



Oil experts: Curb speculation to cut prices

(article on [CNMoney.com](#))

Near-record oil prices could quickly fall by half if Congress were to rein in speculators, according to testimony Monday from a hedge fund manager and oil company adviser on Capitol Hill. Michael Masters, of Masters Capital Management, told a subcommittee of the House Energy and Commerce Committee that - with greater regulation - oil prices could drop to \$65 or \$70 a barrel within about 30 days. "That's half of where prices are today, and gas prices would reflect that," he said.

Roger Diwan, an adviser to oil companies at Washington, D.C.-based PFC Energy, agreed that regulation could lead to a drop in prices. He said it would take no more than 30 days for speculation in the oil market to decrease and gas prices to fall. With more regulation, "prices will reflect closer the marginal cost of producing oil," Diwan said. The testimony came as Congress, reflecting some sentiment among the public, blamed Wall Street traders for record oil and gasoline prices.

Regulator: Beware unintended consequences

But the head of the agency that regulates U.S. commodity futures said increasing the amount of money speculators need to put up to buy an oil contract - something the agency can do now in emergencies - could have unintended consequences.

"Changing margin requirements may drive businesses elsewhere to London and over-the-counter markets," said Commodity Futures Trading Commission Acting Chairman Walter Lukken. "I'm not sure it would get [index traders] out of the market," he said. Lukken warned that raising margins could drive traders elsewhere, with Tokyo or Hong Kong market as beneficiaries. While Lukken did not say whether or not he believes there is undue speculation in the oil market, he has noted "a lot of growth in swap dealers." He said the CFTC will report to Congress by Sept. 15 regarding "the scope of commodity index trading in the futures markets and recommendations for improved practices and controls, should they be required."

The chair of the oversight and investigations subpanel hearing, Rep. Bart Stupak, D-Mich., had a different take on speculation. "We risk having our economy brought to its knees" by "excessive" speculation in commodity markets, he said. Leaders from the trucking, airlines and heating industries testified before the panel that speculation in the oil market has harmed their bottom lines.

In Congress, nine bills attempt to limit the role of speculators. Several have bipartisan support, but only one was co-sponsored by a Republican. Proposed regulation includes requiring foreign exchanges to provide more information about crude oil trades, limiting the number of contracts speculators are allowed to hold, increasing the amount of money speculators need to put up to buy an oil contract, and removing speculators from the market entirely and limiting trade to just producers and consumers.

Energy speculation at issue

The topic of energy speculation is front and center on Capitol Hill this week. A Senate hearing is scheduled for Tuesday and another House panel examination is set for Thursday. Last Friday, three Democratic House members including Stupak introduced a bill attempting to better regulate the oil markets.

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Market Watch		
	6/30/2008	YTD
DJIA	11,350	-14.44%
S&P 500	1,280	-12.83%
NASDAQ	2,292	-13.58%

Americans driving fewer miles

Americans drove 1.4 billion fewer highway miles in April 2008 than in April 2007, according to the Department of Transportation. Vehicle miles traveled on all public roads fell 1.8%. Americans have driven 20 billion fewer miles overall this year and 30 billion fewer miles since last November. Conservation is considered to be one of the best approaches to combating rising fuel costs. In mid-May, drivers paid 89¢ more per gallon than they did a year ago, according to the Lundberg survey of nearly 7000 gas stations.

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