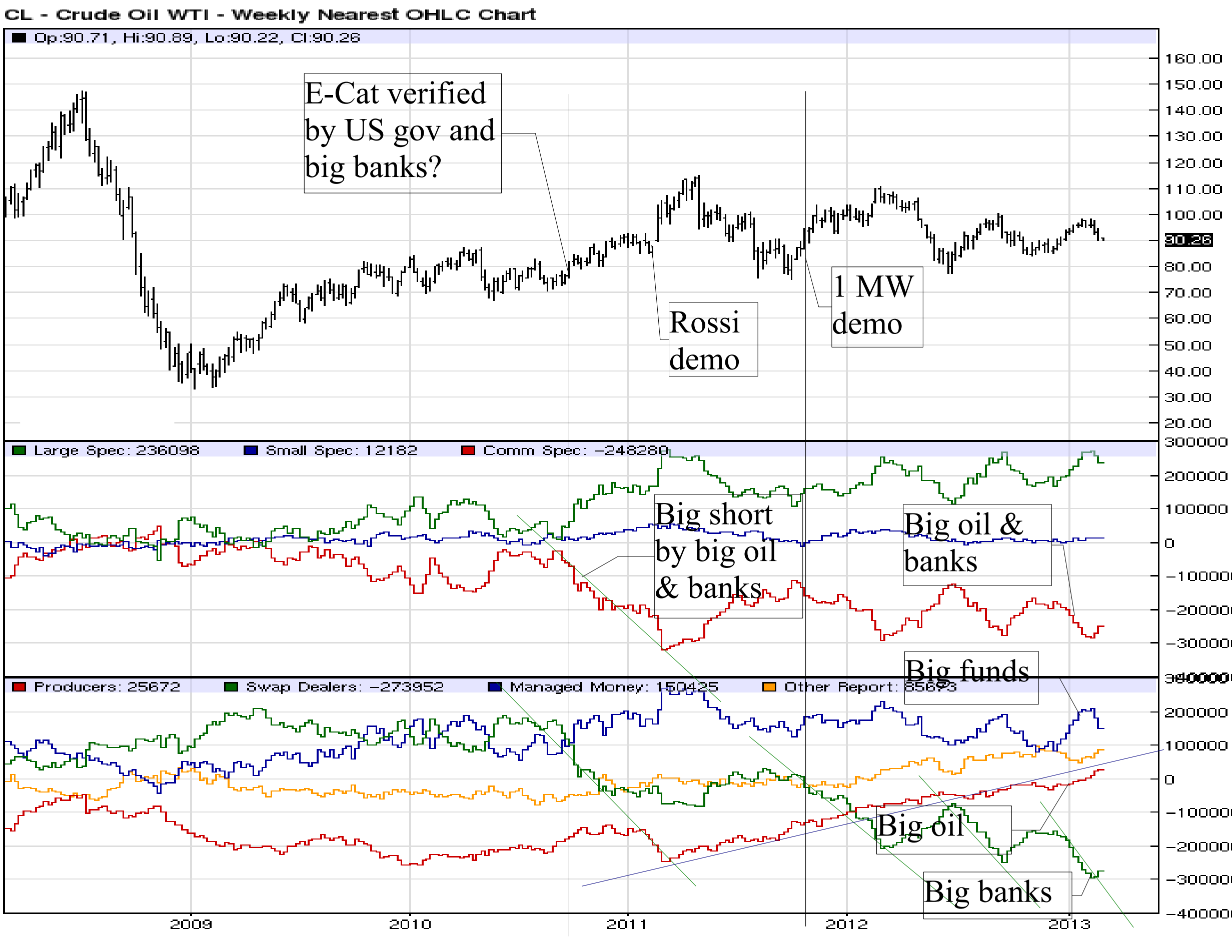

Fig 1, Crude oil futures; price, CoT (standard & disaggregated report).

At some point during the fall of 2010 there was a large policy shift in hedging crude oil on the NYMEX futures exchange by the big banks and the oil companies. Up to that point the hedgers of crude have largely been the producers as they want to hedge their production against future price movements. On the buy side there was the big financial institutions (Swap Dealers = JP Morgan, Goldman Sachs, etc), and the money managers (large pension funds, hedge funds, etc.), that speculate in a price increase.

But during the fall of 2010 this state of affairs changed. From being net-long 200 thousand contracts, the banks became net-short in a couple of months. Their selling have since continued. And now, by March 2013, they are net-short 300 thousand contracts (300 million barrels of oil = $30 billion). See the green lines in the chart above.

At the same time the producers have liquidated their 200 thousand contract short position (blue line above). They are no longer hedging as they used to. And they've done it in a very consistent way. It looks almost unreal, buying an equal amount of contracts each month for two years.

During this time the banks have consistently been using a strategy to buy weakness and sell strength during their massive net-selling. As if their strategy was to build a huge short position and at the same time stabilize price. The conclusion is that the banks are now net-short about 300 thousand contracts at a price about $90-$95.

On the buy side the money managers went from being neutral by fall of 2010 to being net-long 250 thousand contracts as of today. This is of course the big funds, and in the end pensions and savings. They are now net-long oil and of course net-long all the producers (oil stocks).

Researching this strategy change has given very little information. One article though, from july 2012, touches on the subject. No answers and no explanations though. Insidefutures.com

Following the Commitments of Traders Report (CoT) does however reveal a great deal of information. The standard report shows the commercial traders, (oil companies and banks), large speculators (big funds) and smaller speculators (the rest). The disaggregated report also shows the position of banks and producers respectively. Both these reports are shown in the graph above. The combination do tell us that something is going on, but what?.

Something real is going on, but what?

Why are the producers abandoning their decade long hedging strategy? Why are the banks selling oil like crazy and at the same time actively acting to stabilize the market, probably in the range $80-$100? What information do the big banks and big oil use to make these decisions? Is this information readily available?

Hypothetically: What if the first customer of Rossi actually is the US Navy? What if the US Navy know for sure that the 1MW E-cat works (because they have bought several)? What if they actually knew this even before the first public demo of the E-Cat in january 2011? Since the test was decided upon sometime during the fall of 2010 and Rossi himself says he had run a heater in a Bologna factory during a year before that, it looks reasonable. So lets assume that this is the case.

It is certainly in the big banks interest to know about these things, and they do have the resources to find out, and keep quiet about it. It is also well known that US entities like SPAWAR and NASA have researched LENR for some time. There are documents that shows that they acknowledge the technology and have done so for some time. However, so far, not on the industrial scale of the 1 MW E-cat.

Since US entities acknowledge LENR, they did what was needed to verify the E-cat when they heard about it. Because even if they thought the E-cat was a scam, they could not afford not to check on it. Even a minute chance that Rossi was on to something would cover the expense and risk. The money involved are simply to big for a miss like that.

Also, if US military entities know, then the big banks know, and at least the producers where the big banks have big interests know. Anyhow, they certainly know by now if the first customer is the US Navy, as Rossi (almost) says, and nobody denies.

The thirty billion dollar question is how to make as much money as possible from this information.

First they probably thought that the E-Cat demo could get the price of oil to drop already in the beginning of 2011. They certainly was prepared for it by february 2011, as the aggregated net-short position of big banks and producers was in excess of 300 thousand contracts already at that time. But the price went up, since media did not catch on and other issues (like the war in Libya) were much more important for the oil market at the moment.

When the plunge didn't happen a new strategy evolved. The producers then started to liquidate their short positions in a very consistent way. This short position have been taken over by the banks probably in cooperation and as a risk reducing strategy, although not as consistently, since they've been trading against the market most of the time, buying weakness, selling strength.

By the time of the 1MW demo they probably had Rossi more under control as they simply became the first and only customer for all the 1 MW E-Cats he could produce during the coming 18 months. They played the game the way Rossi wanted it (as his goal is mainly to sell the E-Cats he produce). And since very few people take Rossi seriously there was no problem keeping the news out of media and off the Internet (except for some dedicated sparsely visited sites).

So. What if the banks know about LENR and they are preparing for the oil price to plunge. It would make some kind of sense looking at their actions. It's reasonable to expect that when the possibilities of LENR becomes widely known by the public, that will be the case. It might drop by 80%, or to the production costs of the easy access reserves. New explorations will be abandoned, shale oil & gas, deepwater oil and oil sands will be abandoned, other green technologies, like biofuels, solar and wind, will also be abandoned, etc. The long term growth potential of the oil industry will vanish in a day. Actually, we already see signs of this development as several large oil fields are up for sale or already sold. There is a widespread divestment strategy among big oil (Shell, BP 1, BP 2, Exxon, ConocoPhillips, etc.)

If this happens oil stocks will plunge as well, since their stock price reflects many years of potential growth and huge profits, which will evaporate within 10 years. The hedge that they used to have, will then be of limited use, since the stocks will fall for other reasons anyway. The strategy is probably to let the banks profit from the price movements directly instead. The managements of big oil are probably an important part of the deal, since they will, of course, benefit personally. But the oil business, as the most profitable business in the world, will be history. Big oil will simply merge with big banks in the form of big cash, but only after the oil stocks have crashed.

Meanwhile the strategy of the banks is to sell oil and oil stocks to the money managers as much as possible while keeping the price in the desired price range of $80-$100. They will keep doing this until the news of almost free green and unlimited energy reaches the public. This can happen within a couple of months with a good third party test or any other serious breakthrough in LENR area, or it can take much longer. The banks will buy as much time as they can by keep satisfying Rossi with discrete orders and inducing doubt in media, while increasing their net-short positions. The longer it takes, the better for the banks. They already have the information advantage.

Looking at the forecasts from the big banks it's obvious that they produce forecasts in the $90-$100 range for the coming year(s). The problem they have is one, to defend the low price of oil in this peak-oil-era and secondly to avoid price hikes which will result in huge paper losses on their books, from their short positions. They seem to do this by pushing information on new developments of shale, deepwater oil and Canadian oil sands to anchor the price at about $90, and at the same time induce hope in new abundant resources (Reuters, Financial Times, FoxBusiness). There are, however, several reports stating that the costs are to high and the volumes way to low for these new resources (Zerohedge). It's a delicate balance act.

The real reason for the relatively low range bound price of crude for the last two years, is simply huge short selling and anti-trend trading by the big financial institutions (JP Morgan, Goldman Sachs, etc.). The reasons for this might be a political agenda executed by these ”swap dealers” to keep the price in a certain range for macro economic growth reasons, or maybe, which is the hypothesis of this report, they know something that is not yet publicly accepted. LENR might already be a technological fact on the industrial scale, and not further away in time than the banks can manage to keep it secret. This makes a huge difference on the outcome. Maybe this is exactly what they know. It certainly would not be surprising if they have verified the E-Cat and actively trade on that information. The information advantage is huge and so are the potential profits.