

The Runaway Derivatives Time Bomb: A 1,200 Trillion Dollar Derivative Market, Big Banks Manipulate Interest Rates, Currency Markets, Commodity Markets...

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Global Research, December 23, 2015

[Washington's Blog](#) 9 September 2014

Region: [USA](#)

Theme: [Global Economy](#)

This short, incisive article was originally published on Washington's Blog in 2014. It deals with the "criminality" and "blatant manipulation" of Wall Street and gives us a better idea as to why the global economy is in such a catastrophic state.

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](#) last week:

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.

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 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](#) Justice Department.

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

Currency Markets Are Rigged

Currency markets are [massively rigged](#). And see [this](#) and [this](#).

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 [noted](#) in May that Wall Street is trying to launch Enron 2.0.

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.



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 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.”

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.

Again 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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