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Nymex Crude Open Interest Shrinks as Speculators Exit

By Alexander Kwiatkowski and Grant Smith

June 23 (Bloomberg) -- The number of outstanding crude oil futures contracts in New York fell to the lowest in almost 14 months last week as commercial traders and institutional investors exited the oil market.

Open interest dropped 6.7 percent to 1.31 million on the New York Mercantile Exchange in the week ended June 19, according to data from the exchange. That's the lowest since April 23, 2007. Open interest declined last week for both the commercial and non-commercial categories, according to data from the Commodity Futures Trading Commission.

``Professional speculators and hedge funds are reducing their positions because the higher volatility brings them closer to their value-at-risk limits,'' said Olivier Jakob, managing director of Petromatrix GmbH in Zug, Switzerland.

Open interest has been sliding for months after the number of outstanding crude futures reached a record 1.58 million on July 16, 2007. The decline has come as crude prices have risen to records, reaching an all-time high of $139.89 on June 16.

The July futures contract expired on June 20, and a drop in open interest is often seen after expiry of the front-month contract. The August futures contract on the Nymex traded at $137.27 a barrel at 1:08 p.m. New York time, up $1.91.

CFTC data for the week ended June 17 show open interest fell in both the commercial category, which includes suppliers and consumers of crude, as well as the non-commercial category, which includes hedge funds and other speculators.

Open interest is falling in the non-commercial category because hedge funds are withdrawing from the futures market to trade in non-exchange traded crude contracts, or the so-called over-the-counter market, said Hakan Kocayusufpasaoglu, director of commodity derivatives at Credit Suisse Group in London.

``The hedge funds have become so large that their sizes push them more and more into the OTC markets,'' he said. ``Their size means that they want to do very large volume in each trade. They then tend to go to a bank for instance and do it OTC rather than through the futures markets.''

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