



Hedge Funds Bull Oil Bets Fall to 15-Month Low Amid Rally: Energy Markets

By Asjlynn Loder - Jul 12, 2010

Hedge funds slashed bets that oil would rise last week to the lowest level in more than a year just before crude began its biggest advance since May.

So-called net long positions on the New York Mercantile Exchange dropped 31 percent in the seven days ended July 6 to the lowest level since April 2009, according to the weekly Commitments of Traders report from the Commodity Futures Trading Commission. Oil rose 5.5 percent on the Nymex last week, settling at \$76.09 a barrel as of July 9. It slipped 0.3 percent today to \$75.89 a barrel at 6:30 a.m. London time.

“There’s a lot of fluctuation in the market,” said [Hamza Khan](#), an analyst with Schork Group Inc., a consulting company in Villanova, Pennsylvania. “We’re seeing money managers getting it wrong more often than they’re getting it right.”

Oil rebounded as crude inventories declined amid evidence the economic recovery is on track. Hedge funds suffered their worst second quarter in a decade this year, losing 2.79 percent, according to [Hedge Fund Research’s HFRX Global Hedge Fund Index](#).

Prime brokers such as [Credit Suisse Group AG](#) and JPMorgan Chase & Co. that service hedge funds say that managers are sitting on more of their cash and borrowing less. Credit Suisse’s hedge-fund clients held 24 percent of their assets in cash in June, compared with 19 percent three months earlier, according to the Zurich-based bank’s prime-brokerage unit.

Rising Volatility

Historic 30-day volatility for the most actively traded oil contract rose to 40.3 percent last month, the highest level since September 2009. That compares with 20.3 percent in April. Historic volatility was 31.4 percent on July 9.

“They get whipsawed by these rapid moves,” said [Andy Lipow](#), president of Lipow Oil Associations LLC, a consulting company based in Houston. “The easiest thing is when the market is trending in one direction. Then they can just sit and let it ride.”

Speculative net-long positions in crude oil futures and options combined on the Nymex fell to 50,503 for the seven days ended July 6, the third-largest drop this year, according to the CFTC data.

“It is generally reflective of the incredible indecision out there,” [George Zivic](#), co-founder and chief investment officer of Almanac Capital Management LP, said in an e-mail. “Statistics are proving that much of the optimism of growth which drove length in the markets was premature, and people are just stepping back and reassessing.”

Turned Positive

Oil dropped 5.2 percent in the five trading days through July 6, including a 3 percent decline on June 29, the most in three weeks, after the New York-based Conference Board reported that China’s economy grew at the slowest pace in five years in April and [confidence](#) among U.S. consumers fell. It plunged again after a July 2 Labor Department report showed that employment slipped in June for the first time this year and the Commerce Department said [factory orders](#) decreased more than forecast.

The economic news turned positive last week, pushing oil higher. The global economy will grow 4.6 percent in 2010, the biggest expansion since 2007, the International Monetary Fund said on July 7 in revisions to its World Economic Outlook.

Oil may rise this week as U.S. supplies dropped to a two- month low, a Bloomberg News survey showed. Twenty of 38 analysts and traders, or 53 percent, forecast crude will climb through July 16. Ten respondents, or 26 percent, predicted futures will be little changed and eight saw a decrease.

To contact the reporter on this story: [Asjlynn Loder](#) in New York at aloder@bloomberg.net

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