

TRENDMACRO LIVE!

On Bush Under Speculative Attack

Tuesday, September 14, 2004

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Yesterday the political futures market in **George Bush's** re-election probabilities, traded online at Tradesports.com, came under what may have been a speculative attack. Having closed Sunday's session at 63.0 (indicating a 63% probability of Bush's re-election), the market experienced intense selling for a two-hour period mid-day Monday, at one point selling as low as 49.6 -- bringing the Bush contract to within a few ticks of the all-time low at 49.0 established on August 12. Once the selling subsided, within an hour the contract recovered back to where it had been before the selling began, and ultimately closed Monday's session at 62.5, nearly unchanged on the day.

All year we have been intensely following these political futures contracts, finding in them a very useful leading indicator both of election sentiment and the equity market. So yesterday's event was a concern to us, both for what it might forecast about the election and for what it might suggest about possible dysfunctions in this small but important futures market.

We spoke overnight with **John Delaney**, CEO of the **Dublin**-based company that operates Tradesports.com. Delaney said that the selling was the action of "a very small number of active traders." He was satisfied that the trades were fully valid economic trades -- that is, they were not the result of a cyberattack on this online exchange. He estimated that the volume involved in the selling was about 12,000 contracts -- a very large volume for this small exchange to handle over a short period. Total volume on the day was a little over 16,000 contracts.

Having closely watched this contract trade all year, and based on many years of watching the interaction of speculative markets and the real world that they both reflect and influence, we don't find it at all far-fetched to think that a politically motivated trader might try to manipulate this market as a means of influencing the presidential election. **George Soros** springs to mind (it wouldn't be his first speculative attack, or even his second). Delaney was unwilling to comment for the record on what might have motivated the selling. He told us, "We don't think it was an attempt to create a signaling effect. If it was, it was wholly a failure. The large number of people watching this market quickly brought it back to an equilibrium price."

We are less sanguine about the motive for yesterday's selling, but we agree that if it indeed was a speculative attack, then it was a failure. As such, this event is a testament to the robustness of even small speculative markets. Of course we can't rule out the possibility that this was *not* a speculative attack, and instead that somebody thinks he knows that something bad for Bush is about to break. Perhaps someone is aware of evidence of some scandal, real or manufactured, soon to be made public. So far the market's not treating it that way, so it's probably not the case. But stay tuned. **TM**