March 28, 2011

Mr. David A. Stawick, Secretary
Commodity Futures Trading Commission
Three Lafayette Center
1155 21st Street, N.W.
Washington, D.C. 20581

Comments on RIN numbers 3038-AD15 and 3038-AD16: Position Limits for Derivatives

Dear Mr. Stawick,

The Maryknoll Office for Global Concerns brings the experience of Maryknoll missioners and their local counterparts in Asia, Africa and Latin America to policy-making and advocacy circles in Washington, D.C. and at the United Nations. We write to express our support for the CFTC to take measures to prevent excessive speculation in commodity markets.

2008 was a truly desperate year for people around the world in the marginalized communities where Maryknoll works. A missioner in Bolivia reported that of the 52 infants she weighs and measures monthly to monitor growth, nine of them actually lost weight from one month to another while a number of others stagnated for months at a time because their families were no longer able to provide enough food. The long term effects on these children's lives are immeasurable.

The high food prices in Brazil forced a friend of mine, Neide, married with three children, to sell her body for sex in order to feed her children. Ashamed of being unable to provide for the family, her husband left the city leaving Neide in a more desperate situation. To put food on the table, Neide moved in with one of her clients, a crack dealer, who has addicted Neide to crack and abused her children.

Millions of similar stories brought on by the food price bubble in 2008 can be told from all around the world. The fact that spontaneous food riots broke out in dozens of countries where chronic hunger is a reality clearly indicated the desperation of the situation.

Even the possibility that so much suffering was aggravated by excessive speculation should encourage the Commission to take strong measures to limit speculation. We understand that there is still some controversy over whether there is excessive speculation in commodity markets or not, with some claiming that there is no evidence that it is a problem.

We do not see any supply and demand conditions that would warrant the massive price shifts in 2008 and no laws have yet changed to avoid future bubbles. Markus Henn of Germany's WEED has compiled a list of 58 studies, reports and commentaries by respected institutions saying that excessive speculation is a problem.[1] We believe this quote from the U.S. Senate Permanent Subcommittee on Investigations' report on wheat speculation best shows a wide consensus on excessive speculation:

[1] http://stopgamblingonhunger.com/?page_id=848

> Virtually all of the grain traders and many of the market analysts provided the Subcommittee with the same explanation for the large, persistent difference in Chicago wheat futures and cash prices (basis), and for the failure of those prices to converge as the futures contracts near expiration. These grain traders and analysts stated that the most significant factor contributing to the increasing basis and the lack of price convergence was the large presence of commodity index traders in the Chicago wheat futures market … **In previous investigations conducted by the Subcommittee into the operation of the commodity markets, there usually has been a range of views on the causes of particular price movements. Typically, different traders with different market perspectives have had differing views on the behavior of the market. In contrast, during this investigation, there has been a striking unanimity of perspective. Virtually all of the traders and analysts contacted by the Subcommittee stated that the large presence of commodity index traders in the Chicago market was the primary factor contributing to the pricing problems in the wheat market.”** (our emphasis)

For commissioners who are still not sure that excessive speculation is a problem, we believe it would still be logical to vote in favor of position limits. This chart represents the possible outcomes in relation to excessive speculation and implementing position limits:

	Impose position limits	Do not impose limits
Excessive speculation exists	A) Significant improvement in lives of people and overall economy	B) Commodity price volatility increases, millions more families pushed into hunger
Excessive speculation does not exist	C) Possible increase in volatility, less accurate price discovery	D) No change

A) If excessive speculation is a problem, the CFTC could significantly improve the functioning of commodity markets, diminish price volatility and save millions of families from facing desperate situations of hunger.
B) If excessive speculation exists and the CFTC does not impose position limits, commodity markets will become useless for commercial hedging and price discovery and many more millions of people will be pushed to hunger, likely resulting in food riots and political upheaval in many countries.
C) A limited number of investors could move to foreign exchanges, a decrease in liquidity could result in less precise price discovery.
D) Nothing would change.

Clearly, the risks associated with situation B far outweigh the risks associated with situation C. It seems that the logical response from the Commission would be to place position limits and monitor to see if they affect liquidity too severely.

Finally, we agree with the Commission’s assessment in the proposed rule that “the Commission is not required to find that an undue burden on interstate commerce resulting from excessive speculation exists or is likely to occur in the future in order to impose position limits.”
Regarding the details of the proposal, we have the following comments:

1) **We feel the spot-month limit of 25 percent of estimated deliverable supply is far too high** and would not adequately address excessive speculation as required by Congress. We would favor a limit closer to five percent.
2) **Any exemptions to these new rules should be strictly limited to commercial end users who deal in physical commodities.** Banks, hedge funds, pension funds, and organizations that sell commodity indexes, exchange-traded funds and exchange-traded notes should not be included in any exemptions.
3) While the proposed limits on individual speculators may help prevent manipulation, we do not believe it will affect excessive speculation as required by Congress. **We urge the Commission to implement position limits on speculators as a class.** When speculators comprise 20-30 percent of commodity market investments, they serve a purpose of providing needed liquidity, but when they come to dominate 70-80 percent of markets has they have come to control in recent years, the markets become "financialized" and respond less to supply and demand conditions than to investor whims as they try to "balance out their portfolios."
4) **We are especially concerned about the effect of commodity indexes, ETFs and ETNs on commodity markets.** Every dollar invested in commodity markets based on any logic other than supply and demand conditions results in damaging the price discovery function of those markets. These types of instruments bring in hundreds of billions of dollars being invested, not based on supply and demand fundamentals, but on portfolio asset allocation. We believe, therefore, that they should be banned from commodity markets as they bring no benefits to those markets while seriously undermining their functioning. **We urge the Commission to place stricter limits on these types of instruments and consider banning them from commodity markets.**

After much public debate, Congress passed a law with strong derivatives reforms aimed at reducing excessive speculation in commodity markets. We urge the Commission to implement the strongest rules possible to avoid catastrophes like the 2008 food price bubble.

We thank the Commission for the opportunity to comment on the proposed rules. We know that these are not easy decisions and you are under a great deal of pressure. We ask you to especially consider those people who are most harshly affected by commodity prices – the poorest and most vulnerable among us. We will pray for you in these difficult times; that you will make the right decisions.

Thank you for your consideration,

David Kane
dkane@maryknoll.org
Associate for Latin America and Economic Justice

On behalf of:
Maryknoll Office for Global Concerns
200 New York Avenue, N.W.
Washington, D.C. 20001
202-832-1780
www.maryknollogc.org
www.stopgamblingonhunger.com