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DJIA Futures ▲ 24796 0.02%

Stoxx 600 ▼ 389.65 -0.16%

U.S. 10 Yr ▲ 1/32 Yield 2.476%

Crude Oil ▼ 59.39 -0.97%

Euro ▲ 1.1893 0.30%

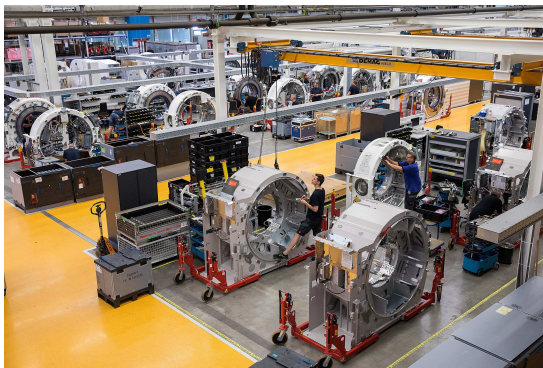
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ECONOMY | EUROPE ECONOMY

Suspect Trading Leads Germany to Change How It Releases Data

Journal analysis showed prices drifting before economic figures were released



Employees work on an assembly line at a Siemens factory in Forchheim, Germany. Economic data releases in the country will no longer be disseminated under embargo, the statistics agency has said. PHOTO: KRISZTIAN BOCSI/BLOOMBERG NEWS

By *Mike Bird, Nina Adam and Patricia Kowsmann*

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Suspicious patterns in the trading of currency futures, discovered in an analysis by The Wall Street Journal, helped prompt Germany's statistics agency to stop sending the sensitive economic data to journalists before the figures are publicly available.

In the minutes before several important German data releases, euro currency futures move as if some traders know what is coming in the release, according to an analysis of trading data conducted for the Journal.

Inflation, growth and other economic indicators can have a sharp impact on currency markets, particularly if the numbers diverge from investor expectations. Germany's is the largest and most influential economy of the 19 countries that share the euro.

An analysis of data from 2012 to 2017 shows that euro foreign-exchange futures tend to drift in the direction that German data would suggest they might even before the numbers are released. Indeed, the futures prices move more in the 30 minutes before a surprise release is published than they do in the 30 minutes after. The analysis was prepared for the Journal by Alexander Kurov, a professor of finance at West Virginia University.

Earlier this week, a spokesman for Destatis, the German statistics agency, said the Journal's analysis had "prompted a discussion as to whether what we are doing is still timely." On Friday, the office said it would stop its practice of providing economic data releases to news agencies under embargo.

Germany's Federal Financial Supervisory Authority also said it is investigating trading

around economic-data releases.

Destatis has been sending data from major economic releases to nine news agencies about a half-hour before they are officially published, with strict instructions not to disseminate until the official time.

At several of the agencies, the data are sent to generic email addresses accessible by multiple employees. Destatis also sends advance releases to four of the news agencies via a password-protected online service.

Among the news agencies to receive early data is Dow Jones Newswires, published by Journal parent Dow Jones & Co.

Destatis said in an email sent to all the news agencies concerned that the move was necessary “to minimize the risk that our data will be disclosed to individual entities (even outside the media) prior to actual publication.”

Because of sophisticated and automated financial-market trading, “even a small, temporal information advantage” would help traders anticipate price changes and benefit from the knowledge, Destatis said.

Dow Jones spokesman Andrew Robinson said in a statement: “Dow Jones takes great care to ensure embargoed information is available to a limited set of editors. We have a clear set of procedures aimed at avoiding the early release of such information before the time specified by the issuer of the data.”

Of the eight other newswires, two—MNI and DPA-AFX—declined to comment.

Bloomberg, Reuters, Agence France-Presse and German service Guidants News didn’t immediately comment. Japanese news agency Jiji Press couldn’t be reached. Michael Hoefele, chief executive and editor-in-chief of DTS News Agency, said he could “rule out” any leaks because “only a very small number of editors” deal with the data. Mr. Hoefele said he regrets the decision to stop the embargoes, which he said had given his staff a few minutes to make the numbers more comprehensible.

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Destatis also sends data ahead of its public release to a small

number of government departments and the German central bank—a fairly common practice in Europe. That practice will remain unchanged, said a spokesman for the agency. He said that Destatis has a “better control” or insight as to who receives the data in advance and trusts that the government departments handle the data with great care.

In the U.S. and the U.K., reporters also get access to data shortly before publication—but they must do so in person at special “lock-in” rooms at a government building where their electronic communications are blocked until the embargo lifts.

Prof. Kurov’s analysis aggregated and examined five years of trading data to see if the market moves in the direction that a surprising data release would suggest it should—before the release actually comes out. The analysis shows a drift that builds in the “correct” direction during the 30 minutes prior to a release’s publication. Prof. Kurov says the drift in the 10 minutes before publication is statistically unlikely to be due to chance.

A similar analysis conducted by Prof. Kurov for the Journal earlier this year showed significant drift in financial markets ahead of British economic-data releases. Britain uses lock-ins when disclosing data early to reporters. But at the time, the U.K.

government also disseminated data electronically to more than 100 people, including policy advisers, ministers and press officers, a day in advance. The government subsequently tightened its distribution list.

There is other evidence that loose dissemination matters in markets. Sweden holds data so tightly that no one outside the statistics office—not even the prime minister—can see it before it is published. Trading in the Swedish krona shows no aberrant patterns. Prof. Kurov's analysis of data releases by France and Italy—two other large eurozone economies—is inconclusive due to their minimal effect on currency futures.

To be sure, there are alternative explanations for the drift in prices. One or more firms could be able to better predict the content of releases based on their own privately collected data.

“There's a herd behavior among bank analysts as their performance is measured in relation to the consensus,” said Ulrich Leuchtmann, head of foreign-exchange research at Commerzbank in Frankfurt. “And traders may be doing a better job with their forecasts.”

But Germany has a history of loose disclosures. A 2006 European Central Bank working paper found that German unemployment figures were generally known to the market before their publication, unlike other eurozone economic data.

In the 1990s and early 2000s, German newspapers would routinely learn about certain economic numbers days ahead of their official release. The giant tabloid Bild would often publish a story in its Sunday edition quoting jobless numbers that would be released on Thursday.

At the time, outsiders including politicians and union officials received advance data. The department responsible for jobless numbers tightened its procedures, and brazen leaks of those figures seemed to slow. “I am not aware that there are similar problems today as there were in the past,” said Thomas Mayer, senior fellow at the Frankfurt-based Center for Financial Studies and a former Deutsche Bank chief economist.

As recently as the late 1990s, large German listed companies would routinely provide their quarterly or annual results to handpicked journalists up to a day ahead of their official release. It wasn't uncommon for newspapers to carry these in news articles ahead of the release.

In a world of rapid trading, even a small edge can be a big difference. “If you go in with 50 or 60 million dollars, then 0.04% is quite something,” said Mr. Leuchtmann of Commerzbank. “Even a return of 0.02% is significant, especially since you can do it very often. If you do it 100 times and you are correct 50 times, than that's a considerable quota.”

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