Financial Criminality: Wall Street Manipulates Energy Prices, Gold … and Every Other Market

Enron 2.0:

By Washington's Blog

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Theme: Global Economy

Energy Prices Manipulated

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.

Pulitzer prize-winning reporter David Cay Johnston notes today that Wall Street is trying to launch Enron 2.0:

> The price of electricity would soar under the latest scheme by Wall Street financial engineers to game the electricity markets.
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> If regulators side with Wall Street — and indications are that they will — expect the cost of electricity to rise from Maine to California as others duplicate this scheme to manipulate the markets, as Enron did on the West Coast 14 years ago, before the electricity-trading company collapsed under allegations of accounting fraud and corruption.
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> The test case is playing out in New England. Energy Capital Partners, an investment group that uses tax-avoiding offshore investing techniques and has deep ties to Goldman Sachs, paid $650 million last year to acquire three generating plant complexes, including the second largest electric power plant in New England, Brayton Point in Massachusetts.
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> Five weeks after the deal closed, Energy partners moved to shutter Brayton Point. Why would anyone spend hundreds of millions of dollars to buy the second largest electric power plant in New England and then quickly take steps to shut it down?
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> Energy partners says in regulatory filings that the plant is so old and prone to breakdowns that it is not worth operating, raising the question of why such sophisticated energy-industry investors bought it.
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> The real answer is simple: Under the rules of the electricity markets, the best way to earn huge profits is by reducing the supply of power. That creates a shortage during peak demand periods, such as hot summer evenings and cold winter days, causing prices to rise. Under the rules of the electricity markets, even a tiny shortfall between the available supply of electricity and the demand from customers results in enormous price spikes.
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> With Brayton Point closed, New England consumers and businesses will spend as much as $2.6 billion more per year for electricity, critics of the deal suggest in documents filed with the Federal Energy Regulatory Commission.

> That estimate will turn out to be conservative, I expect, based on what Enron traders did to California, Oregon and Washington electricity customers starting in 2000. In California alone the short-term market manipulations cost each resident more than $1,300, a total burden of about $45 billion.
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Public Citizen characterized the Energy partners explanation for the shutdown as absurd:

> In the world of business, a firm announcing that an asset purchased just 5 weeks ago is actually uneconomical to operate would be called incompetent, and such a firm would have difficulty attracting capital and staying in business. But the managing partners of Energy Capital Partners are a highly sophisticated all-star crew of former Wall Street financiers: four of the five managing partners are Goldman Sachs veterans, and the firm's vice-presidents and principals are alumni of JP Morgan, Morgan Stanley, Bank of America, Credit Suisse and other financial powerhouses. These are not your run-of-the-mill owners and operators of power plants. They are Wall Streeters highly motivated to exploit the intricacies of power markets to make as much money as possible for their Cayman Islands-based affiliates.
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> The record is clear that artificially reducing supply to jack up prices was the plan of Energy partners from the get-go. The strategy is obvious from auction records, as explained by Robert Clark of the Utility Workers Union of America Local 464.
>
> "Almost immediately after acquiring ownership of the Brayton Point Power Station late last year," Clark said, "[Energy partners] intentionally withheld all of Brayton Point's capacity from [auction] for the purpose of reducing capacity supply and intentionally raising the market prices" that Energy partners and its competitors could charge for other New England generating capacity they already owned.

As shown below, 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.

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 frauda s 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 Haventoday sentenced the Tokyo-based unit of RBS, Britain's biggest publicly owned lender, to pay the agreed-upon fine, according to a Justice Department Justice Department.
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> 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

Indeed, 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."

Experts also 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.)

Indeed, the government doesn't even force the banks to admit any guilt as part of their settlements.

Because of this failure to prosecute, it's not just interest rates. As shown below, big banks have manipulated *virtually every market* – 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.

Currency Markets Are Rigged

Currency markets are massively rigged. And see this and this.

Derivatives Are Manipulated

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: through gamed self-reporting.

Oil Prices Are Manipulated

Oil prices are manipulated as well.

Gold and Silver Are Manipulated

Gold and silver prices are "fixed" in the same way as interest rates and derivatives – in daily conference calls by the powers-that-be.

Bloomberg reports:

> 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.
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> 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.

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.

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.

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, 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 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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