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Monday, March 28, 2011

FILED ELECTRONICALLY

David A. Stawick
Secretary, Commodity Futures Trading Commission
3 Lafayette Centre
1155 21st St, NW
Washington, DC 20581

Re: Position Limits for Derivatives,"76 Fed. Reg. 4752 (Jan 26, 2011) RIN: 3038

Dear Mr. Stawick,

I appreciate the opportunity to comment on the Commodity Futures Trading Commission's ("Commission") proposed rules, "Position Limits for Derivatives," 76 Fed. Reg. 4752 (Jan. 26, 2011).

I've been an airline analyst covering the U.S. airline industry since Aug 2000. However, I am not writing on behalf of the airlines, I'm writing on behalf of consumers. As background, my job as an airline analyst is to analyze and forecast the relationship between capacity and pricing as well as analyze the various cost drivers that impact airline profitability, with fuel a dominant cost and profit driver. Excessive commodity and fuel price volatility are dramatically impacting and altering industry economics. While volatility in the commodity markets has always existed, excessive volatility has not. Federal regulators have had the authority to establish position limits to help curb excessive volatility since the Commodity Exchange Act of 1936. Regarding these limits, the 1936 Commodity Exchange Act, Section 4(a), reads:

"Excessive speculation in any commodity under contracts of sale of such commodity for future delivery made on or subject to the rules of contract markets causing sudden or unreasonable fluctuations or unwarranted changes in the price of such commodity is an undue and unnecessary burden on interstate commerce in such commodity. For the purpose of diminishing, eliminating, or preventing such burden, the commission shall, from time to time, after due notice and opportunity for hearing, by order, proclaim and fix such limits on the amount of trading under contracts of sale of such commodity for future delivery on or subject to the rules of any contract market which may be done by any person as the commission finds is necessary to diminish, eliminate, or prevent such burden."

The effects of excessive volatility in commodities ripple far and wide. Many consumers in the future will find travel becoming unaffordable and their options limited as the airline industry continues to cut

service and raise ticket prices in response to the extreme fluctuations in fuel prices. Versus just 4 years ago, there are 26.8 million fewer seats today in the U.S. due to airlines paring back flying and retiring planes. Said differently, today there are 26.8 million fewer options for U.S. consumers, fewer employees needed to support this "new", lower level of flying, and looking ahead, the implication is fewer planes purchased from Boeing and Airbus.

Airlines' fuel costs depend on futures prices (because physical jet fuel is priced from Platts assessed prices, which in turn use futures prices as a key component). If the volatility and prices continue to rise in the commodities markets as experts predict, the consequences looking ahead will be painful for the airlines, labor, consumers, aerospace manufacturers, and subsequently, the economy.
Airlines by necessity will continue to park planes, reduce service, and raise ticket prices.

Deregulation invites capital inflows. Deregulation has historically been good for the consumer. The deregulation of the telecom industry, utilities, and airlines, for example, has permitted consumers to benefit spectacularly. In particular, capital inflows to the airline industry have been the driving force behind a phenomenal number of new entrants that have unleashed intense competition over the past 30 years. Interestingly, nominal ticket prices in the United States, not adjusted for inflation, were flat in 2010 versus 1981; e.g. the average price for the consumer to fly 1 mile in 2010 was 12.86 cents, essentially unchanged from 12.83 cents in 1981.

Deregulation of the commodities industry via the Commodities Modernization Act in 2000, has similarly opened the doors to new entrants and new capital, but the benefits to the consumer are questionable. In particular, financial instruments and investment vehicles including Exchange Traded Funds (ETFs), Exchange Traded Notes, and Commodity Index Swaps now permit the introduction of capital inflows that haven't existed historically, and according to experts, are a major factor behind the excessive volatility in commodity prices today. Of course experts also raise concerns about an adequate supply of crude oil, but what is different today is the ease of investors to speculate around perceived imbalances of supply. For example, commodities are a favorite topic on CNBC's fast money segment. Experts today suggest that physical hedgers account for just 40% of the commodities trading volume (versus 60% historically), with the technical imbalance the major factor behind the excessive volatility we've seen over the past few years. Commodities historically have benefitted from a fair and orderly market, however, today the risk is that the newly proposed position limits do not adequately calibrate the balance between physical hedgers and speculative investor activity. Rather, an overall, aggregate limit on speculative investor activity would be more effective.

Excessive volatility is impacting the participation of physical hedgers, some of whom are concluding that the cost of hedging has simply become unaffordable. US Airways management, for example, reports that the cost to hedge is roughly $150M annually - a prohibitively high cost for the carrier. The strategy used by other airlines today is to hedge, but through purchase of less effective hedges, or "catastrophic hedges" using 'high deductibles'. For example, Southwest in 2011 is 51% hedged with crude above $105, but its hedge book doesn't pay off until crude spikes; at $125, Southwest receives a hedge benefit

of just $0.16/gallon (roughly $242 million on my consumption outlook, at a cost of $141 million). And this is for a credit-grade company.

As background, fuel expense historically has accounted for 10-12% of an airlines total cost structure in the 1990s; but over the past few years, fuel expense has been higher than 40% depending on how well a carrier was hedged. The critical issue is that when 40% of an airline's costs are whipsawed 50% or more within a year because of excessive volatility in the commodities markets, it makes corporate planning an exercise in futility. Management teams by necessity make fleet decisions several years in advance of when an aircraft is actually needed, with decisions lasting 30 years or more. So for example, U.S. airlines in 2008 spent $16B more on fuel than in 2007 and $42B more than in 2003. A $1 change in oil prices equals $425-$475M in annual expenses, so, a $20 move in WTI costs airlines roughly $9B (e.g. money that could otherwise be spent on new planes).

The airlines have adapted and corporate travel managers, consumers, aerospace manufacturers, and the economy are losers. Southwest, the low fare airline is fast becoming a high fare airline out of necessity; Southwest's average fare in 2000 was $86 vs $129 in 2010, and this level of pricing does not permit the carrier to earn a return on invested capital, a reason for why I'm confident fares will continue to climb. Separately, note that elasticity of demand for a $21 fare increase on a $100 is high, but quite low on a $700 fare. So today we're seeing that $700 fare rise by $40 or $50. Finally, related to this, I understand economists report that each penny rise in crude oil takes $1 billion in spend out of consumers' pockets.

As a former employee of two global investment banks, I know 1st hand that they are in fact, huge beneficiaries as are investors, and of course, dictators in the Middle East.

In summary, airlines' fuel costs depend on futures prices (because physical jet fuel is priced from Platts assessed prices, which in turn use futures prices as a key component); airlines have reduced their hedging because it became too expensive due to excessive volatility; the current "concentration limits" proposal is insufficient - instead, there needs to be an aggregate cap on total speculation levels in the futures markets, and a ban or severe curtailment of index funds. Finally, the U.S. must lead the world on this very important issue in order to find a global solution.

Respectfully submitted,

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Note: all view and opinions expressed above are the views of the author solely and not of Hudson Securities.