

Financial Warfare: Big Banks Conspire with Giant Oil Companies to Manipulate Currency Markets

By [Washington's Blog](#)

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Theme: [Global Economy](#), [Oil and Energy](#)

It has long been known that currency markets are [massively rigged](#). And see [this](#), [this](#), and [this](#).

But the banks not only share confidential information with *each other* ... they also shared it with a giant *oil company*.

Bloomberg [reports](#) this week:

With revenue of almost \$400 billion last year and operations in about 80 countries, BP trades large quantities of currency each day. Traders at the company regularly received valuable information from counterparts at some of the world's biggest banks — including **tips about forthcoming trades, details of confidential client business and discussions of stop-losses, the trigger points for a flurry of buying or selling**— according to four traders with direct knowledge of the practice.

“The Cartel” that was set up by Usher [the former JPMorgan Chase trader at the center of a global investigation into corruption in the foreign-exchange market] and included dealers at JPMorgan, Citigroup Inc. (C), Barclays Plc and UBS Group AG. (UBSN)

The information offered an **insight into currency moves minutes, sometimes hours before they happened.**

Usher participated in at least one chat room with [Andrew White, a currency trader at oil company BP].

In the clubby, lightly regulated world of foreign exchange, **traders passed around tips to their circle of trusted contacts like candy. The victims: mutual-fund investors, pensioners and day traders who took the other side of a transaction** at a lower price than they would have if they had the same information.

Within hours of regulators announcing probes, the chats between BP and the banks were shut down, people with knowledge of the matter said. Soon after, a compliance officer was placed on the desk for the first time, one of them said.

[BP's] trading unit's primary role is to manage the firm's exposure to financial risks, including fluctuations in interest rates and foreign exchange, according to the company's website. Unlike at most corporations, it also is run as a profit center, which means that in addition to hedging risks, traders can place their own bets on the direction of markets.

In an undated message seen by Bloomberg News, a trader at a bank told BP he would be buying U.S. dollars against Australian dollars at the WM/Reuters fix at 4 p.m. in London, the one-minute window during which traders around the world exchange billions of dollars of currency on behalf of pension funds and asset managers. The message was received at BP about 30 minutes before the fix. **By tipping his hand, the sender was telling BP about a potential fall in the Australian currency.**

At about 3 p.m. in London on a different afternoon, **BP traders were informed that banks were selling dollars against the yen at 4 p.m.** In a third message, this one arriving as the oil company's traders drank their first coffee of the morning, a trader at a bank said he had just sold a quantity of an emerging-market currency, to whom and the price he received.

The four banks in the Cartel controlled about 45 percent of the global spot-currency market, according to a survey by Euromoney Institutional Investor Plc, so information about their plans was valuable. Some days they **worked together to push around the 4 p.m. fix**, settlements with the banks show.

Sometimes they also **agreed to work together to push exchange rates around to boost their profits** -- something they called "double-teaming."

The collateral damage of their actions and those of other traders was the \$30 trillion held in investment funds around the world whose daily value is calculated based on the 4 p.m. WM/Reuters benchmark. Passive funds managing \$3 trillion transact at the fix, so their investors lost or gained depending on how much the rates were manipulated.

Derivatives Are Manipulated

Runaway derivatives - especially credit default swaps (CDS) - were one of the [main causes](#) of the 2008 financial crisis. Congress never fixed the problem, and actually [made it worse](#).

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 (see below) ... through [gamed self-reporting](#).

Reuters [noted](#) in September:

A Manhattan federal judge said on Thursday that investors may pursue a lawsuit accusing 12 major banks of violating antitrust law by **fixing prices and restraining competition in the roughly \$21 trillion market for credit default swaps.**

“The complaint provides a chronology of behavior that would probably not result from chance, coincidence, independent responses to common stimuli, or mere interdependence,” [Judge] Cote said.

The defendants include **Bank of America Corp, Barclays Plc, BNP Paribas SA, Citigroup Inc , Credit Suisse Group AG, Deutsche Bank AG , Goldman Sachs Group Inc, HSBC Holdings Plc , JPMorgan Chase & Co, Morgan Stanley, Royal Bank of Scotland Group Plc and UBS AG.**

Other defendants are the International Swaps and Derivatives Association and Markit Ltd, which provides credit derivative pricing services.

U.S. and European regulators have probed potential anticompetitive activity in CDS. In July 2013, the European Commission accused many of the defendants of colluding to block new CDS exchanges from entering the market.

“The financial crisis hardly explains the alleged secret meetings and coordinated actions,” the judge wrote. “Nor does it explain why ISDA and Markit simultaneously reversed course.”

In other words, the big banks are continuing to fix prices for CDS in secret meetings ... and have torpedoed the more open and transparent CDS exchanges that Congress mandated.

And today, the managing director at Graham Fisher & Co. (Joshua Rosner) said that the big banks are [frontrunning CDS trades ... and manipulating decisions](#) on whether a the party “insured” by CDS has defaulted on its obligations, thus triggering an “event” requiring payment on the CDS.

By way of analogy, whether or not an insurance company pays to rebuild a house which has burned to the ground may turn on whether it finds the fire was arson or accidental.

This is a *big* deal ... while hundreds of thousands of dollars might be at stake in the home fire example, many tens or even hundreds of *billions* of dollars ride on whether or not a country like Greece is determined to have suffered a CDS-triggering event.

Rosner notes:

The potential use of CDS to artificially manipulate corporate solvency, the imbalances in the amounts of CDS outstanding relative to referenced debt and ongoing allegations that ISDA’s Determinations Committee is deeply conflicted and “operates as a **quasi-Star Chamber or cartel**”, are finally being scrutinized.

As one source recently suggested, “It would be a surprise if determinations of default, made by a committee of interested parties, don’t lead to findings of manipulation similar to those found in LIBOR and FOREX”.

The fact that Pimco’s Chief Investment Officer criticized the determination that

Greece had not triggered its CDS, even though Pimco was part of the unanimous vote making that determination, is profoundly troubling to say the least.

The fact that the [ISDA's Determinations Committees] has no obligation to "research, investigate, supplement or verify the accuracy of information on which a determination is based" and members "may have an inherent conflict of interest in the outcome of any determinations" only **adds credence to suggestions that the "CDS market is being manipulated and gerrymandered by the all-powerful investment banks"**.

Energy Prices Manipulated

Energy markets are manipulated as well ...

For example, oil prices have been [manipulated for many years](#).

And the U.S. Federal Energy Regulatory Commission says that JP Morgan has [massively manipulated energy markets in California and the Midwest](#), obtaining tens of millions of dollars in overpayments from grid operators between September 2010 and June 2011.

And Pulitzer prize-winning reporter David Cay Johnston [noted](#) in May that Wall Street is trying to launch Enron 2.0.

Commodities Are Manipulated

The big banks and government agencies have been [conspiring to manipulate commodities prices for decades](#).

The big banks are [taking over important aspects of the physical economy](#) - including [uranium mining, petroleum products, aluminum, ownership and operation of airports, toll roads, ports, and electricity](#) - to [manipulate market prices](#).

And they are using these physical assets to massively manipulate commodities prices ... scalping consumers of [many billions of dollars each year](#). (More from [Matt Taibbi](#), [FDL](#) and [Elizabeth Warren](#).)

Gold and Silver Are Manipulated

Last month, Switzerland's financial regulator (FINMA) found "serious misconduct" and a "clear attempt to manipulate precious metals benchmarks" by UBS employees in precious metals trading, particularly with silver.

Reuters [reports](#):

Swiss regulator FINMA said on Wednesday that it found a **"clear attempt" to manipulate precious metals benchmarks** during its investigation into precious metals and foreign exchange trading at UBS ...

Gold and silver prices have been "fixed" in [daily conference calls by the powers-that-be](#).

Bloomberg [reported](#) last year:

It is the participating banks themselves that administer the gold and silver benchmarks.



So are prices being manipulated? Let's take a look at the evidence. In his [book](#) "The Gold Cartel," commodity analyst Dimitri Speck combines minute-by-minute data from most of 1993 through 2012 to show how gold prices move on an average day (see attached charts). He finds that the spot price of gold tends to drop sharply around the [London](#) evening fixing (10 a.m. New York time). A similar, if less pronounced, drop in price occurs around the London morning fixing. The same daily declines can be seen in silver prices from 1998 through 2012.



For both commodities there were, on average, no comparable price changes at any other time of the day. These patterns are consistent with manipulation in both markets.

Interest Rates Are Manipulated

Bloomberg [reported](#) in January:

Royal Bank of Scotland Group Plc was ordered to pay \$50 million by a federal judge in Connecticut over claims that it rigged the London interbank offered rate.

RBS Securities Japan Ltd. in April pleaded guilty to wire fraud as part of a settlement of more than \$600 million with U.S. and U.K. regulators over Libor manipulation, according to court filings. U.S. District Judge Michael P. Shea in New Haven today sentenced the Tokyo-based unit of RBS, Britain's biggest publicly owned lender, to pay the agreed-upon fine, according to a Justice Department statement.

Global investigations into banks' attempts to manipulate the benchmarks for profit have led to fines and settlements for lenders including RBS, Barclays Plc, UBS AG and Rabobank Groep.

RBS was among six companies fined a record 1.7 billion euros (\$2.3 billion) by the European Union last month for rigging interest rates linked to Libor. The combined fines for manipulating yen Libor and Euribor, the benchmark money-market rate for the euro, are the largest-ever EU cartel penalties.

Global fines for rate-rigging have reached \$6 billion since June 2012 as authorities around the world probe whether traders worked together to fix Libor, meant to reflect the interest rate at which banks lend to each other, to benefit their own trading positions.

To put the Libor interest rate scandal in perspective:

- 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
- Even though RBS and a handful of other banks have been fined for interest rate manipulation, Libor is [still being manipulated](#). No wonder ... the fines are pocket change – the cost of doing business – for the big banks

Everything Can Be Manipulated through High-Frequency Trading

Traders with high-tech computers can manipulate [stocks](#), [bonds](#), [options](#), [currencies](#) 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](#) 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](#)
- Charging veterans [unlawful mortgage fees](#)
- [Cooking their books](#) (and see [this](#))
- [Bribing](#) and [bullying](#) ratings agencies to inflate ratings on their risky investments

The Big Picture

The experts say that [big banks will keep manipulating markets unless and until their executives are thrown in jail for fraud](#).

Why? Because the system is rigged to allow the big banks to commit continuous and massive fraud, and then to pay small fines as the “cost of doing business”. As Nobel prize winning economist Joseph Stiglitz [noted](#) years ago:

“The system is set so that even if you’re caught, **the penalty is just a small number relative to what you walk home with.**

The fine is just a cost of doing business. It’s like a parking fine. Sometimes you make a decision to park knowing that you might get a fine because going around the corner to the parking lot takes you too much time.”

Indeed, Reuters [pointed out](#) recently:

Switzerland’s regulator FINMA ordered UBS, the country’s biggest bank, to pay 134 million francs (\$139 million) after it found serious misconduct in both foreign exchange and precious metals trading. It also **capped bonuses for dealers in both units at twice their basic salary for two years.**

Capping bonuses at twice base salary? That’s not a punishment ... it’s an *incentive*.

Experts say that we have to prosecute fraud or else [the economy won’t ever really stabilize](#).

But the government is doing the exact opposite. Indeed, the Justice Department has announced it will [go easy on big banks](#), and always settles prosecutions for pennies on the dollar ([a form of stealth bailout](#). It is also arguably [one of the main causes of the double dip in housing](#). And there is [no change in the air](#).)

Indeed, the government [doesn’t even force the banks to admit any guilt](#) as part of their settlements. [In fact](#):

“The banks have been allowed to investigate themselves,” one source familiar with the investigation told Reuters. “The investigated **decide what they want to investigate, what they admit to, and how much they will pay.**

Wall Street has manipulated virtually every other market as well – both in the financial sector and the [real economy](#) – and broken [virtually every law on the books](#).

And they will keep on doing so until the Department of Justice grows a pair.

The criminality and blatant manipulation will grow and spread and metastasize – taking over and killing off more and more of the economy – until Wall Street executives are finally thrown in jail.

It's that simple ...

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