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Contact: Tara Andringa 202-228-3685

Investigations Subcommittee Holds Hearing on Excessive Speculation and the New Positions Limit Rule

WASHINGTON – After reviewing over 15,000 public comments on a proposal to combat speculative pressures on commodity prices, the Commodity Futures Trading Commission (CFTC) recently issued a final rule to put trading limits in place to clamp down on excessive speculation and price manipulation. Concerned about the impact of commodity speculation on jobs, families, and the economic recovery, the Permanent Subcommittee on Investigations has called a [hearing for Thursday, November 4, 2011](#), to hear from, among other witnesses, CFTC Chairman Gary Gensler.

“Stable, reasonable commodity prices are critical to our economic recovery and jobs,” said Subcommittee Chairman Carl Levin, D-Mich. “We’re talking about gasoline prices, electricity and heating costs, food prices, computer costs, and industrial metals that together affect virtually every American family and business budget. Those prices need to reflect supply and demand, not speculators’ activities.”

The purpose of commodity markets, unlike stock markets, is not to attract investors, but to enable producers and users of physical commodities to arrive at a reasonable price for their goods and hedge their price risks over time. Prices are intended to reflect supply and demand for the physical commodities being traded. Because those physical goods are used in business on a daily basis, they are vulnerable to price manipulation if someone corners the market on the available supply in a particular month. In addition, speculators, who by definition don’t use the commodities they trade and seek instead to profit from the changing prices, can cause distortions in commodity prices when there is excessive speculation.

To prevent excessive speculation and market manipulation, the Dodd-Frank Wall Street Reform and Consumer Protection Act directed the CFTC to apply position limits, which have capped traders’ holdings of some U.S. commodities for 70 years, to a wider range of commodities, trading instruments, and markets. The new position limits will prevent individual traders from holding more than a specified number of futures contracts or swaps at a specified time, such as during the close of the so-called “spot month” when a futures contract expires and buyers and sellers have to settle up financially or through the physical delivery of commodities.

“A flood of speculative money continues to pour into U.S. commodity markets at unprecedented levels from index traders, hedge funds, money managers, exchange traded products, and mutual funds,” said Levin. “Unlike commercial firms, the speculators’ goal is not to hedge their price risks but to profit from changing prices. So it is no surprise that along with

the rise in speculative dollars, commodity prices have become more volatile, with exaggerated swings that have less to do with supply and demand than with speculators playing the market. The new position limits rule needs to be able to curb excessive speculation.”

The Dodd-Frank Act directed the CFTC to issue a final regulation with the stronger position limits by January 2011, one of the earliest implementation dates in the law. While the CFTC missed that deadline by ten months, it published the long-awaited regulation last month. The Subcommittee hearing will focus on how the new position limits rule will address the problem of excessive speculation and price manipulation in U.S. commodity markets.

“Until effective position limits are actually in place, American families and businesses will remain vulnerable to excessive speculation and violent price swings,” said Levin.

Since 2002, the Permanent Subcommittee on Investigations has conducted a series of investigations into commodity prices, focusing on how excessive speculation in the futures and swaps markets has distorted prices, overridden normal supply and demand factors, and pushed up prices at the expense of American consumers and businesses. Those investigations resulted in reports and hearings examining the role of speculation in gasoline, oil, natural gas, and wheat. A 2007 hearing examined, for example, how a single hedge fund, Amaranth, distorted natural gas prices, while a 2009 hearing examined how commodity index traders, in the aggregate, distorted wheat futures prices compared to cash prices.

At the Thursday hearing, in addition to the CFTC chairman, the Subcommittee will hear from a panel of experts representing business, consumers, and academia. The hearing is scheduled to begin at 9:00 a.m. in Room 342 of the Dirksen Senate Office Building.

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