



Failure to Trade: The Curious Case of Two Argus Futures Contracts

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Abstract: On January 1, 2010 the Saudi state-run oil company, Aramco, switched its oil-pricing index away from the West Texas Intermediate (WTI) index to the Argus Sour Crude index. In an attempt to profit from this move, both the New York Mercantile Exchange and Intercontinental Exchange Inc. independently launched futures contracts based on the Argus index. However, despite many months passing, not one trade has been placed on either contract. We examine the impact of the Argus contract launches on WTI-Brent crude oil futures spreads. Not surprisingly, we find evidence that the introduction of the Argus futures contracts had little if any impact on WTI, Brent, or WTI-Brent spread dynamics. Thus, both the Saudi index switch and the launch of two alternative futures contracts failed to significantly remedy WTI/Brent pricing anomalies. We attribute the lack of impact not on inadequate contract design but rather on the "Winner Takes All" phenomena. Specifically, market participants refused to switch from the WTI and Brent contracts given those contracts' pre-existing liquidity advantages as well as the fact that a WTI/Brent cross-hedge could already effectively hedge sour crude positions.

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1. Introduction

Beginning in 2007, large divergences between West Texas Intermediate (WTI) and Brent crude oil prices appeared indicating that fundamental factors were no longer completely determining oil prices. Given the wild swings in international oil prices, the Saudi oil company,