# Chris Cook: Energy Markets are Manipulated in Multiple Timeframes

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***Erik***: Joining me now is Chris Cook, former director of the International Petroleum Exchange (IPE) and now a senior research fellow at the Institute for Strategy Resilience & Security at University College London, as well as an independent energy consultant.

Chris, the reason I've been keen to get you on the show is that you come from a very different perspective than most of our guests, who approach the finance industry from a background of knowledge of economics. As a former regulator, you are an expert on how cheaters cheat and how manipulators manipulate.

With that background and a particular focus on those kinds of things going on in energy markets, you're able to draw from that experience as a regulator of one of the biggest energy markets in the world when you were with IPE. So I'd like to dive into the current situation in WTI as well as the much bigger picture of what's going on with oil markets.

But, before we do, since your background is so interesting, please give us a little bit of color on what you learned about markets from your experience as a regulator and how that experience colors the way that you think about markets today.

***Chris***: Thanks very much, Erik. My experience at IPE was based on a futures market which had two principle contracts. One was cash settled: the Brent contract, based on the North Sea physical market. And the other, which was in my view much more interesting, was the Gas Oil contract, which was deliverable into Northwest Europe.

And I found that there are essentially two types of market games I was looking out for, if you like. One was what I call micro, short-term, which was on the trading floor (which in those days was a floor, until the electronic trading came along and we got high-frequency trading and things like that).

And I found that there were many, many things that went on – all sorts of things like front running, and manipulation of the market on the close, and all the trading games that go on, spoofing the market. And I think of that as micro but short-term.

But then when you get into the physical market, and the games that the big players play in the physical market – which of course I got exposure to with the Gas Oil contract – then I realized that, again, you get very interesting games. Some of them are short-term and some are medium-term and some are long-term.

You would get squeezes, which could be relatively short-term. You would get – I found very big plays. I remember Metallgesellschaft and what went on with that. That was a very, very big international play that was going on.

When I talk about the really macro feature, then we are looking into what we're going to be talking about today, which is sometimes manipulation of markets can go on not just for months but years – as long as 30 years in the case of the tin crisis which happened just before I started regulation. Or there was Hamanaka in the copper market, which was a 10-year manipulation.

So what I will be talking about is the games that can be played at the macro level and also, I think, the market squeezes that you can get to. So that's a bit of context in terms of the regulatory side of the work that I did.

***Erik***: Well I definitely want to come back to that macro picture of manipulation in the long term. But, before we go there, let's briefly touch on a subject that's on everyone's mind which is, suddenly, over the last couple of weeks, time spreads in West Texas Intermediate – the US contract – have utterly exploded at the front of the curve.

Normally, that would be associated with a supply disruption. Now the thing is, Chris, the press is telling us that Syncrude – 360,000 barrels per day – that it's going offline until the end of July is the explanation for why all of a sudden things have been going crazy.

But we've gotten to the point where August futures are trading at a $7 premium above the December delivery contract. Just the first two months have peaked out – we saw more than $3 on September–October and almost $3 on August–September.

So there is this massive blowout. And I think something you and I agree on is this is probably bigger than just Syncrude. Syncrude by itself doesn't really explain this.

So if that's not the full explanation, what the heck is going on here?

***Chris***: Yes, indeed. I think we are very much agreed on that, that Syncrude does not produce enough – maybe 11,000 contracts – to back these market moves. It's something much, much bigger than that, as you say, Erik.

In my view, and this ties in with what I was just saying: There is an underlying market cause. I've seen many, many spikes like this in the markets over the years. These spikes – we saw a beauty in 2008 when the price just peaked to $147 out of virtually nowhere. And these things, in my view, are always down to trading games. The question is, just what is that trading game?

Now my thesis, which is part of where we're going with this, is that this has been a new kind of squeeze, essentially. That the oil which appears to be out there and available is not actually available. And, in my view, the reason for this is that the oil – the economic interest in the oil,

shall we say – is not with the people that the market thinks it is. Okay?

That's what I think has happened here. People are being squeezed and that's why the market is spiking. This is absolutely typical behavior of a squeeze. But it's not the classical sort of squeeze. Otherwise, the traders would have worked it out. It's based on something which is opaque to the market.

***Erik***: So if we look at the reported Cushing, Oklahoma inventory levels, which are still above 35%, you'd think that would be enough.

What you're saying is that the oil is all there. But what's gone on is a bunch of private deals have been put together where somebody owns it and controls it. And the people that you would normally expect to step up and say, hey, there is this huge spread in the first few months – I can arbitrage that spread by delivering my oil into the front month and buying it back a few months later and pocketing a big profit – the people that we assume ought to be doing that – everybody's baffled.

Why are they not doing it?

The answer is those people already sold the rights to that oil to somebody else in some deal that the market doesn't know about. Of course, everybody knows that such deals go on. But nobody ever envisioned that all of the storage that exists is perhaps already tied up and has already been promised to somebody for something in some deal that has not been publically disclosed.

Is that the essence of it?

***Chris***: Yes, with a slight wrinkle, I think, Erik. And that is this. It doesn't really matter who owns or who has the rights to the tanker storage, to the oil tank storage. It is still possible to, if you like, sell and repurchase the economic interest of oil in tank in a private deal, as you say, outside of the market.

You and I could agree that we will buy and sell the economic interest of X thousand barrels. It's just a transfer of title of oil in tank. That's what we're looking at. And the owner of the storage is just a custodian. It doesn't actually matter to him at all.

I remember IPE could make delivery back in the day – and probably still can – of transfer of title in tank. And you get similar things going on in the LME (London Metal Exchange) with metal moving across the line and things like that.

So my thesis is that the economic interest is passing backwards and forwards between people, but not visibly to the market.

***Erik***: Chris, before we move on, you made a reference to 11,000 futures contracts. And I

knew exactly what you meant because we talked about this off the air. But just for our listeners benefit. What that refers to, we are talking about 360,000 barrels per day of production from Syncrude in Canada. Now if there's 30/31 days in a month you multiply 30.5 times 360,000 barrels, you get approximately 11 million barrels of oil or 11,000 futures contracts, in total for the entire outage period. And the point here is that 11,000 futures contracts is not very much, it's not enough to have this amount of dislocation on the market.

And I think the other thing that's important for people to understand is the way that the trade press has reported this: You've got 360,000 barrels of oil coming offline in northern Canada and this is a really big deal, it's going to screw up the delivery into Cushing, Oklahoma.

But wait a minute. The Cushing, Oklahoma supply from Canada comes through the Keystone Pipeline. Keystone is running at capacity. If Syncrude goes offline and that oil is not available to put into the pipeline, there's plenty of Western Canadian Select, I would think, to make up at least for a month.

I don't know exactly what the number is, but they didn't stop filling the Keystone Pipeline to capacity with Canadian oil just because Syncrude went offline. They used other Canadian oil. They're still sending oil from Canada to Cushing at full speed. That hasn't changed. And Syncrude could stay offline for a long time before Canada ran out of oil to keep the Keystone Pipeline going at full capacity.

So this whole *Syncrude explains the whole thing* – it just doesn't add up. It doesn't make sense.

Let's move on though. In the field of physics, researchers are always looking for the so-called unifying theory that pulls together everything and solves all the problems. You've kind of got a unifying theory of market manipulation, for lack of a better term.

Let's consider a few thoughts here.

According to widely accepted theory, the super contango that occurred in 2009 shouldn't really have been possible. That's not supposed to happen. It's kind of an unexplained anomaly.

We hear so much from the trade press about what hedge funds are supposedly doing. And what exactly does that mean? Who are these hedge funds? And, particularly, it doesn't seem like the things we hear that they're doing match the advertised strategy that most of the actual hedge funds and commodity pools that are operating in this market have told their investors they're doing.

I'll give you an example of that: WTI futures that are being sold about two years down the curve by hedgers. Okay, the media tells us and the Commitments of Traders reports tell us, well, hedge funds are buying those contracts. Really? I've yet to see a hedge fund pitch book that describes a strategy for why they would want to buy oil futures two years out in a fairly thinly traded market where there is no liquidity.

There's a lot of these mysteries.

Another one is the EIA inventory swings that are so erratic. The gyrations that we see in the Brent–WTI spread that don't seem to be explained by the obvious analysis of supply and demand in the market. In a lot of ways, you would think there would be some parity between gas and oil pricing if they are each capable of producing a certain amount of BTUs of energy, which is what they get used for. You would think that the gas and the oil would be priced in a way which is so much per BTU. But it doesn't work that way in the real market.

You have this unifying theory of what explains all of these things. You call it "The Big Long." Now, I've got several questions to ask you, but why don't we start with the high-level overview.

What's "The Big Long?" Why do you call it that? And what does it predict?

***Chris***: Yes, indeed. "The Big Long" is basically a damned big position in the futures markets, huge position in the futures market. It's not always as big as it gets. It's probably as big as it's ever got right now. Well over the million contracts open interest.

But over many, many years – since 2004–2005 at least – we've seen massive, massive open interest build and occasionally falloff in the futures complexes. It was mainly in Brent because, for the most part, until the last year or so, this has been primarily a Brent phenomenon. And we'll come back to that.

But, for me, "The Big Long" is – if you look at open interest and the way that it's broken down between the different classes in the COT reports and whatnot, you'll actually see colossal open interest in managed funds for years on end.

And, I'm sorry, but who is it? This is what's fascinated me through all this time. I've got a theory about who it is, or who it's been, which has changed over time as well. And it's not what people think it is.

That's why I call it "The Big Long," Erik. And it has developed over time. Over the first few years, I think, it was essentially a private sector phenomenon, if you like. Until about 2008. What we saw was a flood of money – essentially fund money – came into the market. In those days it was passive funds. You know, it was GSCI, it was ETFs, it was ETPs, huge amounts of financial buying in the futures markets.

But not just in the futures markets, but also – this is my theory – it was being done using the financial techniques that Enron made popular. Which was prepay. This is opaque to the market.

Subsequently, we've gone through further iterations of the market behavior and who's been responsible for it. We don't have time to go into all of it, but what I'm saying is that we have a form of participation in the market, which I call "The Big Long," which is the market has become

financialized. The financial oil market has parted company from the reality of supply and demand.

I'll give you a brief statistic which just demonstrates this.

Between mid-2007 and mid-2009 the oil price went – the benchmark went from $80 to $147 to $35 back to $80. And, in all that time, the actual supply and demand in physical quantity changed by less than 3%.

Now, in my view, that has got literally nothing to do with the actual physical market. It's financial participation in the market which has caused this problem. And what I call "The Big Long" has been instrumental in this.

***Erik***: Chris, let's explore a little bit further some of these things that are supposedly ascribed to hedge funds, what the press tells us that hedge funds are doing.

Now, something that's very well-understood in the market is that the US shale producers have to hedge their forward production. They can't get financing to drill more wells if they don't do that, so it absolutely has to happen. They make that deal with an investment bank. It's usually a cashless collar that's negotiated at the wellhead.

But then the investment banker has to lay off some of that risk that he's just taken on. They do that by selling futures in the futures market about two years out on the curve.

Now, if you look at what the press tells us, what's going on is "hedge funds" – of course, what they're really talking about is the managed money column of the Commitment of Traders reports that the exchanges give us – they're saying "hedge funds" are buying these contracts that are being sold by the shale guys that are hedging, or actually by the bankers of the shale guys.

Well, hang on a second, Chris. I've watched a lot of pitch meetings for hedge funds that trade oil. They're all trading the front of the curve, the first few months. A few of them have strategies across the curve, but even those are sticking to the liquid months. The ETFs are a bit generally exposed in the first year, the first strip. Even people that are trading entire one-year strips are generally trading the first year against the second year.

So we get to two or three years out, I've never seen anybody present a strategy that says we buy futures contracts two and a half years out because the buy-in is good there and an extremely thinly traded market where there is no liquidity to get out of if you ever had to. I've never seen anybody ascribe that. So, if it's not "hedge funds," the way everybody wants to believe –

And this is something – it blows my mind – on Twitter, usually if you ask a question somebody shows up who is smarter than you because they've just got to be in your face about how

they're smarter than you and show you up – you've asked the same question over and over and over and over again about once a week on Twitter, which is: Okay, if these "hedgers" are selling contracts two to two and a half years out on the curve, who is buying them? And what is their motive?

Have you ever gotten a straight answer to that?

***Chris***: No, absolutely not, Erik. You put it so beautifully just then. It is a big question, isn't it? And my theory is that we've actually recently seen that the entire curve has lifted at the same time, hasn't it. We've actually seen the entire curve lift.

It wasn't as though just the front month went up and the backwardation got bigger, although that was the case and is the case. But at times we've actually seen – and I think it is particularly the case in Brent – that the entire curve lifted.

I mean, who is doing that? And why?

And, in my view, what it's to do with is that there are people in the market who are supporting the market price. And there's a big raft of capital in there – it's all basically T-bills going out – in this case it would be two years – so somebody out there is essentially borrowing oil and lending money via T-bills. Okay? Somebody out there who actually has a motive in supporting the price.

Well, no prizes for whom that is likely to be, really. In my view it actually has to be the Saudis who are doing this, or the GCC (Gulf Cooperation Council), or people very close to them. Or if it's not the Saudis deliberately, it's Wall Street using Saudi money to do it.

I'm not saying precisely what the geopolitical motivation of this is. I do know that producers, if they can, will always support prices. And historically they've done it with derivatives – that's what happened with the LME and tin – or they've done it with debt – people have borrowed money.

It's all about funding inventory, Erik. That's what it's all about, you know? If you're going to manipulate the market, you've got to be able to fund inventory. And prepayment, prepay, as Enron demonstrated, is a means of funding inventory which is not visible to the market. Because that's the way they actually arranged it. 70% of Enron's revenues never existed.

So I believe that's what's been going on here, in a very sophisticated way. And that the way it's actually operated has changed in the last year or so. But, again, we'll come on to that.

***Erik***: Well, let me just probe a little bit deeper on this issue of Saudi being responsible for it. Here's what I'm missing: If we were talking about the front month price, certainly Saudi has a clear motive to pump up the price. But when we talk about buying two or three years out on the curve, what that does, buying that far out, it stops the backwardation from getting too deep.

Now, if you're Saudi Arabia, you love backwardation because the effect of backwardation, if nobody was buying those contracts out there, it means the shale guys can't hedge and they can't drill more wells, and that gives you more market share.

So if you're Saudi Arabia, I would contend you want high front month prices. But you want low back month prices in the hedging window. So, if anything, you'd be selling in that area in order to make life harder for the shale guys.

What am I missing in this equation?

***Chris***: Well, I think what you're missing is that what they actually have is the T-bills. They're holding T-bills. And essentially what a T-bill or a whole sequence of T-bills is – for instance, if you look at USO (United States Oil Fund), you'll actually see in their holdings a whole strip of T-bills which underpins the market position that they're taking.

And there is an interesting sideline there, which is Izabella Kaminska and Olivier Jakob at Petromatrix, they did a couple of pieces a few years ago on what happened to the market when USO took these positions in the first place – very interesting background, for those who are interested.

So I believe that what we're seeing is it's essentially lending money over time – which is what T-bills are – against borrowing oil over time – which is what prepay is. And, essentially, what we see is it's the use of the dollar on the one hand and the use of oil on another. It's a swap of oil for dollars, in a sense. On a macro scale.

Now the motivation of Saudi, of course, is – they're not that bothered about losing money on backwardation or stuff like that. What matters is that the price has gone up from $45 to $80 – whatever it is now – and they're making an additional however many $300 million a day.

So, for them, it's a sprat to catch a mackerel, isn't it? They'll lose something on the shape of the curve, but they are making it however many times multiple on actually having the price high. Because the T-bills are essentially underpinning – it's the capital in the market. That's what they're doing, in my view.

And the actual benchmark that is being used has been Brent historically. But, again, there has been a change in the way that works as well, I think.

***Erik***: You mentioned Izzy Kaminska a minute ago, who is absolutely brilliant by the way. I think she was the one who coined the phrase "dark inventory." What does that phrase mean? And how does it play into the rest of this story?

***Chris***: Well, we've already touched upon it. We just didn't name it. Dark inventory is a term for inventory where the economic interest is not with the people you think it is. So it's not out

there in the open, in other words. It's hidden. It's like an iceberg sitting under the market water, if you like. And it's there to trap the unwary people – which I think is what's happened, Erik, right now in the market.

People have actually stumbled across this hidden iceberg under the water of dark inventory, whether it's in Texas or – which is probably where it is – I think it has to be at Cushing or close by – and that's what dark inventory is.

***Erik***: Chris, you have a theory about the true meaning of the phrase "energy dominance," which, of course, has been used in policy statements by President Trump. Specifically, you think Gary Cohn and Rex Tillerson were on a very specific mission that not everyone understands while they were in the White House.

So please give us the overview. What does energy dominance really mean to you? And what did Gary Cohn and Rex Tillerson and their role in the White House have to do with this? How does it all come together?

***Chris***: I see energy dominance as, basically, the US taking back control of the energy market. When I was at the International Petroleum Exchange, the US WTI benchmark was preeminent. But over the period after I left, by about 2001, the market had very much got into – the North Sea Brent contract became preeminent.

And what we then saw was the Intercontinental Exchange came along in about 2001. And one of the key architects of that was Gary Cohn, and also John Shapiro at Morgan Stanley. Their strategy to create the Intercontinental Exchange was very smart. They got the big players on board. And, if you like, liquidity for equity.

And they had a great strategy which created what we know as the Intercontinental Exchange. ICE Europe (Intercontinental Exchange Europe) is what the International Petroleum Exchange used to be.

So over many, many years, we saw the market became financialized. It was essentially a creature of the Wall Street banks. Or, should we say, they were very much in control of it. But the actual pricing was European and was based on North Sea oil. So the US was not actually in direct control of the market, although Wall Street had a lot to do with it.

Now that energy dominance has seen the US taking back control of pricing. It was announced on the 29th of June, last year. On the first of July we actually saw the Saudi pricing reference, which had been for the last 15 years 20 years, back to the start of ICE, the Saudi price reference had been a weighted average of trading on the ICE Europe exchange. Okay?

That's what Bwave was. Brent Weighted Average. And what that enabled was high-frequency trading and whatnot, backed by – particularly by funds – it enabled the price to be supported, if the capital was there to back it.

But what changed on the first of July was it went from being Bwave to basically something closer to the physical market. And through the arb (arbitrage), in my view, it meant that WTI was now in the position to have a lot more influence, if not lead price formation, in the global market. And I Think that is what is now happening.

Now, what we also saw from that point of the 29th of June, that is when a flow of money, of funds – if you look at the charts, you'll see from that point onwards, anything up to 1.4 million contracts of oil and products across WTI and Brent –it flowed onto the market and the price went up over that period.

In my view, that energy dominance, and the re-inflation of the price, went together. And that was part of the policy which was sold to the President. But I believe underpinning it was a separate financial motive which we'll get to. Energy dominance is about control of oil market pricing.

***Erik***: Chris, you have a theory that a lot of what's really going on here in energy markets is about something you call "the oil standard." What do you mean by that phrase? And how does it relate to the petrodollar system, which a lot of analysts think is in a slow motion self-destruct mode right now?

***Chris***: Well, I think the analysts are right. Because what's happening is, what I call the oil standard – you recall the gold standard, which was the dollar was linked to gold. I believe that in the last six weeks or so – well, a couple of months it is now – that oil has been effectively linked to oil through a very, very large position that has been taken on the market. And this accounts for the moves that we're seeing.

We're seeing the tail end of a transition from the – let's call it the petrodollar system, which was about T-bills. Basically, the Saudis (or anybody who actually sold oil), this was the deal. They put their dollars into the US – that was the deal that they did – and they did that by buying T-bills.

Now, I believe that what's happened is that we're now seeing direct prepay. Prepay has, if you like, moved on. Where the prepay used to involve the investment banks as middlemen between the Fed and the markets, I think we're now seeing funding flowing more directly in. It is, if you like, an intergovernmental flow.

It's difficult to go into detail on this, but I think that what we have seen since mid-April – and you yourself started me down this thinking process, Erik, by some of the anomalies that you've spotted from that point onwards – I think that oil is now directly linked to the dollar. The dollar is now actually on what I call the oil standard. It's literally based on oil.

If the oil price goes up then the dollar is going up with it. That's what we're actually seeing. And that means that the relationships that we've seen historically between currencies are breaking

down. And I think that's physical.

Look at the changes that have taken place in emerging markets against the dollar. And we're talking virtually all of them. Look at the changes that have taken place against the Chinese currency, the yuan, in recent weeks, since that particular date.

I think a fundamental change in relationships has taken place. And the reason for that, I believe, is that the dollar has been put on the oil standard. And I don't think the president is necessarily aware of this.

***Erik***: I definitely want to come back to that and what's happened since April 13th and what some of the things are that may be driving this. Because, as you say, the breakdown in that traditional inverse correlation between the dollar and oil has been very apparent and has perplexed a number of people.

But, before we go there, this conversation wouldn't be complete without covering China and the so-called petro-yuan contract, which we've heard so much about, so many different views from different guests on this program.

What do you think the real impetus for this contract's introduction was? Why did they do this? Why did they do it now? And how do you interpret the activity to date? It's gotten more trading volume than most of us thought it would.

***Chris***: Well, the Chinese started the process to go to this exchange a few years ago, when the price was really, really high. But when the price stalled, the impetus behind it fell away. And the reason is it's basically energy dominance. As I said, the market is a sell-side market. It's always been a sell-side market.

And the $300 million a day, or whatever the Saudis are making because of the higher oil price since the first of July last year, is mirrored by $300 million a day more money that the Chinese are having to find to actually fund their purchases.

Now, for me, the reason the Chinese have done this – and it's a matter of market design – this isn't a cash-settle contract. This is a physically deliverable contract. It reminds me of the LME market in that respect. We're talking about a contract the purpose of which is to create a benchmark.

I think the currency is a red herring, quite frankly. I think, yes, it suits people who are selling into China to hedge yuan, if you want to. But you can buy and sell currencies, dollar-yuan, you can actually agree that. You can agree a forward rate at the time you're doing the physical trade. People forget that there is a big lag between doing a transaction and actually performing the transaction, maybe weeks or months later, the actual settlement of the contract.

I think gold – people, again, raise gold in this context. I think gold potentially is useful as

collateral for guaranteeing the credit of the teapots. Because I think one of the rationales for this contract is that you've got all these flakey teapot refiners, independent refiners, in China. And this is a good way of actually dealing with them at arm's length.

You can guarantee the credit by trading with them and delivering to them through this contract. That's what Dubai historically has – a great deal of use of the Dubai contract has been essentially to guarantee the credit of dodgy counterparties.

So the key point, Erik, is geopolitical, in my view. The Chinese are now talking to the Indians. They're talking to all the Asian buyers. They're looking to put together a buyers' club. Imagine an OPEC, but on the other side of the coin.

Not just that, they've actually stashed away 700 million barrels of crude oil in the last three years, including at the rate of 1.5 million barrels a day in the first six months of last year. And they've done this, in my view – this is what I would do in their shoes – as a war chest.

What it means is they are now able to back off in the markets. Basically something like a buyers' strike, if they wanted to – and what then happens to the price?

Well, I think there could be a meltdown, quite frankly. That's what would happen if they made a big thing of it. I think that's not the Chinese way. I think the Chinese quietly will proceed to actually withdraw from the market.

And I think what we could see – and I said this in an article a couple of years ago – we had a super contango in a rising market back in 2009. I think if there is a fall we will see a super-backwardation for the same reason. Because what we will be seeing is false positions, dark inventory, flowing out into the market. And that would create a super-backwardation, in my view.

So the Chinese, in my view, are doing this for geopolitical reasons, for market power. They are now the biggest buyer in the world. They overtook the US. Not all of that buying is for use. In fact, I would say that's one of the things that has clouded the market price, has been the fact that they were stashing away 1.5 million barrels a day. It wasn't being used.

***Erik***: Chris, there is another aspect of all of this that I've been pondering a lot lately. And that is the legalization of US exports. Now, on the surface, what the legalization of export does is it makes it possible to arbitrage that spread. So if the WTI contract is at a dramatic discount to the Brent contract for some reason, it may not be directly possibly to actually buy WTI, put it on a ship, and sell it in the Brent market.

But certainly deliveries that would have gone into the WTI market can be diverted into the Brent market. And you, effectively, by being able to export the lighter grades of US crude, that changes dynamics where we're buying blend stock, heavy oil from Venezuela – well, not so much Venezuela anymore, but Canada and Iraq – and we're exporting the lighter oil that goes

to other places.

There's the obvious aspects of this. But, frankly, as I look at how much has changed in the time that exports have been allowed, and if I look at VLCC (very large crude carriers) exports now from the LOOP (Louisiana Offshore Oil Port) in Louisiana, they are sending massive, massive ships of US oil overseas. Maybe there is a fundamental economic justification for that, but, frankly, it feels to me like there is more than meets the eye to this picture of US exports.

Particularly, I wonder if somebody is gaming the system, trying to get – the US system is the one that is most visible in terms of its reporting. A lot of people gauge the overall health of the global market by what US inventories look like. It makes me wonder, is someone trying to game the Brent-WTI spread in a way that incents exports because their real agenda is to get those EIA inventory numbers down in order to achieve some other goal? I don't claim to know the answers. But it feels to me like there is more than meets the eye.

What is your take on US exports?

***Chris***: Well, I think it flows from the fact that Brent is being manipulated, that Brent is much higher than it should be. If you actually have the spread that high, well, it incentivizes exports, doesn't it? Of US oil.

If, in fact, oil in the far East is set against Brent, but you've actually got a big Brent-WTI spread, well, where else is US oil going to go? Because, basically, the spread is going to finance it.

And that ties into something that – another anomaly – remember in 2011–2012 when you had a $20+ Brent-WTI? And yet we actually saw fleets of Saudi oil coming to the US. I mean, what was that about? I had forgotten that as an anomaly, but what was that about? Why didn't they just dispatch their fleet to the East and get $20 over? But they didn't. They delivered into essentially Motiva, which it was back then.

In my view, this completely smacks of massive geopolitical positions, if you like, in the market – massive manipulation that the market is not aware of. And I think that essentially what exists – if I can put it this way – is a really, really, really big fund book. There is a fund book in both products and in oil. I believe it is the Saudi fund book.

They actually have Motiva, and Motiva has a physical position, which is Saudi oil coming and going. And what we're seeing in the US markets – unannounced, I think, in the futures markets – is a massive Saudi book. It's sitting there like an iceberg in the market and it's causing all sorts of collisions and damage.

***Erik***: Finally, let's try to bring all of these concepts together and tie them in to current markets. As you know, Chris, I have been tweeting like crazy since April that something changed dramatically around the 13th of April. My own lens of looking at this market is very much through time spread and WTI futures, just because that's what I trade in, that's what I've been

studying for years. And all of a sudden, around the 13th of April, things that were totally unprecedented started to happen.

And let me describe exactly what I mean by unprecedented. Certainly we've seen past occasions where the value of these time spreads has moved in a bigger way than it has recently. But normally there is a correlation. Time spreads that are chronologically next to other time spreads tend to move in the same direction. And we'd see a cluster of four months in a row going straight up while the next four months goes straight down. And the four months after that are going sideways.

It's never worked that way before. Something new is affecting this market. And it's almost as if the market sees certain dates on the horizon. Up until this time, there is a reason for things to go this way. From this time to that time, there's a reason for these time spreads to go the other way. As if there are events that are being charted out several months in advance that nobody is telling anybody what they are or what they mean, but the market knows that they're there.

I haven't been able to figure out exactly what's going on. But around the 13th of April, time spreads in WTI just started doing crazy things that I've never seen them do before. I've gone and purchased the market data going back 20 years to analyze these spreads. They're doing things I never thought possible. What the heck is going on?

And, by the way, I don't think it's at all limited to time spreads and WTI. That's where I happen to have my eye focused. That's what I see. But we're seeing a lot of other crazy things going on.

And certainly this dislocation in WTI – you and I both know this is not about 360,000 barrels a day in Fort McMurray in Canada coming offline from Syncrude. Something more is going on in the market. It smacks of being a massive, massive shortage of physical oil in Cushing. But nobody in the industry knows about any shortage of oil in Cushing. If you say, Why is there a shortage? they say, What shortage?

But if you look at what the time spreads are doing, they're telling you there is a massive shortage. This stuff only happens when wars are starting, usually. I mean, if you want to know about what can cause a $6 spread on the first two months that are approaching expiry, normally that happens when a war breaks out unexpectedly. That's the size of event it takes to do that.

It's happening right now and nobody can come up with a better explanation than 360,000 barrels a day and maybe a little bit of impact from Venezuela and Libya. There has got to be more to this.

Do you have any ideas as to what else is going on here?

***Chris***: My thesis is it's a financial thing. Obviously, it's a financial thing. It's not a physical thing. It's about financial oil. And my take is there are financial positions in the market which are not

conventional financial positions in the market that are visible to the market. It's outside agreements, which I believe are prepay agreements.

And these prepay agreements are basically disrupting – As you rightly say, your focus is on oil. Mine is on everything. And there are other traders where you take a similar macro view. There are similar disruptions in everything that we see. All the old relationships, so many changes, which are broken down at that point.

My fundamental point is that I believe this is because oil and the dollar are now linked. And this is by deliberate policy of someone out there. Somebody has done this. And I don't believe it's the government either. This isn't a conspiracy theory. This is a fact. Changes have taken place that are not explainable conventionally.

This is my thesis, that actually oil has been deliberately linked to the dollar.

***Erik***: Well that ties very much in to some theories that I have seen in the past. But we're definitely channeling Izzy Kaminska here with dark inventory theory. We've got to get her on the program. She's absolutely brilliant. I'll have to reach out to her.

But a few years ago a guy named Erik Jansen was writing about a concept he called GAGFO – good as gold for oil. And he was saying the future of the dollar really hangs on what is the market going to think if it, in the past, has valued the US dollar as being good as gold for oil – it's just as good as gold to pay for oil with the dollar. And a lot of people have predicted the breakdown of the petrodollar system would change that. Luke Gromen has talked about good as gold for oil.

So it seems like what's going on is you think that maybe as the petrodollar system is breaking down, which clearly we're seeing. Somebody, an invisible hand of we're not sure who has decided that there needs to be a stronger link between the US dollar and the value of oil so that dollars are always good for buying oil. They are somehow prosecuting that agenda in a way which has changed the historical inverse relationship between the dollar index and oil, and changing a whole lot of other things.

I hate to get into conspiracy theory stuff, but at the same time it feels like something really big is changing. Whether it's a secret conspiracy or just a natural outcome of changes in the global marketplace I don't know, but something really, really big is going on here in terms of disturbance in the force.

Do you have any parting thoughts on this before we close?

***Chris***: Yeah. At the end of the day, the Federal Reserve Bank maintains reserves. I believe that what we're seeing is something more like a central bank of oil, that the reserves against which the dollar is now repo'd – you know how the Fed works, without market operations – what we're seeing is closed market operations.

What is going on in this central bank of oil – and we're talking about not just SPR (Strategic Petroleum Reserve) here, we're talking about the Texas and all the oil in it is essentially potentially monetizable. And that is what is going – that has to be it. The market price needs to be supported, Erik, in order for that to be viable.

The US needs a high price in order to keep this reserve liquid, if you like. So they have an interest in high oil prices. Despite what the president is saying. The US, which is producing, I don't know, 10 million barrels a day, Russia 10 million barrels a day, Saudi 10 million barrels a day. All have an interest in high oil prices.

The other side of the market is not keen at all on this level of prices. And, believe you me, I think there is going to be some action within six months to a year. I really do think there's going to be some buy-side action.

***Erik***: Well, and of course we have President Trump tweeting on weekends about oil prices and what Saudi should do next. But we'll have to leave that for the next interview, in the interest of time.

Chris, before we close, please tell our listeners, first of all, you are very prolific on Twitter – a must-follow in the oil market for anybody interested in this market. But, also, you've written quite a few longer articles. Is there a website or is there a place to go – where can people who want more Chris Cook find that content?

***Chris***: I did write a whole series of articles, for instance, on the Seeking Alpha site. I'm a fan of Seeking Alpha. And if you google Big Long you'll find on Seeking Alpha a whole series of articles I wrote.

But I haven't actually written anything there for a year or so because I was trying to work out what the hell was going on. I just could not work out, Erik, what's going on. I believe I've got there now and I'm planning to write a serious article on Seeking Alpha on this.

I've written in other places as well. There are other places where I've written a great deal. I think it's fair to say – and this is a subject that we've not covered here – energy fintech is something I'm hugely interested in. What is the next generation of financing – what is the energy market of the future going to look like? – is something I work on at University College London, for instance.

My Twitter handle is @cjenscook. And anybody who wants to get in touch can do so with my not particularly secret email cojock@hotmail.com. I have other emails, but that's the best one to reach me on.

***Erik***: Well, Chris, I can't thank you enough for a fantastic interview. Patrick Ceresna and I will be back as MacroVoices continues right here at macrovoices.com.