Attention Mr Werner Bijkerk

Sir

we read IOSCO's Consultation Report with great interest.

We understand your questionning being primarily related to the potential impact of HFT in securities and equities markets.

Despite not being involved in those markets, but trading in oil markets, we would like to register with you the concern of our trading organisation vis à vis the growing influence of High Frequency Trading in Oil Futures Markets where Oil Price Formation is taking place.

Our concern encompass the range of topics covered in your report:

- efficiency of the market
- fairness and integrity of markets
- stability and resiliency of markets
- cross-asset contagion and shock amplification

We did express our broad views on these subjects to ESMA in a mail answer to their own consultation on a similar topic, copy of which is attached hereunder.

We would be greatfull if you could relay these views to the various members of the Task Force on Commodity Futures Markets which was formed in September 2008 by IOSCO's Technical Committee for their onwards consideration, and would really appreciate having at a later stage some indication on how Regulators of existing Oil Futures Markets - and tomorrow of OTC derivatives Trading Facilities - do intend to adress the specific issue of HFT in commodities markets.

looking forward hearing from them
best regards

Frederic Baule
General Manager Risk Management Services
Trading Shipping Division.

----- Forwarded by Frederic Baule/GENEVA/TRADING/Corp on 05/08/2011 12:27 -----

From: Frederic Baule/GENEVA/TRADING/Corp
To: "Eva-Christina Smeets" <Eva-Christina.Smeets@esma.europa.eu>@INTERNET
Cc: Joel Couse/PARIS/TRADING/Corp@TRADING
Date: 05/07/2011 19:29
Subject: Re: Questionnaire to the buy-side on the impact of high frequency trading

---

Dear Eva-Christina

many thanks indeed for inviting us to contribute to your study on HFT.

We understand your current study to be primarily focusing on equity markets, following complaints from buy side operators feeling at a disadvantage vis à vis high frequency traders.

As you would expect, the Trading & Shipping Division of Total we are working for, is not trading equity markets. Hence we do apologize for not being in a position to follow your proposed

questionnaire !

Nevertheless we are active participants in oil derivative markets, amongst which oil futures contracts tradable on CME- Nymex and ICE. As such we are long established observers of oil futures markets behaviours as well as of trading strategies developped by various kinds of futures market participants. In this capacity we have been made to believe that algorithmic trading now represents a leading share of the volumes traded daily on all kinds of commodity exchanges, worldwide.

Unfortunately in our segment of the "financial" markets, the lack of public data - even if collated daily by regulators such as CFTC - prevents us to present statistical evidence to support any assertion on how HFT may affect the oil price formation process. As a result empirical evidence of a growing concern amongst physical commodity market participants is the only contribution we can offer you at this stage by quoting different sources which corroborate our own observations. (see below).

The growing use of high frequency trading technics [by what we guess to be a specific and limited set of market participants] may result in oil price levels no longer being set on the basis of oil market fundamentals - be they actual or just anticipated - but instead at best as a result of arbitrage strategies between various financial (electronic) asset classes, or in many cases of an HFT "gaming" of order books originated in various segments of the electronic market by non HFT market participants.

The reason for our own concern in respect of HFT in oil and commodities markets is therefore the following :

- We perceive the concept of having 70% of the price of a gasoline tank or a bread loaf be set by robot trading as highly unlikely to be very popular amongs consumers (our customers)...

- To the contrary, we believe that - when confirmed and made known to the general public - the dominance of such market behaviours - where oil price levels become disconnected from their "intrinsic" values - would appear astonishing to many policy makers and political leaders (given their role for example in the recent decision made by the IEA to have strategic oil inventories be sold in the market to weigh on oil price levels), and be considered as fully unacceptable in many constituancies.
-
- The emergence of all kinds of urgent political requests to terminate such kind of trading practice, forthwith, may induce sudden disruptions in the functioning of specific geographical oil derivatives markets, with collateral damages spreading through the supply chain - including a risk of physical supply disruption -

As a result we do perceive the current uncertainty on who-trades-what-and-how in the oil and commodities markets - and furthermore the lack of awareness amongst policy makers on how those markets do operate - to be a significant threat for the future development of the derivative markets that we - as physical oil market professionals - need to trade on a daily basis so as to implement efficient risk management programs.

We welcome therefore any attempt by Institutions such as ESMA to bring to light those market behaviours such as HFT that could negatively impact the day to day functioning of essential non-money markets such as oil and commodities, and remain at your disposal to expand further on those issues, should ESMA decide to extend its current study to that part of the electronic markets we trade.

Best regards

Frederic Baule

General Manager Risk Management Services
Trading Shipping Division.

Att.1.- Market Professional consensus : in Oil, electronic trading is much less transparent than OTC trading.

Yesterday we talked about the possibility of the IEA information leaking before release and the drop in money managers' positions during the week before. This might explain also the correlation between the euro/dollar ratio and oil prices we saw in the lead up to the IEA a the issue also raises the old chestnut of transparency in oil markets. To the frustratio participants, academics, analysts, and most importantly regulators, continually miss the poin markets. They like to proclaim that Futures Exchanges are transparent, and OTC market would argue the opposite is true. Outside observers may find it difficult to find out what' OTC markets, but the participants know much more about what's happening. It's not di prices, and because it takes two to do a deal, the market itself knows far more about who vital piece of information completely missing from futures markets. The sort of moves that 5th May when futures prices dropped $10, could not have happened in OTC without the mar who was doing the selling. If you want to be anonymous, use the futures market – the exchange might know you're the big seller, but they are not going to tell the rest of regulators want to monitor and understand OTC positions, they can do so easily by means which would be welcomed by the industry. As for pre-trade price transparency – should th be able to see the competing deals being offered to every airline by Airbus and Boeing? answer is no. Why would anyone but a market participant need to see the bid and offer on Front Line IPE Brent before it trades? If market participants think prices are opaque, the about it themselves.

PVM Oil Associates Ltd and PVM Oil Futures Ltd, 117 Jermyn Street, London, SW1Y 6HH. Tel: +44 20 7451 5100. Authorised and regulated by the Financial Services Authority. This report is for distribution to customers as an information service. It does not constitute a solicitation for the purchase or sale of any commodity and is not a financial promotion. Although the information is considered valid at the time of going to press, oil markets are subject to rapid and unexpected movement. Consequently, any persons acting on information in this report to undertake trading in oil futures and forwards do so solely at their own risk. This document is the copyright of PVM and should not be photocopied or re-transmitted without permission. ©PVM 2011.

Att.2.- Commodities Markets impacted by disorderly HFT : worth investigating ?

A series of violent and often inexplicable short-term price moves in commodities over the last two years has shone a spotlight on the growing role of high-frequency trading (HFT) in commodity markets. Here is a list of some of the more extreme moves since the start of 2010.

MARKET: **Natural gas**
DATE: June 9, 2011
PRICE ACTION: Prices <NGc1> fell by 8 percent in just 15 seconds before bouncing back in a matter of minutes. Prices fell from $4.916 per million British thermal units to $4.513 between 25 and 40 seconds past 2342 GMT. By 2350 GMT prices had recovered to $4.802, and by 0800 GMT, natgas stood at $4.827. The drop was preceded by trades in an ever-widening band.
REPORTED CAUSE: Dualing HFT algorithms in thin Asian trade

MARKET: **Oil - Brent and U.S. crude futures**
DATE: May 5, 2011
PRICE ACTION: Prices <CLc1> <LCOc1> fell by as much as $13 a barrel at one stage and posted a near-record percentage loss for the day. Wave after wave of relentless selling drove prices lower, the likes of which has only previously

been seen following a major event such as the collapse of Lehman Brothers.
REPORTED CAUSE: Heavy fund selling, algorithmic traders hunting out sell-stops, fears a bubble had formed in oil

MARKET: **Silver**
DATE: Week of May 5, 2011
PRICE ACTION: After hitting a record high near $50 an ounce, silver prices <XAG=> crashed 30 percent in just one week as exchanges increased trading margins for speculators. On May 2 alone, prices fell 10 percent in thin Asian trade.
REPORTED CAUSE: Margin hikes by exchanges, automated trading on technical signals, heavy fund selling in an illiquid market

MARKET: **Cocoa**
DATE: March 2011
PRICE ACTION: U.S. cocoa futures <0#CC:> crashed more than 11 percent in seconds, shedding $450 a tonne, before recovering by $349 a tonne in the next minute. [ID:nN01424852]
REPORTED CAUSE: A steep fall and six-fold spike in trading volume in the $26 million iPath Dow Jones-UBS Cocoa Subindex <NIB> sparked a fast and furious sell-off on the roughly $6 billion cocoa futures market, dealers said. Many pointed the finger at HFT firms working the arbitrage between the ETF and the futures market.

MARKET: **Sugar**
DATE: November 2010
PRICE ACTION: Sugar futures <0#SB:> tumbled 20 percent over just two sessions, their biggest two-day drop in 20 years.
REPORTED CAUSE: Traders pointed the finger at automated trading and stop-loss sales after it had rallied to a 30-year high in the same week.

MARKET: **U.S. crude oil futures**
DATE: February 2010
PRICE ACTION: Oil spiked by more than $1 a barrel just before the close of trading. Spooked markets fell by 5 percent the following day.
REPORTED CAUSE: Chicago-based Infinium Capital Management's new trading algorithm ran amok in oil. It tried to execute a "lead/lag" strategy between an exchange-traded fund called United States Oil Fund <USO.P>, which tracks oil prices, and the U.S. crude benchmark future, West Texas Intermediate <CLc1>. Infinium placed 2,000 to 3,000 orders per second before its flooded order router "choked" and was "dead in the water" a few seconds later, the developer's notes said. The algorithm was shut down five seconds after it was turned on.