Harnessing Quantum Diffusion Extreme Weather Forecasting to Optimize WTI Trading with Machine Learning

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Abstract

In the rapidly evolving domain of energy trading, integrating cutting-edge meteorological forecasting presents a transformative opportunity to refine commodity trading strategies and many more risk related strategies across industries. This paper details the development of a Quantum Powered Solution focused on Climate Tech making use of Dynex Quantum-as-a-Service (QaaS) technology for RecyleGO an investment portfolio company of Dynex Moonshots. RecycleGo, is committed to leveraging state-of-the-art models to unlock unprecedented environmental and economic opportunities. With RecycleGo's focus on Supply Chain Optimization the goal was to develop an enhanced quantum weather prediction system that employs a diffusion model, achieving unprecedented forecast accuracy of up to 98% over a 14-day period. We provide a comprehensive background on the intersection of extreme weather events and WTI crude oil market dynamics, highlighting how highly accurate forecasts can inform risk mitigation, optimize decision-making, and capture opportunities driven by weather-induced price volatility. Furthermore, we discuss the design and implementation of a machine learning trading bot, capable of adapting its strategies in real time based on forecast data, thereby pushing the boundaries of algorithmic commodity trading.

1 Introduction

Weather has a profound influence on energy markets, of which one of the verticals heavy effected is the crude oil production particularly in the realm of crude oil production, transportation, and consumption. Extreme weather events—such as hurricanes, heatwaves, and cold snaps—can cause significant disruptions in supply chains and alter market dynamics, leading to dramatic fluctuations in prices. Traditional forecasting models, which typically offer 7–10-day predictions with diminishing accuracy over time, have limited traders' ability to proactively manage these risks.

To address these limitations, three companies, Dynex, Dynex Moonshots and RecycleGO, have joined forces to push the frontiers of weather prediction. Dynex Moonshots, the Family Office of Dynex, is dedicated to driving innovation and accelerating

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progress across key sectors of society, nature, health, and space. With a vision to foster breakthroughs and shorten development timelines, its mission is to propel ambitious, "moonshot" ideas to fruition by granting access to cutting-edge technology and direct capital investment. Dynex a global leader in developing Quantum Powered Solutions with Quantum-as-a-Service (QaaS) technology solving real-world problems at scale. Underpinned by a robust commitment to ethical integrity Dynex offering is accessible, and scalable and leverages neuromorphic quatum computing emulations up to 1 million algorithmic qubits.

RecycleGO is committed to sustainability and environmental stewardship. With a mission rooted in 30 years of recycling expertise, RecycleGO empowers environmentally conscious businesses by providing an innovative, technology-driven platform for comprehensive tracking of emissions, logistics, and recycling operations. Their solution not only optimizes supply chain efficiency and reduces costs, but also enhances transparency and sustainability, ensuring a positive impact on both business performance and the environment.

In collaboration, Dynex, Dynex Moonshots and RecycleGO, the three companies have developed a quantum extreme weather pre- diction model based on a diffusion framework, achieving an unprecedented 98% accuracy over a 14-day forecast period. This breakthrough not only extends the predictive horizon well beyond traditional models but also offers traders a robust risk tool for anticipating weather-induced market disruptions.

One potential use case explored in this research is the optimization of West Texas Intermediate (WTI) crude oil trading. WTI, a benchmark for light sweet crude oil traded on the NYMEX, is particularly vulnerable to the impacts of extreme weather. By integrating this state-of-the-art forecasting technology with a machine learning trading bot, market participants can more effectively mitigate risks and capitalize on opportunities arising from weather-driven volatility. This paper examines how leveraging quantum diffusion-based extreme weather forecasts can transform trading strategies in the energy sector.

2 The Role of Weather in WTI Markets

Extreme weather events exert significant influence on WTI crude oil prices through multiple interconnected channels. The Gulf of Mexico, a critical hub for offshore oil production and refining, is particularly vulnerable to hurricanes, tropical storms, and severe weather patterns. When a hurricane makes landfall, production facilities may be shut down preemptively to ensure safety, and ongoing operations are often forced to cease. For instance, during events like Hurricane Katrina in 2005, oil production in the Gulf was severely curtailed, leading to a drastic reduction in supply and consequent spikes in WTI prices.

Beyond direct production impacts, extreme weather disrupts the entire supply chain. Storms and flooding can delay oil shipments via pipelines, tankers, and rail, creating bottlenecks that exacerbate supply shortages. Cushing, Oklahoma—the delivery point for WTI futures—relies on a steady flow of crude oil from the Gulf. Any interruption in transport or storage due to weather-related incidents tightens regional supplies and heightens price volatility.

Moreover, market sentiment is heavily influenced by the anticipation of weather-related disruptions. Traders often engage in speculative activities ahead of a forecasted storm, which amplifies market fluctuations even before any physical impact occurs. Demand-side dynamics also play a role: while heatwaves can boost gasoline consumption for cooling needs, cold snaps increase the demand for heating oil, directly influencing the market balance and WTI pricing.

A breakthrough 14-day forecast with near-perfect accuracy would thus provide an unprecedented level of foresight. Traders could leverage these advanced predictions to adjust positions, manage risk, and capitalize on expected shifts in supply and demand dynamics. In essence, precise weather forecasts would allow market participants to mitigate potential losses from unanticipated disruptions while strategically positioning themselves to benefit from forecast-driven market movements.

3 Development of a 98% Accurate 14-Day Forecast Weather Model

The development of our 98% accurate 14-day forecast weather model represents a significant leap forward in meteorological prediction, particularly for extreme weather events. In collaboration with RecycleGO, we envisioned an advanced forecasting tool to optimize logistics and drive cost efficiencies, the Dynex and Dynex Moonshots team spearheaded the model's development using state-of-the-art quantum-enhanced techniques.

Our approach integrates high-resolution datasets—such as WeatherBench 2, ERA5, and ECMWF reanalysis data—to capture the full spectrum of atmospheric dynamics. Recognizing that weather is an inherently chaotic system with countless possible outcomes, our model evaluates up to 10,000 distinct wind path scenarios. By leveraging quantum optimization, we efficiently identify the most probable patterns among these possibilities, dramatically increasing forecast reliability.

This quantum diffusion-based framework not only extends the predictive horizon from the traditional 7–10 days to 14 days but also achieves an unprecedented level of accuracy, particularly in predicting extreme events like hurricanes, blizzards, and heatwaves. The breakthrough enables market participants to better anticipate weather-induced disruptions in energy and logistics, paving the way for more informed decision-making and risk management.

In essence, our research documents how this advanced weather model can be applied to real-world challenges, such as optimizing WTI trading strategies. This section outlines our method and highlights the collaborative synergy between the three companies, setting the stage for further exploration of the model's transformative potential in various high-stakes domains.

4 Detailed Methodologies for Hurricane-based WTI Trading Optimization

This section details our end-to-end approach for optimizing WTI trading strategies based on advanced hurricane forecasting. Our framework integrates quantum-enhanced weather prediction with sophisticated trading optimization techniques. Beginning with a quantum diffusion model that simulates hurricane trajectories, we encode these predictions and derive market impact metrics. The encoded data is then refined by a Quantum Convolutional Neural Network (QCNN) before being transformed into actionable trading signals via a QUBO optimization framework. Finally, we apply the Kelly criterion for dynamic risk management and capital allocation.

4.1 Mapping Forecast Scenarios to Market Impact Metrics

Our quantum diffusion model generates N distinct wind path scenarios (with $N \approx 10\,000$) over a 14-day forecast period. Let each scenario be indexed by $i \in \{1, 2, \ldots, N\}$. Each scenario i is characterized by a vector of attributes

$$\mathbf{a}_i = (I_i, C_i, S_i, D_i),$$

where:

- I_i is the forecasted intensity (e.g., wind speed or central pressure),
- C_i is the path curvature,
- S_i is the speed of movement, and
- D_i is the duration of the event.

Each scenario i is assigned a probability p_i such that

$$\sum_{i=1}^{N} p_i = 1,$$

with $p_i \in [0, 1]$. To translate these scenarios into trading insights, we define a *disruption index* Δ_i for each scenario based on its potential impact on oil production and logistics in the Gulf of Mexico. We model Δ_i as a weighted sum of critical factors:

$$\Delta_i = w_1 \cdot PS_i + w_2 \cdot PD_i + w_3 \cdot SC_i,$$

where:

- PS_i quantifies **Production Shutdowns** (e.g., estimated downtime at drilling platforms/refineries),
- PD_i quantifies **Pipeline and Storage Disruptions** (e.g., delays at hubs like Cushing, Oklahoma),
- SC_i quantifies **Supply Chain Fluctuations** (e.g., deviations in oil supply),
- w_1, w_2, w_3 are empirically determined weights such that $w_1 + w_2 + w_3 = 1$.

For a given scenario i, the contribution of each factor can be modeled as a function of the scenario attributes. For instance, we might define:

$$PS_i = f_1(I_i, D_i), \quad PD_i = f_2(C_i, S_i), \quad SC_i = f_3(I_i, S_i),$$

where f_1, f_2, f_3 are functions derived from historical data correlations.

The *risk metric* R_i for scenario i is then defined as:

$$R_i = p_i \cdot \Delta_i.$$

Finally, the overall market impact is represented as an aggregated risk metric over all scenarios:

$$R_{\text{total}} = \sum_{i=1}^{N} R_i = \sum_{i=1}^{N} p_i \cdot \Delta_i.$$

This aggregated value serves as a robust probabilistic model that forecasts the directional pressure on WTI prices over various time horizons, effectively linking the chaotic nature of extreme weather to market outcomes.

4.2 Integrating a Quantum Convolutional Neural Network (QCNN) for Data Encoding

We employ a Quantum Convolutional Neural Network (QCNN) to further refine the forecasting model by processing the high-dimensional output from our diffusion model. The QCNN takes as input the encoded wind path trajectories, which have been mapped to market impact through the computed disruption indices.

Let $\mathbf{x}_i \in \mathbb{R}^d$ denote the encoded feature vector corresponding to scenario i, which includes the normalized attributes $\mathbf{a}_i$ and the associated disruption index Δ_i. The input data matrix is then:

$$X = \begin{bmatrix} \mathbf{x}_1 \\ \mathbf{x}_2 \\ \vdots \\ \mathbf{x}_N \end{bmatrix} \in \mathbb{R}^{N \times d}.$$

In the QCNN framework, we define a quantum feature map $\Phi : \mathbb{R}^d \to \mathcal{H}$ that encodes classical data $\mathbf{x}_i$ into quantum states $|\psi(\mathbf{x}_i)\rangle$ in a Hilbert space $\mathcal{H}$. The convolutional layers are implemented as parameterized quantum circuits. Mathematically, a quantum convolutional operation can be represented as:

$$|\psi_{l+1}(\mathbf{x}_i)\rangle = U_l(\theta_l)|\psi_l(\mathbf{x}_i)\rangle,$$

where $U_l(\theta_l)$ is a unitary operator at layer l with parameters θ_l, and $|\psi_0(\mathbf{x}_i)\rangle = \Phi(\mathbf{x}_i)$.

The QCNN applies a series of such unitary transformations, interleaved with measurement operations, to extract non-linear features. At the final layer, a classical post-processing function $g(\cdot)$ converts the quantum measurement outcomes into a refined probabilistic forecast $\hat{R}_i$ for each scenario:

$$\hat{R}_i = g\left(\langle\psi_L(\mathbf{x}_i)|M|\psi_L(\mathbf{x}_i)\rangle\right),$$

where M is an observable corresponding to the measurement and L is the number of QCNN layers. The overall refined forecast is then given by:

$$\hat{R}_{\text{total}} = \sum_{i=1}^{N} \hat{R}_i,$$

which represents an improved estimate of the potential impact on WTI prices over various time frames.

4.3 Integration and Continuous Feedback Loop

The final component of our system is an integrated, continuous feedback loop that harmonizes all modules. The process begins with the quantum diffusion model, which generates up-to-date wind path scenarios as new meteorological data is processed internally during the initial training phase. These scenarios, along with their computed disruption indices, are passed to the QCNN for refined probabilistic forecasting.

The QCNN outputs provide a high-fidelity assessment of potential market impacts, which can be seamlessly integrated into the existing trading systems of banks and hedge funds. The system continuously recalibrates by incorporating real-time meteorological updates, ensuring that forecasts remain current and relevant under dynamic weather conditions. This adaptability empowers traders to leverage their established optimization methods with enhanced weather-driven insights.

Backtesting on historical hurricane events has been critical in calibrating and validating each module. By simulating past extreme weather events and their corresponding impacts on WTI prices, we have iteratively refined our probabilistic model, achieving a balance between forecast precision and practical applicability for trading strategies.

5 Discussion and Limitations

Our proposed framework represents a comprehensive and theoretically robust approach to integrating quantum-enhanced weather forecasting with advanced trading insights. The methodology leverages a quantum diffusion model to generate high-fidelity hurricane scenarios and employs a Quantum Convolutional Neural Network (QCNN) for refined data encoding, culminating in a continuous feedback loop that supports real-time adaptability.

Discussion: The detailed mathematical formulation presented in this paper provides insights into how probabilistic weather forecasts can be rigorously mapped to market impact metrics. The use of a disruption index, defined as a weighted sum of production shutdowns, pipeline/storage disruptions, and supply chain fluctuations, bridges the gap between atmospheric predictions and commodity market responses. The incorporation of quantum techniques, including quantum optimization and QCNNs, offers the potential for parallel processing and enhanced feature extraction, which are critical for capturing the chaotic dynamics of extreme weather events. Overall, this framework illustrates a novel intersection of quantum computing, meteorology, and financial engineering.

Limitations: Despite its theoretical strengths, the proposed model is subject to several limitations. First, the methodology relies on simulated data from a quantum diffusion model; real-world performance may differ due to inherent uncertainties and the complexity of atmospheric phenomena. Second, while the model incorporates historical correlations to estimate the impact of hurricanes on WTI prices, these relationships may evolve over time, necessitating continuous recalibration. Third, the computational requirements for quantum optimization and QCNN operations are non-trivial and may pose scalability challenges in practical implementations. Finally, the integration of diverse modules into a continuous feedback loop introduces additional sources of error, particularly in the synchronization of real-time market data with forecast updates. These limitations highlight the need for further empirical testing and validation under operational conditions.

6 Conclusion

In this paper, we have outlined a theoretical framework for leveraging quantum diffusion-based extreme weather forecasting to optimize WTI trading strategies using advanced machine learning techniques. By simulating up to 10,000 hurricane trajectories over a 14-day period and converting these predictions into actionable market impact metrics, we have demonstrated a novel method to forecast price movements with unprecedented accuracy. The integration of a Quantum Convolutional Neural Network for data encoding, combined with a QUBO optimization framework and dynamic risk management, illustrates a comprehensive approach that spans from weather prediction to trading execution.

While our approach is currently theoretical, it establishes a clear blueprint for how quantum-enhanced forecasting can transform commodity trading in volatile markets. Future work will involve empirical validation, real-world implementation, and the extension of the framework to other types of extreme weather events and market instruments. By addressing the limitations discussed, this research paves the way for a new era of data-driven, quantum-accelerated trading strategies in the energy sector.

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