Asia Times Online

Iran makes a move, oil slides

By Chris Cook
9/21/2012

A rapid oil price drop on Monday, September 17, took traders by surprise. [1] Who exactly dumped some 13,000 contracts of CME's West Texas Intermediate crude oil contract and 10,000 contracts of the Intercontinental Exchange's (ICE's) Brent/BFOE crude oil contract into the market cratering the price by more than US$3 per barrel?

While the identity of the seller(s) remains obscure, the Saudis lost no time in announcing to the market that they see oil as over-priced and are prepared to increase production until the price falls below $100/barrel. Grateful market pundits reported with alacrity to this hoary old chestnut.

Iran Makes a Move

A more likely reason for the price move than these Saudi Jedi mind games is now emerging. On Tuesday, Catherine Ashton, lead negotiator for the the 5+1 (the permanent members of the United Nations Security Council plus Germany) involved in talks with Iran over its nuclear policy, met Iran's Foreign Minister Saeed Jalili for "informal" discussions, which were said to be constructive, and in respect of which Lady Ashton will be reporting to her colleagues next week in New York.

What was not widely reported was firstly, the short notice of this meeting, and secondly, the fact - very significant in diplomatic terms - that for the most part it took place in the Iranian consulate, which is legally Iranian territory.

In my view, the policy deadlock in Iran has now been broken, and a pragmatic decision has been made to make nuclear concessions.

The Saudi spin machine has been going full blast ever since in order to sustain the greatest market manipulation in the history of commodity trading, which I have been documenting on these pages.

So we see stories being fed into a credulous and unquestioning financial press explaining that the Saudis are upon judicious consideration prepared to magnanimously make supplies available to a market that is in fact awash with crude oil as demand by refiners (as opposed to financial demand) plummets.

More to the point, to a hard-bitten market regulator like myself with a suspicious mind, the sell-off on Monday has all the hallmarks of trading on the basis of "asymmetric" information in respect of the upcoming meeting the next day - that is to say, it was a form of insider dealing.

But of course neither market traders nor investment banks would ever dream of doing that.

The game is afoot

If it genuinely is the case that Iran is entering into meaningful nuclear discussions, then there is literally nothing holding the oil market up and we can expect a rapid decline in the oil price, and with it the fortunes of Iran, Russia, and Venezuela among others.

This setback to US antagonists would be a timely gift for President Barack Obama, who would also be only too pleased to see the US gasoline price - which has been inflated by a shortage of refinery capacity, and an alleged market coup in New York by Glencore - decline rapidly as the price of its crude oil feedstock dives.

So the next couple of weeks should be interesting times in the oil market, which is already down 5% this week: as Sherlock Holmes put it to his trusty companion ... "The game's afoot!"

Note:
1. See Reuters report here.