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2. NEWS

Melamed slams regulatory efforts to curb speculative oil trading

Colin Packham

Leo Melamed, chairman emeritus of CME Group, has criticised regulatory efforts to restrain speculative trading in oil, blamed by many for the soaring price of the commodity witnessed in 2008.

"Speculation, such as occurs on the futures markets, can only effect prices in a temporary fashion, for a day or two, and then only on the margin. There are speculators who believe oil prices are going up and who buy futures contracts. An equal number of speculators believe that prices will fall and they sell. The idea of blaming those who anticipate that prices will rise for the subsequent time period is not rational," Melamed wrote in a statement on oil speculation and politics. "To achieve a long-term or permanent effect in prices, such as has occurred in oil, has to be the consequence of either: supply [and] demand fundamentals, an unusual natural dislocation, government action, or manipulation."

Speculative trading has been blamed by many within the US as the cause behind the soaring price of oil, with calls from many prominent US politicians to clamp down on such trading. Commodity Futures Trading Commission (CFTC) said on June 17, that it has amended its no-action letter which allowed Intercontinental Exchange (ICE) Futures Europe to offer and sell its WTI crude oil contract in the US, free from the position limits that New York Mercantile Exchange (Nymex) operates under – a move designed to curb speculative trading. As a result of this amended letter, ICE Futures



Leo Melamed, chairman emeritus of CME Group

Europe will have to conform to the same limits as Nymex, should the UK's Financial Services Authority approve the amendment.

However, Melamed dismissed the recent regulatory clamp-down as potentially damaging to the market. "Legislation or government action which meaningfully interferes with the ability to speculate in the futures markets at best will prove to be a political embarrassment, and at worst will materially harm the US free enterprise system. Any lower price effect it will engender will be chimera," Melamed added.

While the renowned figure of the futures market has condemned the tightening of regulatory oversight of the oil market, Walt Lukken, acting chairman of Commodity Futures Trading Commission (CFTC), has described the oil market as being "ripe" for manipulation. However, Lukken did not join the chorus of speculative trad-

ing-bashing that has been prevalent in America.

"The environment is ripe for those wanting to illegally manipulate the markets and, as a result, the commission has stepped up its already aggressive enforcement presence," said Lukken, while testifying before the House Committee on Agriculture.

However, while the move will appease the US politicians, Melamed declared that the record highs in the oil market reflect fundamentals and the failure to institute a coherent energy policy. "The oil price rise is a consequence of the both fundamentals, a global increase in demand, and government action. Namely, the debasing of the US dollar, coupled with government inaction, a failure over many years to institute a coherent and comprehensive national energy policy," said Melamed. "Blaming the futures markets is scapegoating [sic], pure and simple," he concluded.