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COMMODITY MARKETS COUNCIL

THE FINANCIAL SERVICES ROUNDTABLE 



MANAGED FUNDS ASSOCIATION

July 14, 2008

Dear Senators and Representatives,

Rising oil prices are a deep concern to all Americans. Recently some have proposed increasing regulation on the futures and derivatives markets as way to reduce these prices. The “Stop Oil Speculation Now” coalition even claims “as unregulated speculators pocket billions of dollars at your expense, the price of commodities has increased out of proportion to marketplace demands.” This group and others have made the claim that speculation and the futures and derivatives markets are the cause of rising prices. This is inaccurate. Let’s look at the facts:

Oil prices reflect the forces of supply and demand. Without increasing supply or reducing demand, higher prices are inevitable. And the most important fact in the debate over higher oil prices can be summed up in one statistic from the International Energy Agency:

In 2007 global demand for oil was 86 million barrels a day; the global supply of oil was 85.5 million barrels.

When demand exceeds supply higher prices result. In fact, commodity prices have been rising around the globe in a wide number of commodities due to growing economies in developing countries. This is true even in markets where there are no widely traded futures contracts, such as steel and iron ore. Even onions, which are banned under US law from being traded on futures markets, are up 300% this year.

Derivatives actually help reduce the cost of energy. They are used by companies to manage the risk of rising prices. In order to protect themselves against this price risk they enter into derivatives contracts, which pass that risk onto buyers who are more willing or able to manage that risk. Without these buyers companies would have no choice but to pass higher prices onto consumers. In fact, this is exactly what has happened to some US businesses; as reported in a June 12, 2008 article in the New York Times entitled *European Airlines Reap Benefits of Oil Hedging*:

“The ability to lock into fixed fuel prices months ahead of time — called hedging — can help offset these rising prices. But with the exception of Southwest Airlines most United States airlines are less hedged than European ones.”

Rising oil prices are a deep concern to all Americans. Those prices can be lowered by increasing supply or reducing demand, or both. But harming the ability of companies to manage rising oil costs through derivatives won’t lower prices. It will mean prices are passed on to consumers. That’s bad for business, bad for the economy and bad for America.

Thank you for your consideration.

Sincerely,

International Swaps and Derivatives Association

Futures Industry Association

The Financial Services Roundtable

Managed Funds Association

Securities Industry and Financial Markets Association

Commodity Markets Council