

The July 19, 2001 Manipulation

Overview

The July 19, 2001 market manipulation is most similar to the strategy described in this chapter in the section titled “An Alternative Variation in Which the Trader Gains Profits From the Downward Movement in Prices.” The July 19 manipulation involved the desk manager, a number of traders, and the EOL Henry Hub next-day gas market maker.

A number of traders entered relatively large short positions in the financial markets through OTC swaps and *Gas Daily* financial swaps. These traders continued to increase the short positions throughout the initial phase of the manipulation, which was the period when the EOL market maker (who was, at times, the desk manager) quickly and steadily raised prices on EOL, resulting in the purchase of a very large amount of next-day physical gas. This purchasing caused prices in the financial markets to rise, but by a lesser amount.

The financial traders stopped increasing their short positions near the end of the EOL market maker’s buying streak at a point when the EOL market maker stopped raising prices and began to hold prices steady at the high levels. Once the EOL market maker leveled out prices, the OTC swap began to fall. The EOL market maker then began to lower the prices and sold a very large amount of gas at rapidly falling prices. The falling of the physical price then further pushed down the OTC swap price, generating significant profits for the financial traders. These profits greatly exceeded the losses that were generated from the impatient buying and selling of the physical gas.

The physical volumes associated with the above physical manipulation were as follows. Prior to the manipulation, the market maker first accumulated a net short position of 124,613 MMBtu. Then the desk manager, acting as the market maker, drove up the price of gas by buying physical gas at higher and higher purchase prices, generating a net long position of 587,237 MMBtu. This reflects that Enron’s net position changed by 711,850 MMBtu. The selling streak that followed resulted in a net short position of 315,191 MMBtu, or a net change of 902,428 MMBtu. The larger amount of sales on a net basis indicates that Enron intended to ultimately push the price down.

According to the financial data, at least eight traders from the Central and East desks (eight traders) positioned themselves to profit from the manipulation in a very timely manner. In the prior June 14, 2001