

Volatility in the Futures Market

Volatility in the Futures Market

While there are a number of contributing factors in the recent price increases for oil and gasoline, there is a growing concern that the recent volatility of energy prices may be partially due to increased—and possibly excessive—speculation in energy futures. Wholesale prices for energy in the United States are driven in large part by daily trading on energy futures contracts, and as the largest energy commodities trading center in the world, futures traders on the NYMEX play an enormous role in setting the prices that are ultimately passed on to the consumer.

I believe it is critical that Congress shine the brightest possible light on the role commodities traders are playing in rising energy prices to ensure that Americans are not being taken advantage of at the pump at someone else's profit. At my urging, the Government Accountability Office (GAO) has begun an examination of the Commodities Futures Trading Commission and their oversight of energy futures trading.

The GAO published its findings in "Commodity Futures Trading Commission: Trends in Energy Derivatives Markets Raise Questions about CFTC's Oversight" (GAO-08-25) on October 19, 2007. The GAO found that the Commodity Futures Trading Commission's (CFTC) currently does not have the authority to properly oversee fraud and abuse in a growing sector of the energy futures market.

The GAO has essentially called for the policy recommendations proposed in the Prevent Unfair Manipulation at the Pump (PUMP) Act (H.R. 5248), introduced by Rep. Bart Stupak (D-MI). I am original cosponsor of the PUMP Act that would require off-market speculators to play by the same rules that speculators that participate in on-market trading already do. By providing transparency and oversight of off-market trading, this legislation would allow the Commodities Futures Trading Commission (CFTC) to better monitor these deals to prevent market manipulation. This increased oversight will improve confidence in the market, and will help eliminate the unreasonable inflation of crude oil prices, helping protect American consumers at the pump. The PUMP Act would also increase penalties for market manipulation.

Press Releases:

10/19/07 - Report Finds Lack of Oversight
in Energy Market Could Be Cause of Rising Prices

Correspondence

3/28/05 – Letter to GAO requesting
an investigation of the Commodities Futures Trading Commission’s oversight
of energy futures

4/25/05 – Letter to the Chairman of
the CFTC expressing concern over energy futures trading on NYMEX

6/10/05 – CFTC explanation of the
role of futures trading in energy costs

8/3/05

– Notice from GAO of their intent to begin a review of futures trading at
Larson’s request

9/16/05 – Larson led letter to
Energy & Commerce and Agriculture Committees urging their examination of the issue

Additional Information

Commodities
Futures Trading Commission
New
York Mercantile Exchange