March 24, 2022

Chairman Rostin Behnam

U.S. Commodity Futures Trading Commission

1155 21st Street, NW

Washington, DC 20581

Dear Chairman Behnam,

Energy, metal and agricultural commodities are once again experiencing significant price and trading volatility. Wild price swings have stressed our markets during an unprecedented stretch of climate-induced severe weather, a global health pandemic, and war in Europe. We value your leadership and commend Commission staff for their dedication and perseverance during these calamitous times.

Commodity markets are perceived to maximize efficiencies for price discovery, allowing producers and end-users alike to hedge against price risk. But reliance on these markets during climate change-induced storms and war-related upheaval is testing limits on effective price formation. It is difficult for markets to work efficiently when extreme events render market fundamentals dysfunctional.

The past two years have seen an extraordinary surge in commodities market volatility. From WTI oil’s April 2020 nosedive into negative territory after speculators panicked over the possibility that counterparties could demand physical delivery upon expiry to the early March spike above $120 per barrel to the collapse of global nickel trading―extreme weather and other disruptions are exposing flaws in market design and operations. The resulting high prices are driving punishing inflation harming American families and small businesses already suffering from economic hardship under the COVID pandemic.

We offer four suggestions to address recent commodity market challenges:

**First**, the Commission must unambiguously reject any bailout for commodity traders. Earlier this month, a lobbying group representing some of the largest traders in U.S. markets―including BP, Shell, Vitol and Trafigura―wrote to European officials demanding government financial intervention.[[1]](#footnote-1) The traders’ gripe is that high and volatile commodity prices are triggering significant margin calls, resulting in a cash liquidity crunch. But this development is proof that regulations are working, as the margin requirements ensure the integrity of clearinghouses. Challenges with traders’ access to credit due to margin requirements won’t result in energy not being produced or delivered, but it will ensure the solvency of the market.

**Second**, the Commission should ensure that automated trading strategies are not disrupting energy markets. When the Commission last examined the issue three years ago, it determined that 80% of energy trades were being executed through automation.[[2]](#footnote-2) It is crucial for the Commission to determine the role automated trading has in contributing to excessive speculation.[[3]](#footnote-3)

**Third**, the Commission should produce status report on whether recently-enacted position limits require strengthening. Nearly a decade after Congress ordered the establishment of position limits to “prevent excessive speculation” in commodity markets,[[4]](#footnote-4) the Commission finalized the rule in October 2020―over the admirable and articulate dissent of now-Chairman Behnam for the rule’s failure to be strong enough.[[5]](#footnote-5) The finalized rule has resulted in exchanges implementing aspects of the limits prior to the initial, formal phase in beginning in January 2022. Section 719(a) Dodd-Frank requires a study on the effects of implemented position limits, which is essential to determine whether the limits need strengthening, in light of evidence of excessive speculation in today’s commodity turmoil.

**Fourth**, enhanced public data reporting in the Commission’s Commitment of Traders reports is necessary to ensure fully transparent, competitive markets.[[6]](#footnote-6) Bolstering the level of trader-level detail and augmenting price reporting information to the public will improve commodity market operations.

Mr. Chairman, we appreciate your consideration, and thank you for your leadership.

Best,

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1. https://twitter.com/JavierBlas/status/1504182020649504775 [↑](#footnote-ref-1)
2. *Impact of Automated Orders in Futures Markets*, Market Intelligence Branch, Division of Market Oversight, U.S. CFTC, March 2019, www.cftc.gov/sites/default/files/2019-03/automatedordersreport032719.pdf [↑](#footnote-ref-2)
3. Gillian Tett, “Beware the algorithms driving up oil prices,” *Financial Times*, February 10, 2022, www.ft.com/content/6e24689d-679f-4b45-ac73-dc1ace2ff69e [↑](#footnote-ref-3)
4. Section 737(3)(B)(i), *Position Limits*, Dodd-Frank Wall Street Reform and Consumer Protection Act, www.congress.gov/111/plaws/publ203/PLAW-111publ203.pdf [↑](#footnote-ref-4)
5. www.cftc.gov/PressRoom/SpeechesTestimony/behnamstatement101520c [↑](#footnote-ref-5)
6. www.cftc.gov/MarketReports/CommitmentsofTraders/index.htm [↑](#footnote-ref-6)