# Excessive Speculation in Commodities

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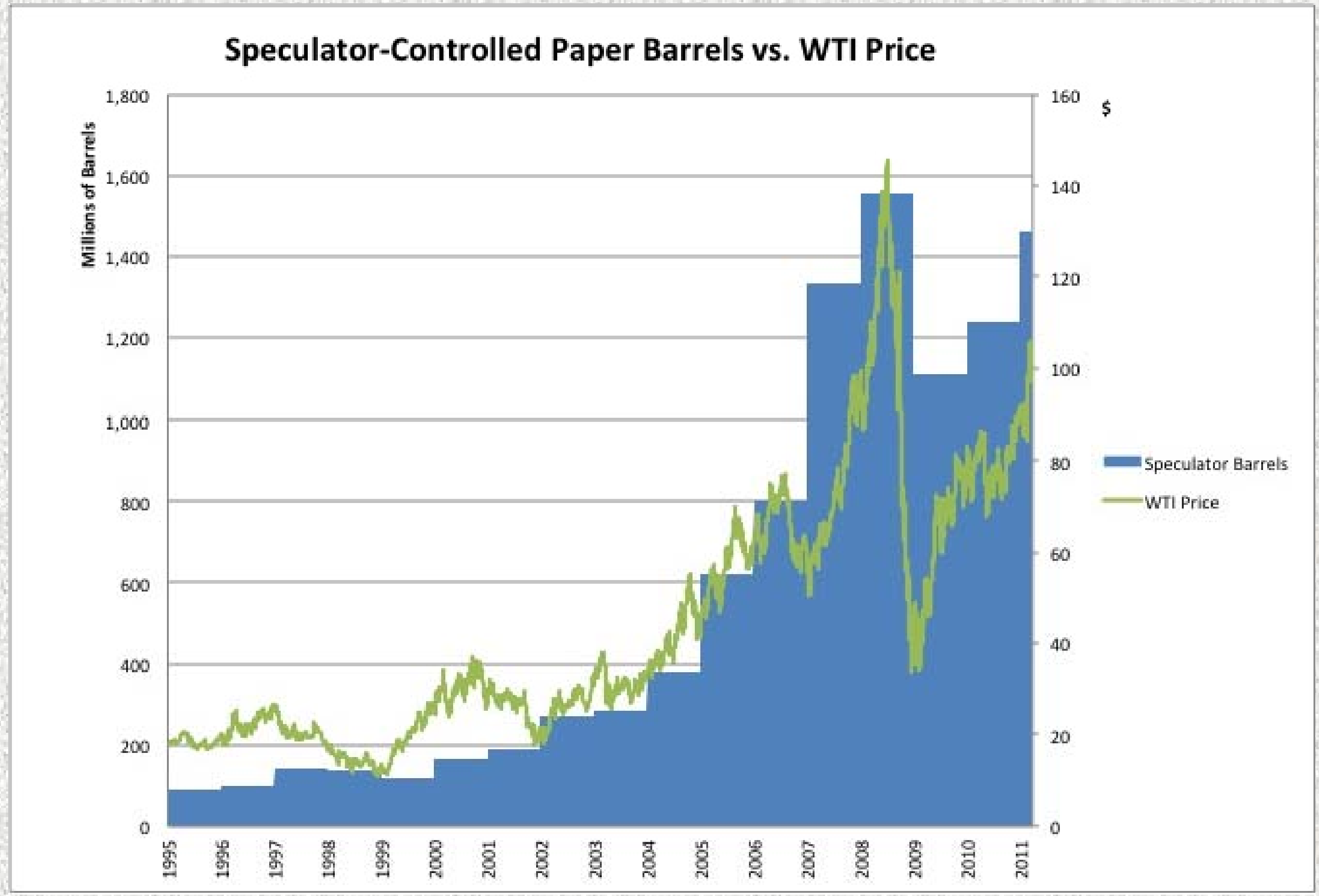
# "Added Liquidity" or Market Invasion?

- ***Opponents of regulation claim that increased speculation has added liquidity.***

- ***Yet, in the late '90s and early '00s nobody complained that there was insufficient liquidity.***

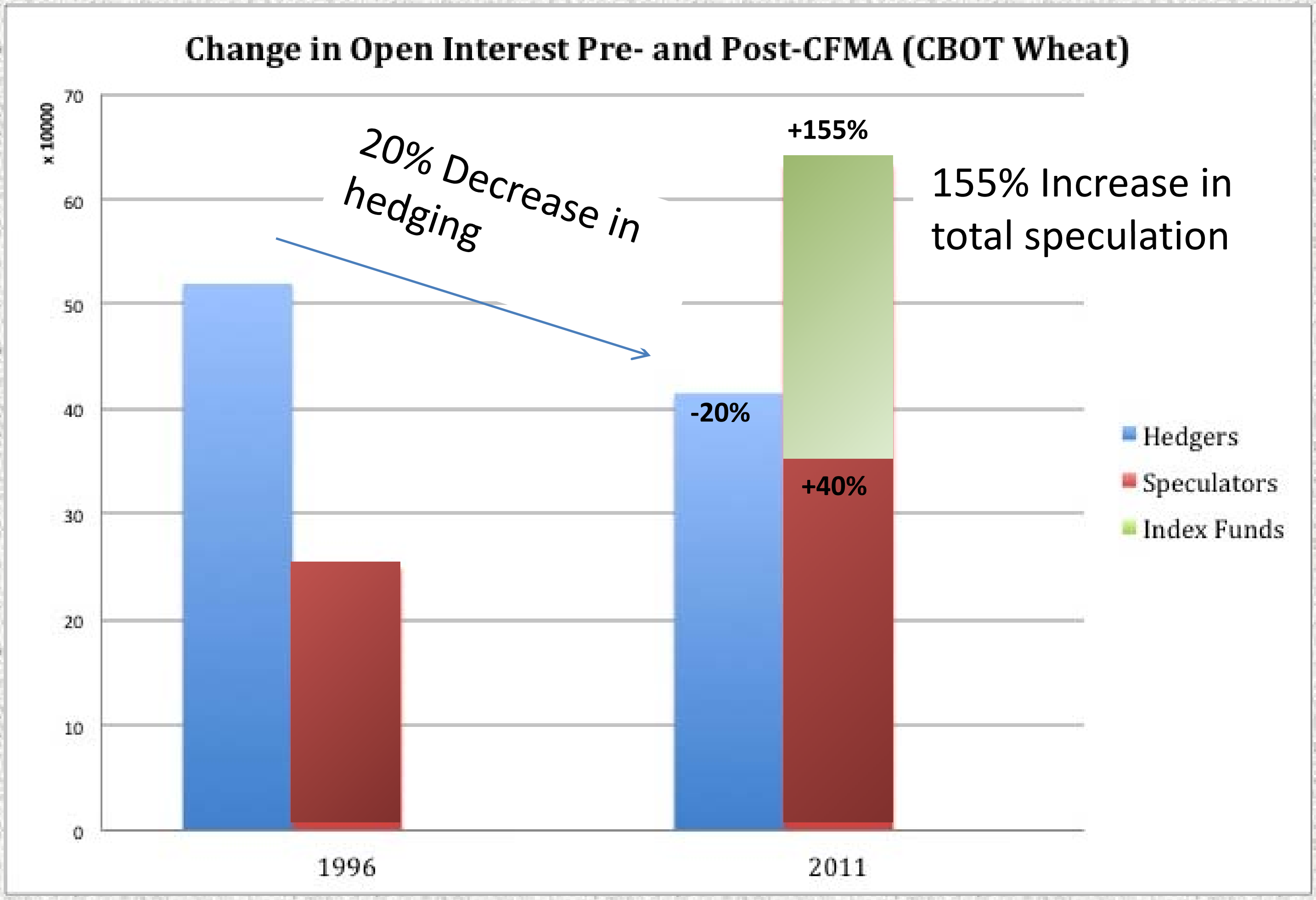
- ***Since then, speculators have increased their holdings by around 4000%. Today, they hold NYMEX contracts equivalent to 1.5 <u>billion</u> barrels.***



# What About The “Primary Constituents”?

**Since Deregulation in 2000:**

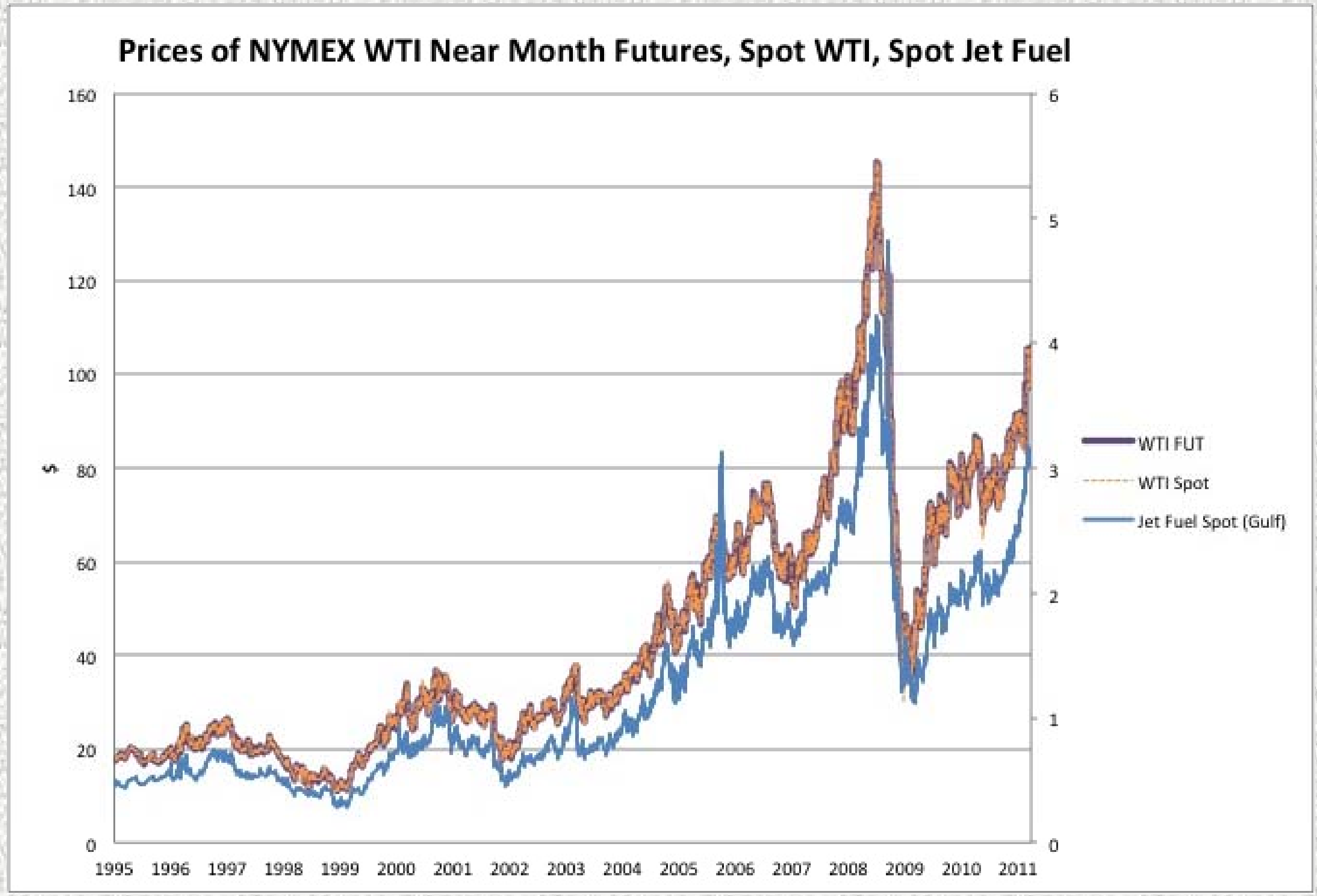
- ***Hedgers used to be 70% of the market, with speculators the other 30%.***
- ***Since CFMA, the ratio has reversed, with speculators 70% and hedgers just 30%.***
- ***Commodity Index Funds are a key component of this change.***



# Futures Prices And Spot Prices Move Together

**Futures prices DRIVE spot prices because:**

- ***Futures prices set the benchmark price for physical auctions.***
- ***Many physical delivery contracts DIRECTLY use futures prices as their reference price.***



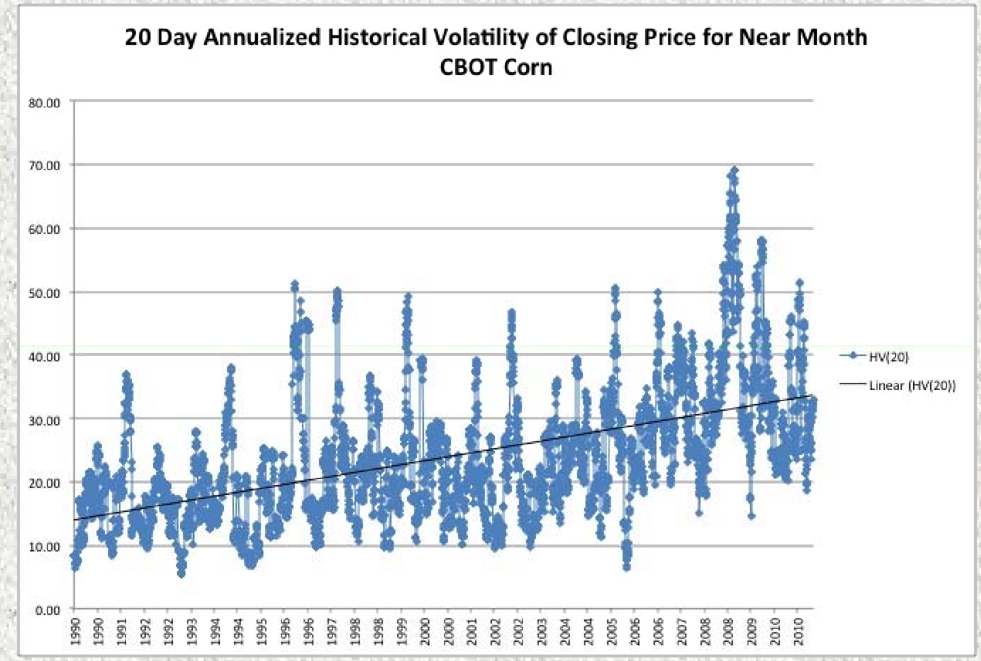
# Excessive Speculation Hurts Producers

- ***Hedging costs more*** because excessive speculation makes futures prices higher and more volatile.
- ***Hedging works less well*** due to non-convergence caused by the presence of structured financial products (Commodity Index Funds).
- ***Physical prices become distorted*** and less dependable because they follow the futures markets.

**Higher Hedging Costs**

**Worse Hedging Value**

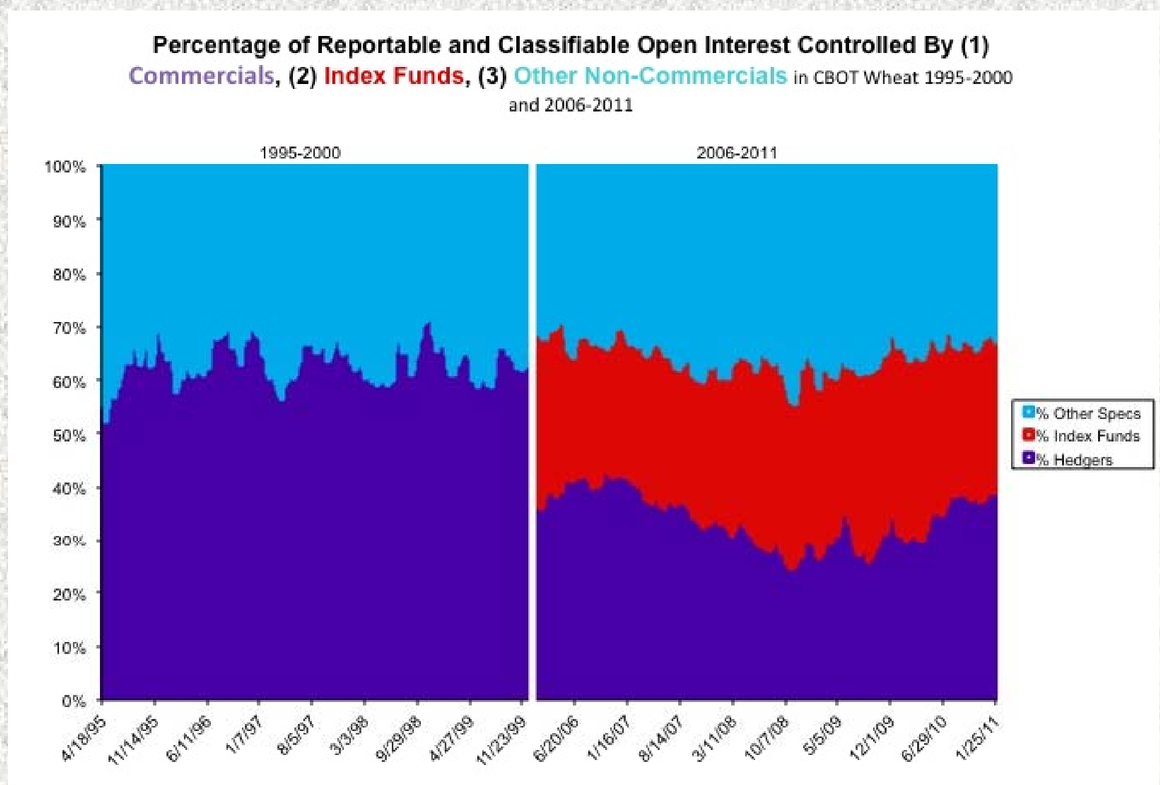
Distorted **Physical Prices**



# What Must We Do To Fix The Problem?

**Restore The Markets To The Structure That Worked So Well Until Deregulation Destroyed It:**

- **The existing CFTC proposal is inadequate to tackle excessive speculation.**
- **We need a <u>30% cap on the overall level of speculation</u> in each commodity market.**
- **Additionally, we need to <u>eliminate or severely limit commodity index traders</u>.**



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