

Financial speculation seen boosting oil price

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LONDON (Reuters) - Financial speculators in oil are costing consumers at least \$300 billion a year, according to almost 75 percent of industry players surveyed by Reuters.

The poll was of more than 40 major figures in the oil industry, including traders and analysts at some of the largest banks, trading houses and oil companies.

Of these, 73 percent thought increased speculation had boosted prices above the level dictated by supply and demand, with only 17 percent saying it has had no impact.

Many of those surveyed said it was hard to quantify how much speculation has raised prices by, but estimates ranged from around \$10 to \$30 a barrel. If prices are \$10 a barrel higher than dictated by supply and demand, producers are earning an extra \$6 billion a week globally, or more than \$300 billion a year.

The role of speculation in oil has become increasingly controversial as financial investors have poured money into commodities, changing the shape of markets that were traditionally the preserve of major industrial producers and consumers.

Many financial participants have publicly denied the accusation they boost prices in the past, but the confidential poll of bank analysts, traders, hedge funds, brokers, refiners, exchanges, consumers, consultants and academics found a clear majority think increased regulation is necessary.

"My opinion is that investment inflows into the market over the last years did contribute to the price increases, and heightened speculation brought more volatility," Commerzbank analyst Eugen Weinberg said.

The U.S. Commodity Futures Trading Commission (CFTC) has moved to rein in speculation in energy and commodity trading, especially oil, and has proposed limiting the number of futures contracts financial players can hold at any one time.

The position limit proposal stems from the spike in oil futures prices to a record of almost \$150 a barrel in 2008. Even though CFTC economists said the surge was due to supply and demand, just over a quarter of those polled by Reuters share that view.

Oil is currently trading around \$83 a barrel having doubled in price since the start of 2009. Many economists have warned higher oil prices risk derailing the recovery as the global economy heals from the biggest financial crisis in 70 years.

But while 64 percent of those surveyed favored increased regulation, only 41 percent said the current CFTC proposals would be successful. Almost a quarter said the limits did not go far enough or saw ways for traders to circumvent the rules, while 35 percent said they risked doing more harm than good.

"The proposed position limits are much too large," said Paul Cicio, President of the Industrial Energy Consumers of America (IECA).

"It will have insufficient impact to curb excessive speculation unless they take action to reduce the total amount of speculative positions relative to bonafide hedgers and ban passive index speculative trading."

The period for public comments on the CFTC proposals ended on Monday. Comments received so far illustrate the gulf between many financial investors and traditional large consumers like shipping firms, airlines and other energy intensive industries. In official comments submitted to the CFTC, the world's second largest container shipping firm and the U.S. Air Transport Association have urged the Commission to adopt limits, while warning the proposals do not go far enough.

On the other side, every one of the financial players to have filed a comment has opposed the Commission's proposal, arguing they risk reducing the ability of physical commodity consumers and sellers, including small retail investors, to hedge against price risks and inflation.

Commodity investments hit \$283 billion in early 2010, according to Barclays Capital.

"The oil markets are the messenger when it comes to supply and demand fundamentals. I think too often we want to kill the messenger," said PFGBest analyst Phil Flynn in Chicago.

"With the huge growth of China in recent years, we have had some of the greatest demand growth ever for commodities. The value of speculators coming into the market is that they allow the needed investment in future supplies."

World oil demand is estimated at around 86 million barrels per day this year, the highest ever level according to the International Energy Agency.

(Additional reporting by Ikuko Kurahone, Chris Baldwin and David Brough in London, Roberta Rampton and Christopher Doering in Washington, Joshua Schneyer, Matthew Robinson, Edward McAllister, Janet McGurty, Haitham Haddadin and Rebekah Kebede in New York)