

CFTC Should Set Trading Limits in Energy Markets

July 28 (Bloomberg) -- Petroleum marketers citing distortions in oil and gas prices are calling on the Commodity Futures Trading Commission to impose limits on speculators rather than leaving the market to set rules for itself.

At the start of three days of hearings in Washington, the CFTC will field opinions from fuel buyers, investors and exchanges on ways to police energy speculators. The Petroleum Marketers Association of America and Intercontinental Exchange Inc., the second-largest U.S. futures market, plan to say they want the CFTC to set position limits in energy markets.

“It is abundantly clear that large-scale, institutional investors speculating in the energy markets continue to act as the driving force behind energy prices,” Sean Cota, treasurer of the Arlington, Virginia-based Petroleum Marketers Association, said in his prepared testimony to the CFTC.

CFTC Chairman Gary Gensler is considering imposing federal limits on speculative trading on markets of “finite supply,” particularly crude oil, natural gas and other energy products, according to a July 7 statement. Lawmakers and consumer advocates blamed speculators for last year’s rise in crude prices to a record \$147.27 a barrel and called for CFTC action.

Atlanta-based Intercontinental Exchange, which says speculation may not be to blame, does support parameters set by the CFTC, rather than having to adhere to position limits and hedge exemptions now set by competitor CME Group Inc. for some products.

“Having one exchange administer an aggregate position limit scheme across the market and competing venues is rife with potential conflicts of interest,” ICE Chairman and Chief Executive Officer Jeffrey Sprecher, said in prepared testimony.

‘Best Position’

CME Group disagreed, saying it was in the “best position” to impose any limits in energy markets.

“CME Group’s ability to establish position limits that will not have severe adverse consequences to its markets and to administer those limits fairly and rigorously is well-established,” the Chicago-based company’s chief executive officer, Craig Donohue, said in prepared testimony.

The hearings are being held today, tomorrow and Aug. 5 and will also include testimony from JPMorgan Chase & Co., consumer advocate Public Citizen and Representative Bart Stupak, the Michigan Democrat who has sought to expand the CFTC’s power.

Among the questions the agency will ask is whether it needs additional authority from Congress to apply the limits across all markets, Gensler said July 7. In a June 30 interview, the chairman, who took office in May, said he had called on CFTC staff to review all available options for ensuring fair markets.

Lacking in Knowledge

Cota said in his testimony there are “unwitting speculators” he termed “investulators” who are “so large and lacking in fundamental knowledge of commodities trading that they have dramatically distorted these markets.”

Cota’s association represents about 8,000 marketers and resellers of petroleum products, including gas stations, heating-oil companies and bulk storage facilities. In addition to serving at the petroleum marketers’ group, Cota is president of Cota & Cota Inc., a family-owned home heating fuel provider in Vermont and New Hampshire.

Gensler said in a letter to lawmakers earlier this year that speculators contributed to an asset bubble in commodities in 2008. His statement broke from former CFTC Acting Chairman Walter Lukken, who testified to Congress on Sept. 11 that there wasn’t “strong evidence” index traders were driving up prices.

Showing Restraint

Sprecher said the agency should show some restraint by refraining from imposing “hard” position limits across all months, and instead setting “accountability levels.” Those levels, when exceeded, would prompt greater regulatory attention during those months when a contract isn’t expiring.

Setting hard position limits across all months could drain market liquidity, impede price discovery and drive market participants off of exchanges, he said.

“No quantitative study has shown that speculation in futures markets was the cause of increased energy commodity prices in the past year,” Sprecher said in his testimony. “Indeed, it is telling that commodities for which there is no active futures market experienced similar price increases as those for which there are active futures markets.”

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