How Spoofing Works

Traders spoof by offering an artificial price for a contract, profiting when they dupe others into buying or selling at that price, as in the hypothetical below.

Part 1

Spoofer offers to SELL a large order of oil contracts at **$45.03** a barrel.

Other **sellers** offer to join him at that price, thinking that the current selling price of **$45.05** is going down.

Spoofer cancels his SELL order and simultaneously BUYS at **$45.03**

Buyers
Market price for buying oil contracts

Sellers
Market price for selling oil contracts

$45.00 a barrel $45.01 $45.02 $45.03 $45.04 $45.05

Part 2 (the reverse of Part 1)

Spoofer puts in a large order to BUY at **$45.04**.

Buyers join him at this price.

He then cancels this BUY order and simultaneously SELLS an order at **$45.04.**

The result is that the spoofer bought oil at **$45.03** and then turned around and sold for **$45.04**, making a profit of **$0.01** on each of thousands of barrels of oil. Using this method to buy and sell numerous large orders can net the spoofer big cumulative profits in just a few hours.

Sources: WSJ review of exchanges guidelines; U.S. Commodity Futures Trading Commission

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