United States Senate

WASHINGTON, DC 20510-0905

March 16, 2011

The Honorable Gary Gensler
Chairman
U.S. Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

Dear Chairman Gensler,

There is strong evidence the recent surge in gas prices has little to do with the fundamental supply and demand for oil. Government data confirm that oil speculators are driving the price increase. We urge you to restore integrity to our energy markets by exercising the CFTC's authority to require higher margin levels for speculative oil futures contracts.

Speculators are seizing on recent political turmoil in North Africa and the Middle East to drive energy prices to unwarranted levels. The Commitments of Traders reports reveal that speculators have flooded into the market in recent weeks. Since protests began in Egypt on January 25, 2011, money managers have increased their long positions in NYMEX West Texas Intermediate crude oil futures contracts by more than 35 percent, or the equivalent of 75 million barrels of oil. Oil speculators have increased long positions on the Intercontinental Exchange by nearly 50 percent. At the same time, actual true hedgers have reduced their long positions in the oil futures markets.

The loser in this game of oil speculation is the American consumer. Rising oil futures translate into higher gas prices, and that means Americans have less money in their pockets to pay for basic needs.

In the Dodd-Frank Wall Street Reform and Consumer Protection Act, we empowered your Commission with a number of new tools to rein in excessive speculation and prevent market failures. In addition to mandating speculative position limits, we removed the broad statutory restriction that prohibited the CFTC from imposing higher margin requirements. Section 736 authorizes the CFTC to require higher margin requirements in order to protect the financial integrity of the futures trading markets. Now is the time to exercise that authority. New margin requirements could take effect as soon as July, but the CFTC must begin the rulemaking process now. Higher margin levels would reduce incentives for excessive speculation by requiring investors to back their bets with real capital.

For the same reason we don't let pharmaceutical companies approve their own drugs, we shouldn't let futures exchanges self-regulate by setting their own margin requirements. This hands-off, self-regulatory approach has led to a fundamentally inequitable system in which ordinary investors are required to post 50 percent margin to buy a stock, but Wall Street traders post only six percent to purchase a risky and volatile futures contract.

We urge you to act quickly to raise the margin requirements imposed on speculative oil contracts. The margin increase should only apply to speculators, not true hedgers. This is consistent with current exchange policies that apply different margin requirements for investors and bona fide hedgers. With your leadership, we can discourage damaging and excessive speculation in the oil markets and bring down gas prices.

Sincerely,

Bill Nelson

Maria Cantwell

Bernard Sanders

Sherrod Brown

Barbara Boxer

Al Franken

Jeff Merkley

Patty Murray

Robert Menendez

Mark Begich

John D. Rockefeller IV

Carl Levin

Barbara A. Mikulski