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Testimony of Commissioner Bart Chilton of the Commodity Futures Trading Commission before the Subcommittee on General Farm Commodities and Risk Management U.S. House Agriculture Committee

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Mr. Chairman, Ranking Member Moran, members of the Subcommittee, thank you for the opportunity to be with you today.

In the last decade, we saw the U.S. futures industry grow five-fold when the rest of the world grew three-fold. In several years we saw over $200 billion come into regulated U.S. futures markets. This new money was primarily from speculators, much of which was held by speculators I call "massive passives," those with a known, fairly price-insensitive trading strategy. Then, in 2008, we saw a huge commodity bubble. Wheat was at $24. Today it is around $8. Crude oil spiked to $147.27 and gas was at $4 per gallon. Then the economy and commodity prices all fell off a cliff. Did the new speculators, including the massive passives, contribute to that price volatility—volatility that had farmers and ranchers, small and large agri-businesses and other businesses alike all paying higher prices than they should?

Researchers at Oxford, MIT, Princeton and Rice all say speculative interests had an impact on prices. Some have said the speculators drove prices. In fairness, some on the other side of the issue say there was no impact whatsoever. My take is somewhere in the middle. Speculators didn't drive prices, but they tagged along and helped to push them to levels, high and then low, that we would not have seen without them.

Futures prices should, by and large, be based upon the fundamentals of supply and demand. We saw delinked commodity prices in 2008, and some of us are concerned that we see that taking place this year.

Congress passed the Wall Street Reform and Consumer Protection Act in July. With more than 40 rules to be promulgated by our agency, Congress gave us expedited implementation dates for only nine regulations. For example, speculative position limits for energy and metals are to be implemented within 180 days and for the agricultural complex within 270 days.

As someone who has been calling for these limits, and who appreciates the work of the Committee in this regard since 2008, the early implementation deadline is important. Large and small agri-businesses and other commercial businesses rely upon these markets to hedge their risks. They are having an increasingly difficult time doing so, in part I believe, because of large position concentrations of speculators. Don't get me wrong, without speculators there isn't a market. We need them. We want them. Too much concentration, however, can be problematic and has the possibility of contorting markets.

Now today, we see even larger speculative positions than in 2008. In total, there is $149 billion in speculative money in these markets, representing an increase since June of 2008 of 47% in the energy complex, where we have seen a single trader with positions as high as 20%. In the metals markets, we’ve witnessed an increase in speculative contracts of 20% and one silver trader with roughly 40% of the market earlier this year. In the agricultural complex, speculative interests grew by 18% since June of 2008. All of this makes the implementation of position limits as Congress mandated important.

Some have suggested, however, that we not implement the limits on time because we don't have all the swaps data we need. There is a point there. Congress didn't require that we promulgate the swaps data rule until next July, so how do we come up with a reasonable limit, particularly an aggregate limit, without that data? While this is a worthy point, there are ways to address it. I'd be pleased to explain several options.

Some, however, inside and outside the agency have suggested we simply find a way around the law's implementation deadline. They suggest, for example, that we "implement" the position limit rule, but not make it "effective" until sometime much later. First, we have no such legal authority to do so. Second, that is exactly the type of dancing on the head of a legal pin Washington-speak that folks in the country are all too tired of—and they should be.

We shouldn't be about getting around the law. We should be about working to do what we were instructed to do, to protect markets and help consumers. Congress passed the new law. We must implement it in a thoughtful manner. End of story in my book.

Thank you for the opportunity to be with you. I'd be pleased to try to answer any questions.