Monday's spectacular and unprecedented collapse of oil prices is, rightly so, the subject of non-stop commentary. Already considered depressed on Friday's close, at $18.27/bbl., the May NYMEX crude oil futures contract, at Monday's official settlement price, had fallen to negative $37.63, down $55.90.

Most observers asked was how the heck was this possible – how could a futures contract for crude oil fall to minus $37 a barrel? The process by which the negative price was determined was illegitimate, as is the exchange on which it trades, the NYMEX, as well as the owner-operator of the exchange, the CME Group (which also owns and operates the COMEX). Yes, I'm fully-aware that the CME Group runs the largest energy and precious metals derivatives exchanges in the world, but since when did size alone guarantee integrity and legitimacy?

On Friday's close, the May crude oil contract had 108,593 open contracts (1000 barrels per contract). On Monday's close, 13,044 contracts remained open, meaning 95,549 contracts were closed out in Monday's trading. While it's impossible to determine from public data how many of those contracts were closed out at negative prices, clearly the longs got crushed and the short holders raked in profits. In trying to determine who was long and short going into Monday's spectacular price collapse, data from the exchange and CFTC, in the form of the Commitments of Traders and Bank Participation reports are the best source.

Data from the most recent April Bank Participation Report (for positions as of April 7), indicate that 4 US commercial banks held a gross short position of 323,674 contracts or 13.8% of total NYMEX crude oil open interest. In addition, 20 foreign banks held a gross short position of 284,069 contracts or 12.1% of total open interest. Combined, US and foreign commercial banks held a gross short position of

607,743 contracts or 25.9% of total open interest. Since commercial banks held such a large share of the short position in NYMEX crude oil contracts, it is reasonable to conclude they were among the biggest winners in the spectacular oil collapse. The question is whether the big banks were just lucky to be in the right place at the right time, or had much to do with the spectacular collapse?

https://www.cftc.gov/MarketReports/BankParticipationReports/deaapr20f

A week or so ago, on April 8, the CME Group announced that it was prepared for the possibility of crude oil prices going negative and was making appropriate arrangements. Appropriate arrangements? What could possibly be appropriate about negative prices? Negative commodity prices are never legitimate, regardless of the stories concocted to explain them away. Next thing we'll hear from the CME is why gold and silver prices could trade at less than zero. I doubt that would occur if the exchange's big insiders weren't short.

https://www.cmegroup.com/notices/clearing/2020/04/Chadv20-152.html#pageNumber=1

The real culprits are those who have sold us a bill of goods, particularly the exchange operators (the CME Group) and those profiting from the phony computer-generated high frequency trading that has come to dominate the price discovery process. Particularly shameful has been the role of the CFTC, which sits by and lets the CME and the banks (especially JPMorgan) do whatever they want.

This move to negative oil prices (which undoubtedly benefitted JPM again) should concern just about everyone. There is absolutely nothing legitimate about negative oil prices and all the soothing stories about there being no storage only makes negative prices legitimate if we suspend our common sense. It was essentially a less than one day phenomenon that caught unsuspecting longs out of position and unprepared for the impossible to imagine. That’s not legitimate price discovery; that’s little more than highway robbery. It’s time we demand that the CFTC get off its butt and put an end to the phony pricing.

Ted Butler

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(Note to subscribers. I plan on making this article public and still plan to publish a separate article tomorrow).