Submission on a Revision of the Markets in Financial Instruments Directive

Public Consultation by the European Commission
Directorate General Internal Market and Services

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About WEED

*WEED – World Economy, Ecology & Development* is a Berlin based specialist think tank and advocacy organization that has worked on global finance issues for about 20 years. It has outstanding expertise on the development impact of the international financial system. WEED regularly testifies to the German parliament, and recently also to the IMF on financial transactions levies. WEED has been part of several EU funded projects on international financial markets, currently implementing two of them (one of them called “Towards a Global Finance System at the Service of Sustainable Development”). For more information please see [www.weed-online.org](http://www.weed-online.org).

General remarks

Financial markets must serve the whole society and the whole economy. Therefore, we consider the MiFID’s main objectives as stated in the introduction of the consultation paper to be too narrow. The MiFID should not only improve the competitiveness of EU financial markets and protect investors but also support universal access to finance, prevent harmful effects of financial markets to society and prevent abusive economic power of financial markets within the economy.

We think that derivatives in general have been treated with regulatory lenience for too long a time. They have contributed not only to the current financial crisis but also to former ones like the Asian one. At least, their risk management function has proven to be illusionary. As former long-time derivative trader Satyajit Das puts it, “in truth, a good chunk of the activity in the derivatives markets is driven by speculation.”

Therefore, regulatory approaches should also treat this not only as a risk managing instrument but as a speculative one.

Our particular concern is commodity derivatives markets. We consider it crucial that these markets are regulated distinct from other derivative markets as the underlying commodities are different from interest rates, currencies, and equity shares or other. This applies firstly to the purpose of the commodity derivative markets which is to serve end users to hedge their risks. Secondly, any disruption of these markets is of vital importance for billions of people, many millions of them even in danger of hunger when an abuse, a bubble or another problem occurs in commodity derivative and commodity markets.

We assume that financialisation of commodity markets, leading to excessive speculation is a major problem of today’s markets. Even if we do not state there is strong evidence for a negative impact of speculation in commodity markets in general, we think that there is strong evidence for a negative impact of excessive speculation. Such a negative impact has been acknowledged twice by US Senate investigations as well as by numerous scientific studies from scholars all around the world. In the annex to this submission you find a list of scientists’, analysts’ and public institutions’ evidence on the negative impact of speculation of different kinds.

In this respect, we also would like to remind the Commission that on any economic question of importance there is no 100% proof possible, not 90% or 80%, or even less. Economics de facto is both an empirical and a social science which deals with lots of uncertainties. On all economic questions, various opinions co-exist. However, political decisions have to be, and are taken, many of them with less evidence than exists on financialisation and excessive speculation. Finally, where evidence on which to base policy is inconclusive, a precautionary approach should prevail. The burden of proof is with the speculators not with its critics.

Therefore, action has to be undertaken in order to prevent excessive speculation. We call on the Commission to take the attached evidence into account, and to go clearly beyond only improving transparency when regulating the derivatives markets. Limits on prices and limits on speculators’ positions and in part even prohibition of investments are imperative in this respect. We thank the Commission for the opportunity to answer to this consultation and would like to comment on the consultation document as follows:

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2. Developments in Market Structures

2.1 Defining admission to trading

(1) What is your opinion on the suggested definition of admission to trading? Please explain the reasons for your views.

We support the approach to have an admission like this. Financial instruments should generally be tested or scrutinized by the regulator before trading is allowed. The burden of proof should be with the issuer of a financial instrument and not with the regulator. In cases where the effects of a financial instrument are unclear, a precautionary approach should prevail.

2.2 Organised trading facilities

(2) What is your opinion on the introduction of, and suggested requirements for, a broad category of organised trading facility to apply to all organised trading functionalities outside the current range of trading venues recognised by MiFID? Please explain the reasons for your views.

We think MiFID should cover all relevant markets, leaving no loopholes for traders.

(5) What is your opinion about converting all alternative organised trading facilities to MTFs after reaching a specific threshold? How should this threshold be calculated, e.g. assessing the volume of trading per facility/venue compared with the global volume of trading per asset class/financial instrument? Should the activity outside regulated markets and MTFs be capped globally? Please explain the reasons for your views.

We think this is necessary in order to secure the markets. The threshold should at least secure that no relevant loophole for trading will be created.

2.2.3 Trading of standardised OTC derivatives on exchanges or electronic trading platforms where appropriate

(8) What is your opinion of the introduction of a requirement that all clearing eligible and sufficiently liquid derivatives should trade exclusively on regulated markets, MTFs, or organised trading facilities satisfying the conditions above? Please explain the reasons for your views.

We support such a requirement as we think that this would lessen the risk in the market. The problem in the US has partly emerged with the Commodity Futures Modernization Act from 2000: oversight in the OTC market, especially for oil, was abandoned by then. Therefore, the CFTC did lose the control and the oversight over these markets and the 2007/08 oil price bubble occurred. Also agricultural swaps will be brought back by the CFTC with the implementation of the Wall Street Reform Act from 2010 after the bad experience with the OTC trading. Next to this requirement, however, an accompanying regulation and limitation of trading needs to be implemented as the clearing will not eliminate all risks from the market.

(11) Which market features could additionally be taken into account in order to achieve benefits in terms of better transparency, competition, market oversight, and price formation? Please be specific whether this could consider for instance, a high rate of concentration of dealers in a specific financial instruments, a clear need from buy-side institutions for further transparency, or on demonstrable obstacles to effective oversight in a derivative trading OTC, etc.

Position limits could prevent concentration of dealers (see also answers to questions 146-148). This is especially important in commodity markets. Furthermore, price limits could prevent negative impact of panic reactions and therefore would improve price formation. As trader Paul Tudor Jones has recently pointed out in a speech at a CME conference: "Every exchange traded instrument including all securities, futures, options and any other form of derivatives should have some form of a price limit. And this is all the more urgently needed now that electronic execution dominates trading."²

2.3 Automated trading and related issues

We generally think that High Frequency Trading poses risks to financial markets. The speed of trading has reached a level which makes any kind of economic reasoning on price discovery quite impossible. If one assumes that information has to be evaluated by human beings, automatic high frequency orders in combination with chart trading cannot contribute to reasonable information input.

The May 2010 Flash crash at the New York Stock Exchange has demonstrated this clearly. As CFTC Commissioner Bart Chilton said in a recent speech, “Given our experience with the Flash Crash and mini flash crashes, it is appropriate to consider if there should be limits on high frequency trading.”

(13) Is the definition of automated and high frequency trading provided above appropriate?
We support the definition.

(14) What is your opinion of the suggestion that all high frequency traders over a specified minimum quantitative threshold would be required to be authorised?
We support such authorisation but think this alone would be insufficient.

(15) What is your opinion of the suggestions to require specific risk controls to be put in place by firms engaged in automated trading or by firms who allow their systems to be used by other traders?
We strongly support such specific controls.

(16) What is your opinion of the suggestion for risk controls (such as circuit breakers) to be put in place by trading venues?
We strongly support the introduction of circuit breakers; they hinder and also lessen irrational exuberances on markets.

(19) What is your opinion of the suggestion that high frequency traders might be required to provide liquidity on an ongoing basis where they actively trade in a financial instrument under similar conditions as apply to market makers? Under what conditions should this be required?
We strongly support this requirement. It would throw some sands in the too-fast wheels of HFT. The liquidity problems of banks have proven to be catastrophic for the banking system in the financial crisis. Liquidity requirements would lessen the danger of too risky trading.

(20) What is your opinion about requiring orders to rest on the order book for a minimum period of time? How should the minimum period be prescribed? What is your opinion of the alternative, namely of introducing requirements to limit the ratio of orders to transactions executed by any given participant? What would be the impact on market efficiency of such a requirement?
We strongly support this requirement. We think this is a good measure to slow down the markets and curb unnecessary speculation and liquidity. This kind of rule should especially apply to commodity markets.

3. Pre- and Post-Trade Transparency

◆ 3.2 Equity-like instruments

(33) What is your opinion about extending transparency requirements to depositary receipts, exchange traded funds and certificates issued by companies? Are there any further products (e.g. UCITS) which could be considered? Please explain the reasons for your views.
We are strongly in favor of higher transparency for all equity-like instruments. This is especially important for any commodity investment which has been made by UCITS funds and by commodity ETFs. These forms of investment are becoming more and more important for commodity markets. Therefore, transparency on their trading is necessary in order to measure the effect of their investments appropriately. Transparency is a precondition to make decisions on possible limits or bans.

◆ 3.5. Over the counter trading

(42) Could further identification and flagging of OTC trades be useful? Please explain the reasons.

Yes, this could be useful. The opacity of OTC trading was one reason for the built up of the asset bubble that led to the financial crisis, and then exacerbated the situation when the banks had lost any confidence in each other and stopped their mutual lending. Another example is the OTC bubble that occurred in several US commodities markets, e.g. in the oil market, or also in the cotton market in 2008. In both cases, large OTC trading especially by index traders – at least in part – caused a price bubble. However, the effects are not fully assessable due to the insufficient reporting. This could be improved by better identification and flagging of OTC trades.

5. Measures specific to commodity markets

◆ 5.1. Specific requirements for commodity derivative exchanges

(60) What is your opinion about requiring organised trading venues which admit commodity derivatives to trading to make available to regulators (in detail) and the public (in aggregate) harmonised position information by type of regulated entity? Please explain the reasons for your views.

We think that such a requirement would improve the trading. At the moment, there is hugely insufficient reporting in the EU and regulatory and political decisions lack a sufficient data base. The situation is much better in the US with real time reporting in place. We also refer to our answer to question 8.

(61) What is your opinion about the categorisation of traders by type of regulated entity? Could the different categories of traders be defined in another way (e.g. by trading activity based on the definition of hedge accounting under international accounting standards, other)? Please explain the reasons for your views.

We strongly support this. It is the basis for a reasonable oversight over the commodity markets. The US CFTC has, step by step, refined its reporting. The most important distinction surely is the one which is called in the US commercial/non-commercial (non-financial/financial counterparty in the OTC draft regulation), separating anybody with a hedging goal from all financial speculators. Also the reporting from index traders, swap dealers and major swap dealers, as it has been introduced in the US in the last years, can serve as an example for the EU. Only then the impact of different kind of traders can be measured.

(62) What is your opinion about extending the disclosure of harmonised position information by type of regulated entity to all OTC commodity derivatives? Please explain the reasons for your views.

We are in favor of this. We refer to the answer to question 60 for the reasons.

(63) What is your opinion about requiring organised commodity derivative trading venues to design contracts in a way that ensures convergence between futures and spot prices? What is your opinion about other possible requirements for such venues, including introducing limits to how much prices can vary in a given timeframe? Please explain the reasons for your views.

We think this is utterly important. Experience in the US has shown that a lot of conditions have to be met to ensure convergence. This includes: 1. appropriate delivery dates; the US has five; but we recommend a monthly delivery as it is the case in India. This would lessen the ability of speculators to affect prices; 2. certified stocks; 3. several delivery places; 4. storage fees; 5. trading limits before delivery (to prevent a July 2010 like corner as it has been undertaken by hedge fund Armajaro). Finally, excessive speculation has to be prevented as this severely affected convergence in the US, e.g. in the wheat market in 2008.

◆ 5.2. MiFID exemptions for commodity firms

(64) What is your opinion on the three suggested modifications to the exemptions? Please explain the reasons for your views.

We support the Commission’s view that exemptions should be granted as narrow as possible, and therefore also support the three suggested modifications. Given the fact that increasingly multinational commodity companies like Cargill also enter into markets in order to carry out speculative activities, giving them a kind of double-nature, we recommend carefully assessing the business of these multinationals and the end-user exemption. In case a separation of hedging derivative contracts from other ones turns out to be impossible, no end-user exemption should be granted at all.
6. Transaction reporting

6.1. Scope

(67) What is your opinion on the extension of the transaction reporting regime to transactions in all financial instruments that are admitted to trading or traded on the above platforms and systems? Please explain the reasons for your views.

(68) What is your opinion on the extension of the transaction reporting regime to transactions in all financial instruments the value of which correlates with the value of financial instruments that are admitted to trading or traded on the above platforms and systems? Please explain the reasons for your views.

(69) What is your opinion on the extension of the transaction reporting regime to transactions in depositary receipts that are related to financial instruments that are admitted to trading or traded on the above platforms and systems? Please explain the reasons for your views.

We are clearly in favor of full transparency and therefore support all these extensions. Non-transparency has lead us into the current crisis, transparency is imperative now and business interest should not impede public data availability. As financial market stability is a public good and the data is of high interest for the public, it should be available to the public. The public availability is also suggested in the Consultative report “Considerations for trade repositories in OTC derivatives markets"\textsuperscript{4} from May 2010 (number 3.2, paragraph 1). However, the public availability should not only be limited to aggregate positions by class of derivative as suggested by the EC but as far as possible. For example the BIS/IOSCO report covers the “data recorded in TRs” and states that “TRs should make publicly available aggregate data on open positions and trading volumes on a periodic basis with geographical and currency breakdowns”.

(70) What is your opinion on the extension of the transaction reporting regime to transactions in all commodity derivatives? Please explain the reasons for your views.

This extension is of special importance. The US has a much better transparency in commodity markets and therefore is also able to detect excessive speculation much better than the European regulators (e.g. with the two US Senate reports on excessive speculation in the wheat and in the natural gas markets). The CFTC is collecting real time data. – An example of the problems with insufficient reporting could be seen in the copper market recently when one trader, presumably a bank, bought a large share of the copper futures and troubled all other market participants.

(71) Do you consider that the extension of transaction reporting to all correlated instruments and to all commodity derivatives captures all relevant OTC trading? Please explain the reasons for your views.

Yes, it should. The problem in the US has been that with the Commodity Futures Modernization Act, oversight in the OTC oil market was abandoned. Therefore, the CFTC admittedly did not have full overview anymore over the OTC markets anymore and today is not even enabled to set position limits as required by the Wall Street Reform Act from 2010 but first needs to get an overview again.

(72) What is your opinion of an obligation for regulated markets, MTFs and other alternative trading venues to report the transactions of nonauthorised members or participants under MiFID? Please explain the reasons for your views.

For the above mentioned reasons, we think that all transactions should be reported.

7. Investor Protection and Provision of Investment Advice

7.2.3. Informing clients on complex products

(100) What is your opinion of, in the case of products adopting ethical or socially oriented investment criteria, obliging investment firms to inform clients thereof?

We support this obligation. We think that the inclusion of such criteria is still hardly developed in the EU economy.

\textsuperscript{4} www.bis.org/publ/cpss90.pdf?noframes=1
7.2.6. Liability of firms providing services

What is your opinion on introducing a principle of civil liability applicable to investment firms? Please explain the reasons for your views.

We strongly support a higher civil liability of investment firms. The financial sector has come through the crises without any real liability. The fact that these firms do not face liability for their actions has encouraged them to act against investors’ and society’s interests.

7.2.8. Dealing on own account and execution of client orders

What is your opinion on modifying the exemption regime in order to clarify that firms dealing on own account with clients are fully subject to MiFID requirements? Please explain the reasons for your views.

We strongly support to limit exemptions to the MiFID regime as much as possible. Proprietary trading by investment firms and banks is part of wrong financial activity that led us into the financial crisis. It creates risky incentives to the investment firms’ behaviour and should be limited as much as possible.

9. Reinforcement of supervisory powers in key areas

In general, we fear that there might be no sufficient staff to oversee the markets. The staff figures for ESMA are far less than the US SEC. Given the possibility that the ESMA will deal with commodities, we fear that the respective staff will be much less than the US CFTC. In this case, oversight would be clearly insufficient. We urge the Commission to secure that sufficient regulators will either work for a special commodities regulator like the CFTC, or for a special unit within the ESMA.

9.1. Ban on specific activities, products or practices

What is your opinion on the possibility to ban products, practices or operations that raise significant investor protection concerns, generate market disorder or create serious systemic risk? Please explain the reasons for your views.

We think that given the failure of the financial markets in the financial crisis, and given the commodity price bubble in 2007/2008 through the financialisation of commodity markets (see Annex), bans should be possible. Especially index speculation in commodity markets should be banned given the strong evidence of their harmful effect on commodity prices. As hedge fund manager Michael W. Masters testified to the Commodities Futures Trading Commission in August 2009 regarding the commodity derivatives markets, “passive investment provides no benefits to the markets while it exacts a heavy toll.”

But also the impact of hedge funds needs to be scrutinized. Next to the famous LTCM debacle in 1998, also the current financial crisis has been made possible and caused in part by hedge funds. Bear Stearns, for example, came into trouble when two of its Caymans based hedge funds collapsed.

Another example is the aggressive speculation through naked short selling and naked credit default swaps should be banned as it is the case in Germany for several shares. While these bets generated huge profit for some investors, especially hedge funds, they did not stabilize the system at all. Even worse, the possibility of these bets seems to have fuelled the housing price bubble in the US.

(143) For example, could trading in OTC derivatives which competent authorities determine should be cleared on systemic risk grounds, but which no CCP offers to clear, be banned pending a CCP offering clearing in the instrument? Please explain the reasons for your views.

Yes, we think that in case of an identified risk, such a ban should apply. The financial crisis has demonstrated that one cannot rely of the rationality of the markets if it is about risk management.

5 www.cftc.gov/ucm/groups/public/@newsroom/documents/file/hearing080509_masters.pdf
Are there other specific products which could face greater regulatory scrutiny? Please explain the reasons for your views.

We see a clear need for a special regime for commodities. We refer to our general remarks and to various answers, especially in section 9.2 below.

9.2. Stronger oversight of positions in derivatives, including commodity derivatives

If regulators are given harmonised and effective powers to intervene during the life of any derivative contract in the MiFID framework directive do you consider that they could be given the powers to adopt hard position limits for some or all types of derivative contracts whether they are traded on exchange or OTC? Please explain the reasons for your views.

We are clearly in support of position limits. We do not assume that the rationality of the market can be trusted blindly. As said in the General Remarks, derivative trading is speculation by its very nature. Satyajit Das puts it as follows: “In a belated acknowledgement of the verities of the derivatives business, they put trading limits in place, recognizing that we actually needed to speculate to make budgets.”

The proof of the economic benefit of this speculation still lacks.

General economic reasoning does also question the claim by the financial industry and some economists that financial markets should be especially free. In other markets and professions, many restrictions are in force to secure a functioning market. Again, the proof that this is different in financial markets still lacks. To the contrary, the financial crisis has demonstrated the dangers of unlimited speculation.

In commodity markets, position limits are of special importance. They help to limit the market to a size where end-users are still the majority of traders. By this way, the price discovery is also driven by the knowledge of these people and not by financial speculators that – while improving market liquidity to a certain extent – will always have other reasons for their investments, like e.g. portfolio diversification. As former long-time commodity derivative trader Ann Berg has written, “…over 150 years of futures trading history demonstrates that position limits are necessary in commodities of finite supply to curb excessive speculation and hoarding.”

What is your opinion of using position limits as an efficient tool for some or all types of derivative contracts in view of any or all of the following objectives:

(i) to combat market manipulation;
If there is no limit, one speculator can buy-out the market and so corner it. This has happened in July 2010, when hedge fund Armajaro bought all cocoa futures at London Euronext Liffe in an attempt to manipulate the market. After that, several cocoa companies complained to Euronext Liffe to regulate the market and make such a corner impossible. Otherwise they would leave to the New York Exchange.

(ii) to reduce systemic risk;
Position limits could prevent systemic risk in a double sense: 1. they could lessen the risk for the derivative market itself. A position like the one in the natural gas market of the Amaranth hedge fund which collapsed in 2006 would be impossible. Of course, the collapse did not turn out to be devastating for the whole market but this surely was the case when LTCM hedge fund collapsed in 1998. Without a coordinated rescue effort by banks, this failure would have caused a systemic failure. 2. They could lessen the general systemic risk of our economies as they would prevent a bubble like the one in the commodity markets in 2007/08. Systemic risk should not only apply to the financial markets but to economy and society as a whole.

(iii) to prevent disorderly markets and developments detrimental to investors;
As the US Senate has shown in his report on the Natural Gas Market, hedge fund Amaranth’s 2006 positions in the natural gas market “constituted excessive speculation”

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and “purchasers of natural gas during the summer of 2006 for delivery in the following winter months paid inflated prices due to Amaranth’s speculative trading.” Similar findings have been taken in the US Senate’s report on the wheat market: “This Report concludes there is significant and persuasive evidence that one of the major reasons for the recent market problems is the unusually high level of speculation in the Chicago wheat futures market due to purchases of futures contracts by index traders offsetting sales of commodity index instruments.” According to the report, the total volume of new speculative investments in commodity indexes has increased an estimated tenfold in five years from an estimated $15 billion dollars in 2003 to around $200 billion in 2008. This was made possible by several position limit exemptions or extensions for several swap dealers and index traders. – Another example of the problems without position limits could be observed in the copper market recently when one trader, presumably a bank, bought a large share of the copper futures and troubled all other market participants.

(iv) to safeguard the stability and delivery and settlement arrangements of physical commodity markets. Please explain the reasons for your views.

The US Senate report on the wheat market has provided conclusive evidence that by inflating futures prices in 2008, speculators also harmed the possibility of end users to hedge their risks with the futures: “The unwarranted changes in wheat prices resulting from the large amount of index trading in the Chicago wheat futures market created an undue burden on interstate commerce. This undue burden was imposed on farmers, grain elevators, grain merchants, grain processors, and others by impeding useful hedging strategies, imposing significant unanticipated costs, and providing inaccurate indications of expected prices in the wheat markets.” Again, in 2010, at a CFTC hearing in the US, National Farmers Union representative Doug Sombke said, “I think speculators have created a huge mess here for us. Farmers are feeling this today”.

(147) Are there some types of derivatives or market conditions which are more prone to market manipulation and/or disorderly markets? If yes, please justify and provide evidence to support your argument.

We think that commodity markets are especially prone to manipulation as there eventually always remains the need for delivery even in markets where a lot of financial speculation takes place. If for example an end-user need to be able to unwind his future, manipulated and therefore too high futures prices can pose severe problems to him.

(148) How could the above position limits be applied by regulators:

(a) To certain categories of market participants (e.g. some or all types of financial participants or investment vehicles)?

Generally, we think that position limits definitely apply to any participant in the market. However, there might be an exemption for the participant who has a clear and proven hedge interest. The rationale of financial speculators clearly is distinct from the hedgers’ one. Hedging activities should be the dominating ones in futures markets.

(b) To some types of activities (e.g. hedging versus non-hedging)?

We think, position limits should apply to all participants. There might be an exemption for hedging but narrowly defined. However if hedgers are bigger, they also might pose a risk and therefore need to be limited.

(c) To the aggregate open interest/notional amount of a market?

We think this link is reasonable. The market size obviously does not need to grow uncontrolled. As we can see in the US futures markets, former levels of open interest also could serve the hedging interest of end-users while the huge growth through financial speculation obviously led to disorderly markets.

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Annex

Evidence on the Impact of Commodity Speculation
by Scientists, Analysts and Public Institutions

1) Agriculture and food policy centre (Texas University) (2008): The effects of ethanol on Texas food and feed: “Speculative fund activities in futures markets have led to more money in the markets and more volatility. Increased price volatility has encouraged wider trading limits. The end result has been the loss of the ability to use futures markets for price risk management due to the inability to finance margin requirements.”

2) Aliber, R.Z. (University of Chicago) (2008): Oil Rally Topped Dot-Com Craze in Speculators’ Mania (Bloomberg article): “You’ve got speculation in a lot of commodities and that seems to be driving up the price. (…) Movements are dominated by momentum players who predict price changes from Wednesday to Friday on the basis of the price change from Monday to Wednesday.”

3) el-Badri, A. (OPEC secretary-general) (2009): OPEC Calls for Curbing Oil Speculation, Blames Funds (Bloomberg article): “The speculators are still there. (…) Before, they were playing a supply shortage, now they are playing too much supply. They are delaying a recovery in prices.”

4) Baffes, J. (World Bank) and Haniotis, T. (European Commission) (2010): Putting the 2006/2008 Commodities Boom into Perspective. World Bank Research Working Paper 5371: “We conjecture that index fund activity (one type of “speculative” activity among the many that the literature refers to) played a key role during the 2008 price spike. Biofuels played some role too, but much less than initially thought. And we find no evidence that alleged stronger demand by emerging economies had any effect on world prices.”

5) Basu, P. and Gavin, W.T. (Federal Reserve Bank of St. Louis) (2011): What explains the Growth in Commodity Derivatives?: “Banks argue that they need to use commodity derivatives to help customers manage risks. This may be true, but the recent experience in commodity futures did not reduce risks but exacerbated them just at the wrong time.”

6) Berg, A. (former CME trader) (2010). Agricultural Futures: Strengthening market signals for global price discover. Paper to the FAO’s Committee on Commodity Problems Extraordinary meeting: “…over 150 years of futures trading history demonstrates that position limits are necessary in commodities of finite supply to curb excessive speculation and hoarding.”

7) Branson, R. (Virgin Group), Masters, M. (Masters Capital) and Frenk, D. (Better Markets Inc.) (2010): Letter to the Economist: “There is strong evidence that speculation exacerbated the last oil and food bubble. Speculation will fuel the next one too, unless meaningful speculative position limits are established.”

8) von Braun, J. (Bonn University) (2010) (Financial Times article): “The setting of prices at the main international commodity exchanges was significantly influenced by speculation that boosted prices. Not only are food and energy markets linked, but also food and financial markets have become intertwined – in short, the “financialisation” of food trade. There are increasing indications that some financial capital is shifting from speculation on housing and complex derivatives to commodities, including food.”

10) Eckaus, R.S. (MIT) (2008): The Oil Price Really Is A Speculative Bubble: “Since there is no reason based on current and expected supply and demand that justifies the current price of oil, what is left? The oil price is a speculative bubble.”

11) Evans, T. (Citigroup, energy analyst) (2008): The Official Demise of the Oil Bubble (Wall Street Article): “This is a market that is basically returning to the price level of a year ago which it arguably should never have left. (…) We pumped up a big bubble, expanded it to an impressive dimension, and now it is popped and we have bubble gum in our hair.”

12) Frenk, D. (Better Markets Inc.) (2010): Review of Irwin and Sanders 2010 OECD report: 1) The statistical methods applied are completely inappropriate for the data used. 2) The study is contradicted by the findings of other studies that apply more appropriate statistical methods to the same data. 3) The overall analysis is superficial and easily refuted by looking at some basic facts.”

13) Gheit, F. and Katzenberg, D. (2008) (Oppenheimer & Co.): Surviving lower oil prices: “The investment banks that hyped oil prices using voodoo economics have suddenly reversed their position and now expect much lower oil prices. They helped cause excessive speculation, create the oil bubble, and contributed to the global financial crisis. They have changed their tune in exchange for a government bailout, not because of changes in market fundamentals.”

14) Gilbert, C. (Trento University) (2010): How to understand high food prices. Journal of Agricultural Economics: “By investing across the entire range of commodity futures, index-based investors appear to have inflated food commodity prices.”

15) Gosh, J. (Jawaharlal Nehru University) (2010): Commodity speculation and the food crisis: “Thus international commodity markets increasingly began to develop many of the features of financial markets, in that they became prone to information asymmetries and associated tendencies to be led by a small number of large players. Far from being ‘efficient markets’ in the sense hoped for by mainstream theory, they allowed for inherently ‘wrong’ signalling devices to become very effective in determining and manipulating market behaviour. The result was the excessive price volatility that has been displayed by important commodities over the recent period – not only the food grains and crops mentioned here, but also minerals and oil.”


17) Institute for Agriculture and Trade Policy (2009): Betting Against Food Security: Futures Market Speculation, Trade and Global Governance Programme Paper: “A large share of the commodity exchange price volatility resides not so much in supply and demand of the commodity traded as in the fund formulas for buying and selling the bundled futures contracts.”

18) International Monetary Fund (2008): Regional Economic Outlook: Middle East and Central Asia: “In summary, it appears that speculation has played a significant role in the run-up in oil prices as the U.S. dollar has weakened and investors have looked for a hedge in oil futures (and gold).”


20) Kemp, J. (Reuters) (2008): Crisis remakes the commodity business: “It does not alter the fact most of the upsurge in futures and options turnover on commodity exchanges and in OTC markets over the last five years has come from investment-related rather than trade-related business.”
21) Khan, M.S. (Petersen Institute) (2009): The 2008 Oil Price “Bubble”: “While market fundamentals obviously played a role in the general run-up in the oil prices from 2003 on, it is fair to conclude by looking at a variety of indicators that speculation drove an oil price bubble in the first half of 2008. Absent speculative activities, the oil price would probably have been in the $80 to $90 a barrel range.”

22) Krugman, P. (Columbia University) (2009): Oil speculation: “Last year I was skeptical about claims that speculation was central to the price rise, because what I considered the essential signature of a speculative price rise ... just wasn’t showing. This time, however, oil inventories are bulging, with huge amounts held in offshore tankers as well as in conventional storage. So this time there’s no question: speculation has been driving prices up.”

23) Lines, T. (2010): Speculation in food commodity markets: “These are the main problems that are caused by long-only index trading: It pushes prices up, irrespective of the market situation. It disrupts the rolling over of futures contracts when the nearest month expires.”

24) Masters, M.W. (Masters Capital) (2009): Testimony before the Commodities Futures Trading Commission: “In summary, passive investors compete with physical commodity consumers and make it much more difficult for them to hedge. (…) They provide no benefits whatsoever to the markets because they consume liquidity. And most importantly, they drive up commodity prices, which hurts everybody on the planet.”

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27) Medlock, K. and Myers Jaffe, A. (Rice University) (2009): Who is in the Oil Futures Market and How Has It Changed?: “…trading strategies of some financial players in oil appears to be influencing the correlation between the value of the U.S. dollar and the price of oil. (…) We also find that the correlation between movements in oil prices and the value of the dollar against the trade-weighted index of the currencies of foreign countries has increased to 0.82 (a significant measure) for the period between 2001 and the present day, compared to a previously insignificant correlation of only 0.06 between 1986 and 2000.”

28) Van der Molen, M. (University of Utrecht) (2009): Speculators invading the commodity markets: a case study of coffee: “Various analyses were performed to investigate these effects [i.e. effects that index speculators have on the futures market]. The results indicate that index speculators frustrated the futures market in the period between 2005 and 2008. This conclusion is based on the following indications: fundamentals have a lower impact on the price, the volume of index speculators has increased and their ability to influence the futures market has increased.”

29) Morse, E. (former Lehman Brothers chief energy economist) (2008): Oil Dotcom, Research Note: “Fundamental changes cannot explain sudden, severe price or curve movements. (…) Our conclusion from this study is that we are seeing the classic ingredients of an asset bubble.”

30) Newell, J. (Probability Analytics Research) (2008): Commodity Speculation’s “Smoking Gun”: “Real market forces in these diverse markets are largely independent of one another,
and therefore price changes should be essentially uncorrelated. This was clearly true historically; from 1984 through 1999 average correlation between all commodities was only 7%. In the last 12 months this average rose to 64%. Correlation with the GSCI was 23% historically, and rose to 76% in the last year. Index speculation has swamped real market forces."

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demand relationships in commodity markets, but, who nonetheless, influence commodity price developments."

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