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 billion 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.**

![Change in Open Interest Pre- and Post-CFMA (CBOT Wheat)](chart)

- 20% Decrease in hedging
- +155% Increase in total speculation

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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.

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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 30% cap on the overall level of speculation in each commodity market.
- Additionally, we need to eliminate or severely limit commodity index traders.