

Crude oil futures markets: Does NYMEX trade and the decoupling of WTI and Brent affect ICE trade?

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This paper examines the relations between the futures trading activities on the NYMEX and the ICE exchanges, placed in the context of the decoupling of WTI and Brent. The paper analyses the evolution of crude oil hedgers' activities in the NYMEX-traded derivatives and the relations with futures prices and speculators' activities. Derivatives traders are classified according to Commodity Futures Trading Commission (CFTC) categories. The paper analyses the activities of NYMEX crude oil traders according to their open interest positions as reported in both the Legacy Commitment of Trader (LCOT) reports and the new Disaggregated COT (DCOT); the inaugural DCOT report was published on September 4, 2009. The LCOT classifies large traders as commercial, non-commercial, and non-reporting. Historically, commercial traders have been evaluated as representing hedging interests, while non-commercial traders, and to a lesser extent the non-reporting traders, are typically viewed as representing speculators. The DCOT aims to increase transparency particularly with respect to the non-commercial classification of large reporting traders. The trader categories for the DCOT are: (1) Producer/Merchant/Processor/User, (2) Swaps Dealers, (3) Managed Money, (4) Other Reportables, and (5) non-Reporting. Positions are broken into long, short, and spread trades; where spread trades capture predominantly calendar spreads.

The results of the analysis of traders' roles then informs the analysis of NYMEX and ICE trading volume and open interest activity to determine whether or not the apparent infrastructure-driven, structural change in the WTI-Brent price relations affected the trading patterns on either exchange and between the exchanges.

The motivation for this paper is to extend the literature analysing the relations between derivatives market traders and prices and to extend the understanding of the relations among the traders. It also aims to test whether or not speculator trading activity tends to facilitate hedgers' risk mitigation.

To accomplish these aims, the paper analyses the past ten years of trading activity and focuses on the interaction among all traders, their effect on observed prices, and the relations between the exchanges. It employs modern time series techniques to evaluate the relations among classes of traders and on the observed prices for the NYMEX and ICE crude oil futures contracts. In addition to the CFTC open interest data, the analysis includes futures prices, trading volumes, and open interest, sourced from CRB Data.