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Trading Frenzy Adding to Rise in Price of Oil

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By [JAD MOUAWAD](#) and [HEATHER TIMMONS](#)

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A global economic boom, sharply higher demand, extraordinarily tight supplies and domestic instability in many of the world's top oil-producing countries — in that environment higher oil prices were inevitable.

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Ángel Franco/The New York Times

The price of crude oil rose 91 cents Friday, to \$71.88 a barrel, on the New York Mercantile Exchange.



Jonathan Player for The New York Times

Oil traders, like these at Barclays Capital, are in demand.

But crude oil is not merely a physical commodity that fuels the world economy; powers planes, trains and automobiles; heats cities; and provides fuel for electricity. It has also become a valuable financial asset, bought and sold in electronic exchanges by traders around the world. And they, too, have helped push prices higher.

In the latest round of furious buying, hedge funds and other investors have helped propel crude oil prices from around \$50 a barrel at the end of 2005 to a record of

\$75.17 on the New York Mercantile Exchange last week. Back in January 2002, oil was at \$18 a barrel.

With gasoline in the United States now costing more than \$3 a gallon, high energy prices may be a political liability for the Bush administration. But for outside investors — hedge funds, investment banks, mutual funds and pension funds and the like — the resurgence in the oil market has been a golden opportunity.

"Gold prices don't go up just because jewelers need more gold, they go up because gold is an investment," said Roger Diwan, a partner with PFC Energy, a Washington-based consultant. "The same has happened to oil."

Changes in the way oil is traded have contributed their part as well. On Nymex, oil contracts held mostly by hedge funds — essentially private investment vehicles for the wealthy and institutions, run by traders who share the risks and rewards with their partners — rose above one billion barrels this month, twice the amount held five years ago.

Beyond that, trading has also increased outside official exchanges, including swaps or over-the-counter trades conducted directly between, say, a bank and an airline. And that comes on top of the normal trading long conducted by oil companies, commercial oil brokers or funds held by investment banks.

"Five years ago, our futures exchange was a small group of physical oil players," said Jeffrey Sprecher, the chief executive of Intercontinental Exchange, the Atlanta-based electronic exchange where about half of all oil futures are traded. "Now there are all sorts of new investors in trading commodity futures, much of which is backed by pension fund money."

Such trading is a 24-hour business. And more sophisticated electronic technology allows more money to pour into oil, quicker than ever before, from anywhere in the world.

In the Canary Wharf business district of London, for example, the trading room of Barclays Capital is filled with mostly young men in identical button-down blue shirts, staring intently at banks of computer screens where the prices of petroleum products — crude oil, gasoline, fuel oil, naphthene and more — flicker by.

Occasionally a trader breaks from his trance to bark instructions to a floor broker a couple of miles away, delivering the message through a black speaker box. Above them is a television screen, where President Bush this week was telling America to "get off oil."

Experienced oil traders are in heavy demand, and average salary and bonus packages are close to \$1 million a year, with top traders earning as much as \$10 million.

The rush of new investors into commodities has meant a rash of new clients for banks like Barclays.

[Lehman Brothers](#) and Credit Suisse have recently beefed up their oil trading teams to compete with market leaders like [Goldman Sachs](#) and [Morgan Stanley](#).

"Clearly the big attraction of commodity markets like oil is that they've been going up," said Marc Stern, the chief investment officer at Bessemer Trust, a New York wealth manager with \$45 billion in assets. "Rising prices create interest."

This year alone, oil prices have gained 18 percent; they were up 45 percent in 2005 and 28 percent in 2004, a performance far superior to the Standard & Poor's 500-stock index, whose gains in these years have been in the single digits. And to some extent, the rising price of oil feeds on itself, by encouraging many investors to bet that it is likely to continue doing so.

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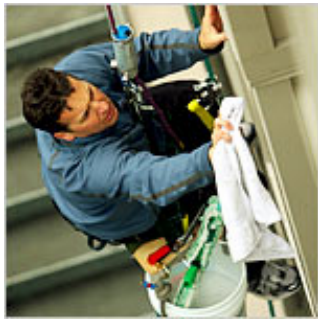
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