

JP Morgan has been fined the sum of \$410 million due to improper practices involving price manipulation via its subsidiary JP Morgan Ventures Energy Corp today in California and the mid-west by the Federal Energy Regulatory Commission in the US. Now, the surprising thing is not necessarily the price manipulation, since there are many more that are guilty of that, but the fact that JP Morgan has agreed to pay the penalty but refuses to accept the accusation and denies the violations. Why would you pay if you deny the accusation? Beats me! Maybe someone else has the answer! Or is it because if one pays, silence is bought as well and the story gets lost in oblivion?

JP Morgan: Price Manipulation of Energy Prices!

The total sum of \$410 million will sound like peanuts to JP Morgan, but there will be \$285 million for the federal government and the ratepayers will be getting \$125 million back.

Other companies that have manipulated the prices of energy services in the US also include recently Barclays Bank (which is already in trouble to the tune of nearly £13 billion and has to raise capital through a rights issue to shareholders worth roughly £6 billion as announced today). Barclays got landed with a penalty worth \$453 million from the US. Barclays is also following suit with refusing to accept the accusations of the Federal Energy Regulatory Commission. The FERC decided to uphold the fine and refuse the appeal of Barclays stating: “the seriousness of the violations and [citing] the lack of any effort by Barclays and the traders to remedy their violations”. The penalty dates back to October 2012 when the FERC stated that Barclays had cost other energy firms \$140 million over a 655-day period of trading when Barclays’ traders pushed up energy prices in the US, thus advantaging its own derivatives positions.

In the case of JP Morgan, their traders sold energy in what is known as a ‘day-ahead’ market at very low prices. The power generating companies that JP Morgan was under contract with then put energy production on standby and due to this JP Morgan earned special fees. A day-ahead energy market (DAM) is a market in which energy prices are bought and sold at binding prices that are fixed the day before. They are bought and sold the following day in order to hedge against possible volatility in the energy markets. At later dates, traders would then agree to sell energy from those same production units but at a higher price.

Commodity Prices on the up: Why?

The FERC was informed of the price manipulation as far back as 2011, when the state power-grid operator, System Operator, informed them of possible price manipulation by JP Morgan.

Just last week, JP Morgan issued a statement suggesting that they were considering selling off elements of its physical commodities branch due to

heightened restrictions and regulations that were making working in the sector more and more difficult for the bank.

Manipulation of Commodity Prices

On July 23rd, there was a Senate Committee on Banking, Housing and Urban Affairs that discussed the possibility of banks' controlling power plants, warehouses and oil refineries in the USA. The question that is being raised is that it's the banks that are maintaining the prices of commodities and energy so high in the world today by manipulating the prices. JP Morgan owns all of the stages in the production process of certain commodities and creates artificial bottlenecks in the supply chain so that production is in dribs and drabs. Low production means high prices and control of the market. Goldman Sachs and JP Morganas well as the international investment-management corporation BlackRock control about 80% of the copper stores at the present time in the world, for example. It was the Federal Reserve that allowed such power to be placed in the hands of the investment banks (2008), but now it seems that that might be brought into question. The five-year period in which they were allowed to own such assets will be over in September 2013 (it was set up in the wake of the financial crisis). But, it should have been realized that a monopoly situation was going to be created in the first place, rather than allowing them to buy up and hoard commodities.

While the fine that is imposed on JP Morgan is relatively little for the investment bank it will open up questions as to the validity of having allowed the banks to create cartels in the commodities markets and to turn them into lucrative monopolies that enable price manipulation to the detriment of the customer and the end-user. Senator Sherrod Brown stated that: "When Wall Street banks control the supply of both commodities and financial products, there's a potential for anti-competitive behavior and manipulation".

It only remains to be seen now if the error of their ways will be acknowledged and the pricing of commodities more-freely attributed.