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SELECT COMMITTEE ON ETHICS

United States Senate

WASHINGTON, DC 20510

January 20, 2011

The Honorable Gary Gensler
Chairman
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, D.C. 20581

Dear Chairman Gensler,

I write today to express my concern that speculative bets on exchanges and the over-the-counter swaps markets are driving oil prices to record levels, translating into skyrocketing gas prices. The Commodity Futures Trading Commission (CFTC) has the authority and the mandate under the Dodd-Frank Wall Street Reform and Consumer Protection Act to curb excessive energy speculation, and to oversee and collect data on the currently unregulated swaps markets. I am encouraged that you have garnered the necessary support to move forward with the CFTC's position limits rules proposed at last week's meeting, including limits on energy futures speculation. However, the law requires the rules for energy speculation to be completed by January 21, 2011, and I am deeply concerned that the CFTC will miss this deadline. The need for these rules is clear, and the CFTC must use its full authority to protect consumers and small businesses from artificially inflated gas prices.

As you are aware, gas prices are climbing ever-higher, with some analysts projecting prices to reach \$4.00 per gallon by spring. In Ohio, for example, prices have risen by about \$0.12 per gallon over the last month, even though gas price hikes are typically a summertime phenomenon. The price of crude oil futures is up more than 18 percent over the last three months.

These increases have dire cascading effects on the broader economy. Crude oil futures price increases drive up purchase prices for small businesses like gas stations, cutting into their already razor thin profit margins. Gas prices rise for consumers and can put pressure on food prices for shoppers. Right now, working families are barely making ends meet and can scarcely afford to pay unnecessary and exorbitant costs at the gas pump or in the checkout line. And the impact on independent truckers is extreme, jeopardizing their ability to continue operating.

I am troubled by indications that prices are rising in part due to excessive speculation in the financial markets by hedge funds and index funds, as has been the case in past bubbles. A 2009 study by the Peterson Institute for International Economics found that, "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."

Investment has reached levels not seen since that 2008 spike in oil prices. According to the CFTC's own figures, funds and other speculators increased their crude oil bets by 4.6 percent during the week ending on December 28th. In the past year, non-commercial traders' crude oil futures long positions increased 42 percent. These numbers are cause for concern, but they may only tell part of the story since the opaque over-the-counter markets lack mandatory, uniform transparency rules.

To curtail the effect of excessive speculation on oil prices, the CFTC must complete its rules for position limits in the energy markets as mandated by the Wall Street Reform Act. The CFTC must also take interim steps, including examining market data for speculative positions and addressing excessive speculation prior to finalizing the position limits. In the long term, improving information reporting under Dodd-Frank will enable the CFTC to conduct a full examination of the degree to which this and other spikes in oil prices are caused by speculation on Wall Street rather than demand on Main Street.

I commend you for your hard work preparing the CFTC to move its position limits proposal forward. The CFTC must now complete its remaining tasks expeditiously. Gas price bubbles not only harm consumers and businesses, they hinder economic recovery. We cannot afford to wait any longer to take action.

Thank you for considering my views on this important matter.

Sincerely,



Sherrod Brown
United States Senator

Cc: The Honorable Michael Dunn
The Honorable Jill E. Sommers
The Honorable Bart Chilton
The Honorable Scott D. O'Malia