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BP Loses Trading-Floor Swagger in Energy Markets

(NY Times excerpt) It seems like Wall Street at its worst: a cowboy on the trading floor plots to corner a market, and gets caught. Only in this case, the brash trader did not work for a high-flying investment house — he worked for BP, whose reputation for taking risks in the oil fields is matched only by its daring in the energy markets, traders and industry experts say. The trader's attempt to corner the propane market resulted in the largest fine for market manipulation in the history of the Commodity Futures Trading Commission, a federal regulator, in 2007.

BP, however, remained committed to the aggressive trading that brought in billions annually — as much as a fifth of the company's total profits — according to interviews with experts, government officials and other traders. Now, with BP facing billions in liability claims from the Deepwater Horizon disaster, the trading unit's prospects are uncertain, and the resources the unit once took for granted are threatened.

There are already signs that trading partners are becoming wary of BP's financial outlook; one market participant, Bank of America Merrill Lynch, is halting long-term contracts with BP. The company's deteriorating credit rating — on June 15, it was downgraded by Fitch to one notch above junk bonds — makes it harder for traders to cheaply deploy vast amounts of cash. And with its stock down by more than half since the blowout in the gulf, BP can only watch as rival firms try to poach its best traders.

"A lot of the swagger comes from the amount of money they have to trade with," said Craig Pirrong, a director at the University of Houston's Global Energy Management Institute. "And traders realize they don't have the capital they had just a couple of weeks ago."

It is a humbling moment for a secretive unit that earns the company $2 billion to $3 billion annually and has long inspired fear and envy among rival traders. BP declined to comment for this article.

For all its influence, BP's trading unit is something of an anomaly in the staid world of drillers and refiners. While other oil giants like Exxon Mobil and Chevron shy away from big market wagers, BP employs a diverse array of bets as part of its strategy. Its market wagers on crude oil, gasoline or natural gas can use both physical supplies as well as paper petroleum — in the form of futures contracts and other derivatives.

Even in the outsize world of Wall Street, this is a huge market. More than 137 billion barrels of oil changed hands on the Nymex exchange last year, making it a multitrillion-dollar market, while energy derivatives on the more lightly regulated over-the-counter markets account for a trillion dollars more, according to the Bank for International Settlements.

BP and Shell, another major trader, declined to disclose the size or profitability of their trading units, but experts say BP's operation is twice Shell's size and much more active in the American market. In a 2005 Securities and Exchange Commission filing, BP disclosed that it earned $2.97 billion from overall trading in 2005, with $1.55 billion coming from the oil market and $1.31 billion from bets on natural gas. Analysts estimate that BP's trading profits have remained in the $2 billion to $3 billion range since then, which would be slightly less than 20 percent of the company's $16.7 billion in earnings in 2009.

"They are the 800-pound gorilla in their market and the perception is they don't let you forget it," said Stephen Schork, president of the Schork Group, an industry trading and research firm.

But that swagger has faded since the April 20 accident in the gulf.

With their bonuses likely to be decimated by the company's financial problems, many BP traders are eyeing opportunities at Wall Street firms or with companies overseas. They are among the most sought-after professionals in the sharp-elbowed world of energy trading desks.

At least a dozen have quit since the disaster, with BP losing crucial traders in Singapore, London and Chicago, according to other traders. Several have joined Brightoil, a Chinese oil trading and logistics company, in Singapore.

"Everyone is hovering over that company right now," said George Stein, managing director of Commodity Talent, an executive search firm in New York.

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