

# Financial Times: ‘Rogue broker’ blamed for oil spike

7/3/09

Financial Times FT.com, COMPANIES : Oil & Gas

## ‘Rogue broker’ blamed for oil spike

By Javier Blas and Izabella Kaminska in London

Published: July 2 2009 12:07 | Last updated: July 2 2009 20:26

The startling spike in oil prices to their highest level this year on Tuesday was caused by a rogue broker who placed a massive bet in the Brent oil market, triggering almost \$10m (€7m) of losses for his company.

PVM Oil Associates, the world’s largest over-the-counter oil brokerage, said on Thursday it had been the “victim of unauthorised trading”. The privately owned company said that as a result of the unauthorised trades it had been forced to close substantial volumes of futures contracts at a loss.

London-based PVM said it had informed the Financial Services Authority, the UK regulator. But officials at the Commodity Futures Trading Commission, the US regulator, claimed they had been kept in the dark for several hours in spite of an agreement between the watchdogs last year to exchange such market-sensitive information spontaneously.

Oil traders in London and New York said the “unauthorised trading” explained the exceptional spike in business activity and prices in the early hours of Tuesday that some initially thought must have been caused by a geopolitical event. “Trading volumes rose overnight and prices jumped more than \$2 a barrel without apparent justification,” a senior oil trader in New York said.

Prices rose in one hour from \$71 to \$73.5, the highest level for the year, according to Reuters data. In total, futures contracts for more than 16m barrels of oil changed hands in that hour – equivalent to double the daily production of Saudi Arabia, the world’s largest oil producer, and far more than the traditional 500,000 barrels for that time of the day.

Traders said the broker implicated had allegedly accounted for at least half of the unusual activity, with the rest the result of others chasing the rally. Oil prices on Thursday fell to \$66.5 a barrel, down almost 10 per cent from Tuesday’s peak.

The Financial Times has identified the PVM broker as Steve Perkins. PVM declined to comment and Mr Perkins could not be reached. Fellow traders said Mr Perkins was considered an experienced broker, well-regarded in the market.

This is the second episode of rogue trading in the oil market this year. In May, an oil trader at Morgan Stanley was banned by the City watchdog after he hid from his bosses potential losses on trades made under the influence of alcohol.

The incidents come as regulators are considering tougher oversight of the commodities markets after policymakers complained that speculators fuelled last year’s surge in oil and agriculture prices.

The involvement of PVM is ironic considering the company’s head, David Hufton, has been an outspoken critic of speculators in the oil market, calling some of the exchanges “electronic oil casinos”. In 2006, he said that “if futures exchanges did not exist, oil prices would be a lot lower”.

The \$10m loss is a heavy blow for PVM, which reported profits of just \$5.6m in the year to July 2008, according to its accounts.

Additional reporting by Brooke Masters