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Connect the dots between Wall Street and the Local Gas Pump

The Wall Street/NYMEX gasoline contract has increased 86c a gallon in the last 90 days [Dec 14 through March 14]. Since mid-December, 86c more per gallon means Connecticut drivers pay $3.6 million more per day, every day, for gasoline. That's $25 million more per week than we paid in mid-December.

- Financial industry speculators have overtaken commodity markets
- 10 years ago actual producers and users of energy and agricultural commodities made up 70-80% of the markets, with only 20-30% speculators;
- Now, that has flipped and 70-80% of the commodity markets are controlled by financial industry speculation and only 20-30% of the markets are the actual legitimate hedgers of purchases of energy and food;
- 6 years ago Wall Street brought out commodity index funds, resulting in $200-$400 billion of strictly speculative investments in commodity markets and that is contributing to the rise in food and energy prices. Review how one Wall Street investment house sells these instruments…

"How do I sell something that I don't own, or why would I buy something I don't need". The answer is simple. When trading futures, you never actually buy or sell anything tangible; you are just contracting to do so at a future date. You are merely taking a buying or selling position as a speculator, expecting to profit from rising or falling prices. You have no intention of making or taking delivery of the commodity you are trading, your only goal is to buy low and sell high, or vice-versa. Before the contract expires you will need to relieve your contractual obligation to take or make delivery by **offsetting** (also known as unwind, or liquidate) your initial position. Therefore, if you oiginally entered a short position, to exit you would buy, and if you had originally entered a long position, to exit you would sell. [http://www.altavest.com/education/default.aspx]

- The clear, unmistakable message from Wall Street itself is that investing in commodities has no purpose other than betting on the daily price movements of commodities. This act works to artificially inflate the value of these commodities by those with, as Wall Street itself states, without the intention of ever delivering anything to the commodities market or taking delivery of anything from the commodities market.

- In mid-December, the NYMEX gasoline contract was at $2.48 - today that is $3.34 – [Dec 14 through Mar 14] an increase in 86c a gallon in 90 days, all while US gasoline consumption is down, down 2.5% last year and down every year since 2007. The 86c increase in 90 days is not attributable to India, China or Europe - the last 90 days and 86c of gas price increases has been due to speculation;

The charts provided further in this presentation update these numbers through March 28th.

- To the extent there are those who would contend the recent increase in gasoline prices is due to the increased price of crude oil. Review the WTI/Crude oil chart from the CME/NYMEX. From Mid-December through March 28th the crude contract went from $94 per barrel to $106.80 per barrel. As each barrel contains 42 gallons, for every $1 increase in the price of crude oil one would expect roughly 2c additional cost of refined products made from that barrel. Therefore, an increase in $12 per barrel on crude would yield an additional 24c on the cost of refined products.
- Yet, now turning to the RBOB/Gasoline chart from the CME/NYMEX, we see that from Mid-December through March 28th the contract price of gasoline increased from $2.48 a gallon to $3.40 a gallon. That is a 92c a gallon increase in just over 90 days. If the increase from the price of a barrel of crude oil yielded 24c a gallon, but the total gasoline contract increase was 92c, then where does the other 68c a gallon come from? What are its drivers?

- What do these increases in Wall Street gasoline contract values of 92c a gallon from Mid-December through March 28th mean?

US Gasoline Consumption

138,496,176,000 gallons annually

11,541,348,000 gallons monthly

380,000,000 gallons daily

CME/NYMEX Gasoline contract increase of 92c a gallon between mid-December and March 28th would translate into an increased cost of gasoline to American consumers of $10.6 billion per month in March versus December.

CME/NYMEX Gasoline contract increase of 92c a gallon between mid-December and March 28th would translate into an increased cost of gasoline to American consumers of $353 million per day in March versus December.

There is a direct connection between the movements of the CME/NYMEX commodities exchange prices for energy and the cash markets at the wholesale level paid by retailers, and then on to consumers.

At the State of Connecticut's largest wholesale gasoline supply point, New Haven Harbor, the wholesale price of gasoline was $2.60 per gallon. By March 28th that had risen to $3.23 per gallon. The NYMEX gasoline contract had gone up 92c a gallon and that led wholesale gasoline prices up by 63c per gallon. With wholesale, physical market gasoline prices lagging the NYMEX gasoline contract through that period, it is a signal of potentially higher wholesale gasoline prices to come and, as a result, higher retail prices to consumers.

With an increased cost to consumers to fill up of $15 between December and March, this increased cost per week effectively wipes out most, if not all, of what a worker gained from the weekly payroll tax cut enacted by the Congress in February.

- The commodity markets are overseen by the CFTC [Commodity Futures Trading Commission], who put in place a position limits regulation after the first of year to restrain strictly financial speculation in these markets and the financial services industry sued the CFTC in federal court, saying the rules were not necessary; ask anyone buying energy or food, given these massive price increases, ***whether they think restraining the financial industry is necessary;***
- The financial services industry drove America nearly into another Great Depression in 2008, from which we are only now beginning to emerge. Congress passed the Dodd-Frank law to regulate the reckless and irresponsible behavior of Wall Street and that law, and all the agencies responsible for implementing that law, need to be strongly supported and the law needs to be allowed to work for the American people.

Act Now

- We would throw all financial speculators out of these markets and make all energy and agricultural commodities 100% deliverable, which is to say if you invest in these markets you MUST be able to take actual delivery of the commodities you invest in - NOT simply play the Wall Street casino game of placing bets and bidding up the price of energy and food and leaving Americans with paying the bill;
- Support greater domestic energy production;
- The Federal Reserve's monetary policy of reducing the value of the dollar hurts commodity prices as commodities are priced in dollars; we need the Fed to defend the dollar. Raising the Fed funds rate from 0.25 to 1% would have a significant effect on commodity prices;

- Support adequate funding for the CFTC, reject proposals to cut their funding which only guts the agency's ability to enforce the laws;
- Support the efforts of the House Agriculture Committee to initiate hearings on the role excessive Wall Street oil speculation is having on gas prices;
- Support revitalizing the Dept of Justice Task Force on Speculation, started last July, 2011 – something the DOJ indicated it would consider doing this week.

Attached:

CME/NYMEX WTI Crude Oil contract chart from 3/28/2012

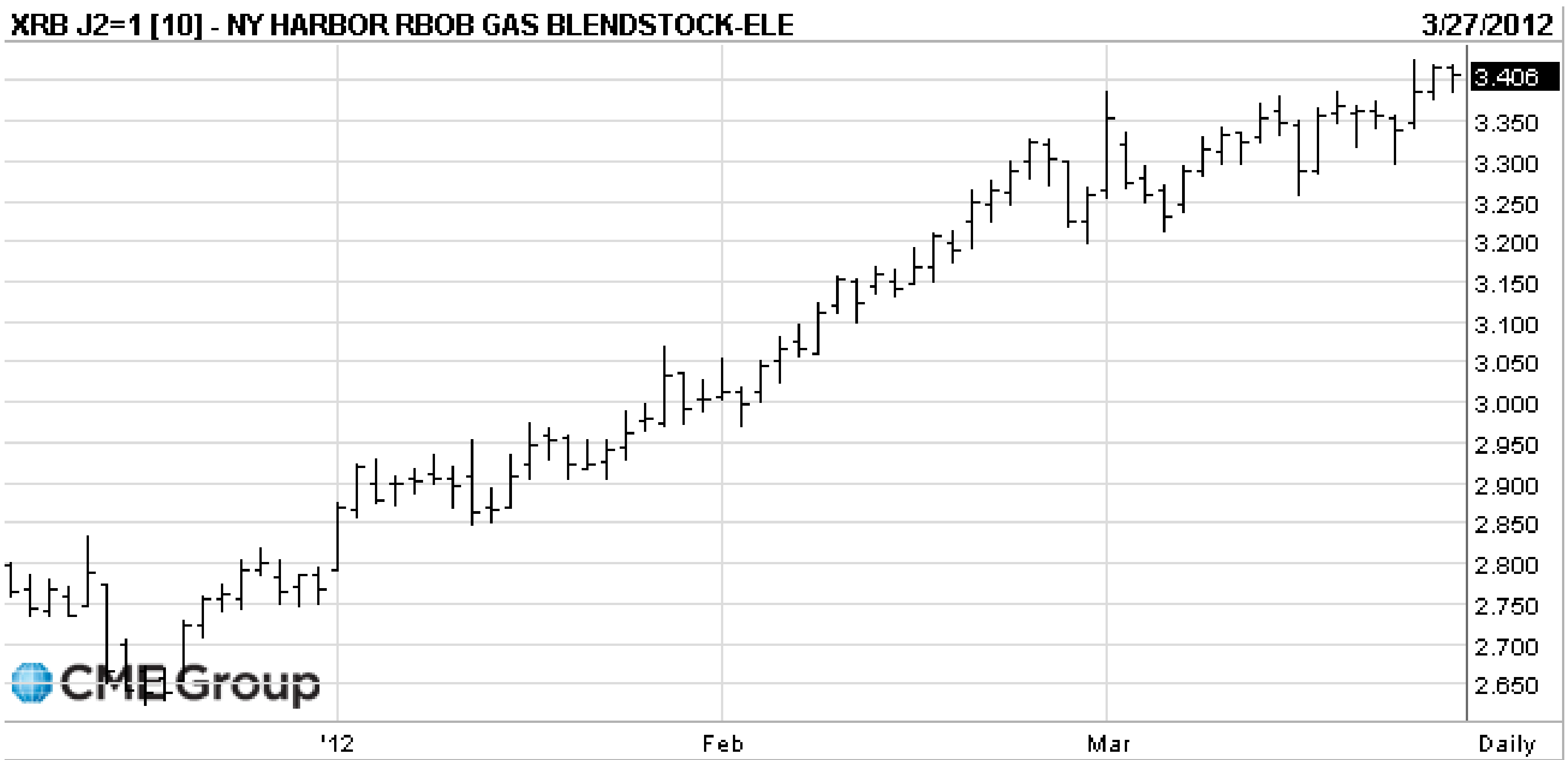
CME/NYMEX RBOB Gasoline contract chart from 3/27/2012

2/29/2012 Letter from the Commodity Markets Oversight Coalition to House and Senate Appropriations on the Importance of Supporting the President's budget for the CFTC for FY 2013

3/12/2012 Letter from House Committee on Agriculture Members calling for Hearings on Speculation

CME/NYMEX Wall Street Crude Oil Contract
Mid-December at $94 @ barrel – March 28th at $106.74 @ barrel
That's $12 @ barrel higher in just over 90 days.
For every $1 increase in the price of crude, that increases refined products prices 2c – so $12 on crude = 24c @ gallon on gasoline

CME/NYMEX Wall Street Gasoline Contract
Mid-December at $2.48 @ gallon – March 28th at $3.40 @ gallon
That's 92c a gallon higher in just over 90 days.
If the increased price of crude oil adds 24c @ gallon on gasoline, then where does the other 68c of increase come from?



COMMODITY MARKETS OVERSIGHT COALITION

An Alliance of Commodity Derivatives End-Users and Consumers

February 29, 2012

The Hon. Harold Rogers, Chairman
Committee on Appropriations
U.S. House of Representatives
H-307 Capitol Building
Washington, DC 20515

The Hon. Norman D. Dicks, Ranking Member
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, DC 20515

The Hon. Daniel K. Inouye, Chairman
Committee on Appropriations
United States Senate
S-128 Capitol Building
Washington, DC 20510

The Hon. Thad Cochran, Ranking Member
Committee on Appropriations
United States Senate
S-128 Capitol Building
Washington, DC 20510

Dear Chairmen Rogers and Inouye, and Ranking Members Dicks and Cochran:

The undersigned members of the Commodity Markets Oversight Coalition write to endorse the administration's Fiscal Year 2013 budget request of $308 million for the Commodity Futures Trading Commission. We believe this funding level is necessary to ensure the oversight, transparency and stability necessary for the proper functioning of our nation's commodity markets and to ensure adequate protections for commodity hedgers and commercial end-users.

The CMOC is an independent, non-partisan and non-profit alliance of organizations that represents commodity-dependent industries, businesses and end-users that rely on functional, transparent and competitive commodity derivatives markets as a hedging and price discovery tool. The coalition advocates in favor of government policies that promote stability and confidence in the commodities markets, that seek to prevent fraud, manipulation and excessive speculation, and that preserve the interests of bona fide hedgers and consumers.

While we acknowledge the deficit crisis our country faces and commend Congressional leaders for their calls to rein in federal spending, the Commission must be funded sufficiently to exercise its statutory responsibilities. For more than a decade, the CFTC has been underfunded, understaffed, and under-resourced. All the while it has faced complex new market trends and technologies, a vast expansion of authority over unregulated over-the-counter swaps markets, and challenges to market stability and security, including the recent bankruptcy of commodity brokerage firm MF Global. The collapse of MF Global illustrates the importance of rigorous market surveillance, accountability and consumer protections.

By CFTC Chairman Gary Gensler's own admission, the current funding level of $205 million is wholly insufficient to meet these challenges. Furthermore, failing to provide this important financial regulator with needed funds could further jeopardize security, stability and confidence in the commodity markets and adequate consumer protections.

As businesses that depend on competitive, transparent and functional commodity derivatives markets, we urge Congressional appropriators to provide the Commission with the amount of $308 million as requested by the administration for Fiscal Year 2013.

Thank you in advance for your thoughtful consideration.

Sincerely,

Airlines for America
American Feed Industry Association
American Public Gas Association
American Public Power Association
American Trucking Associations
Colorado Petroleum Marketers Association
Consumer Federation of America
Florida Petroleum Marketers Association
Fuel Merchants Association of New Jersey
Gasoline & Automotive Service Dealers of America
Independent Connecticut Petroleum Association
Institute for Agriculture and Trade Policy
Louisiana Oil Marketers & Convenience Store Association
Maine Energy Marketers Association
Massachusetts Oilheat Council
Montana Petroleum Marketers & Convenience Store Association
National Association of Oil & Energy Service Professionals
National Association of Truck Stop Operators
National Family Farm Coalition
National Farmers Union
New England Fuel Institute
New Jersey Citizen Action Oil Group
New Mexico Petroleum Marketers Association
New York Oil Heating Association
Oil Heat Council of New Hampshire
Oil Heat Institute of Long Island
Oil Heat Institute of Rhode Island
Organization for Competitive Markets
Petroleum Marketers & Convenience Store Association of Kansas
Petroleum Marketers & Convenience Stores of Iowa
Petroleum Marketers Association of America
Public Citizen
Ranchers-Cattlemen Acton Legal Fund (R-CALF) USA
Society of Independent Gasoline Marketers of America
Vermont Fuel Dealers Association
West Virginia Oil Marketers and Grocers Association
Wyoming Petroleum Marketers Association

cc: Chairman Gary Gensler, Commodity Futures Trading Commission
Commissioner Jill Sommers, Commodity Futures Trading Commission
Commissioner Bart Chilton, Commodity Futures Trading Commission
Commissioner Scott O'Malia, Commodity Futures Trading Commission
Commissioner Bart Chilton, Commodity Futures Trading Commission
Rep. Jack Kingston, Chairman, House Appropriations Subcommittee on Agriculture
Rep. Sam Farr, Ranking Member, House Appropriations Subcommittee on Agriculture
Rep. Frank D. Lucas, Chairman, House Committee on Agriculture
Rep. Collin Peterson, Ranking Member, House Committee on Agriculture
Rep. Fred Upton, Chairman, House Committee on Energy & Commerce
Rep. Henry A. Waxman, Ranking Member, Committee on Energy & Commerce
Sen. Richard Durbin, Chairman, Senate Appropriations Subcommittee on Financial Services and General Government
Sen. Jerry Moran, Ranking Member, Senate Appropriations Subcommittee on Financial Services and General Government
Sen. Debbie Stabenow, Chairwoman, Senate Committee on Agriculture, Nutrition & Forestry
Sen. Pat Roberts, Ranking Member, Senate Committee on Agriculture, Nutrition & Forestry
Sen. Jeff Bingaman, Chairman, Senate Committee on Energy & Natural Resources
Sen. Lisa Murkowski, Ranking Member, Senate Committee on Energy & Natural Resources

Congress of the United States
Washington, DC 20515

March 12, 2012

The Honorable Frank Lucas
Chairman
Committee on Agriculture
1300 Longworth House Office Building
Washington, DC 20515

The Honorable K. Michael Conaway
Chairman
Subcommittee on General Farm Commodities and Risk Management
Committee on Agriculture
1300 Longworth House Office Building
Washington, DC 20515

Dear Chairman Lucas and Chairman Conaway,

As members of the Agriculture Committee, we ask that you hold a hearing on the role that excessive Wall Street oil speculation is having on rising gas prices across the United States. We believe a hearing of this nature falls squarely within the Committee's jurisdiction to oversee commodity exchanges.

Our constituents constantly share with us the strain that rising gas prices is having on their lives as they struggle to make ends meet. We are repeatedly asked what Congress can do to help alleviate the "pain at the pump" as we approach the busy summer driving months. While we understand the complex nature of international oil markets and the fact that there are numerous moving parts that influence prices, there is mounting evidence to suggest that excessive oil speculation is inflating the price of oil and consequently increasing the price of gas.

Goldman Sachs reported that Wall Street speculation is adding more than $23 to the price of a barrel of oil, which equates to an increase of $0.56 per gallon of gasoline. Commissioner Bart Chilton of the Commodity Futures Trading Commission referenced the Goldman Sachs study as he recently estimated that consumers are potentially paying an additional $14.56 every time they fill up their tank, depending on the size of the tank.

We believe the added responsibility the Commodity Futures Trading Commission has assumed due to the enactment of the Dodd-Frank Act surrounding excessive speculation is not well understood. A formal hearing, in this regard, to fully investigate the role and resources available to the Commission to regulate excessive oil speculation is vitally important to thoughtfully considering viable long-term solutions to meet our energy needs.

We respectfully urge you to promptly schedule a hearing to discuss this timely and important issue to our constituents.

Sincerely,

James P. McGovern
Member of Congress

Peter Welch
Member of Congress

Tim Holden
Member of Congress

Leonard Boswell
Member of Congress

Joe Baca
Member of Congress

Tim Walz
Member of Congress

Larry Kissell
Member of Congress

Bill Owens
Member of Congress

Chellie Pingree
Member of Congress

Joe Courtney
Member of Congress

Marcia Fudge
Member of Congress

Gregorio Sablan
Member of Congress