

Market Research

The Blame Game!

Yes, we have confirmation ... the US is squarely in the center of an energy crisis. How do we know? Simple, America is heavily engaged in *The Blame Game!* The top three Blame Game Themes: 1) It's the Speculators!, 2) Big Oil is too big!, and 3) Foreign Producers are withholding production! In this issue we analyze data from the US Commodity Futures Trading Commission to understand the historical role that speculators have had in the Nymex Crude Oil and Natural Gas futures markets. The charts below display the net position of NonCommercials (Speculators) and Commercials (Hedgers) vs. the price of the underlying prompt month futures contract. First, a few definitions:

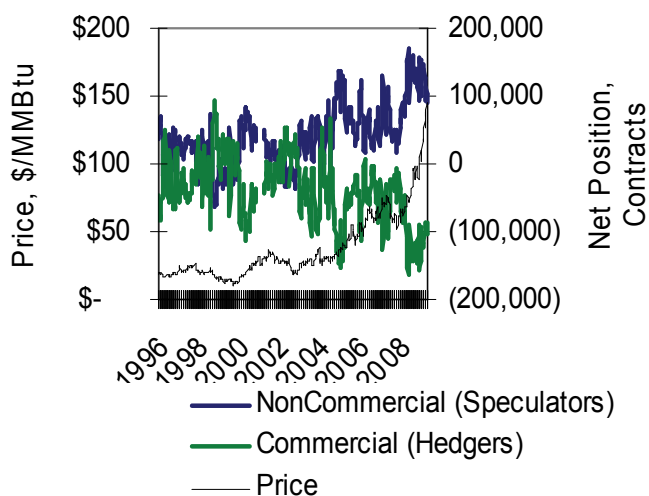
Net Position refers to the total longs less the total shorts within the respective trader classification. The calculation utilized below ignores intermonth spreads within the same commodity.

NonCommercials (Speculators) and Commercials (Hedgers) are defined in CFTC Regulation 1.3(z). Regulations require every trader to declare their trading status upon execution of a futures clearing agreement. The CFTC requires large firms to report positions monthly. The charts below utilized the futures plus options positions to obtain a complete view of the respective trader class strategy.

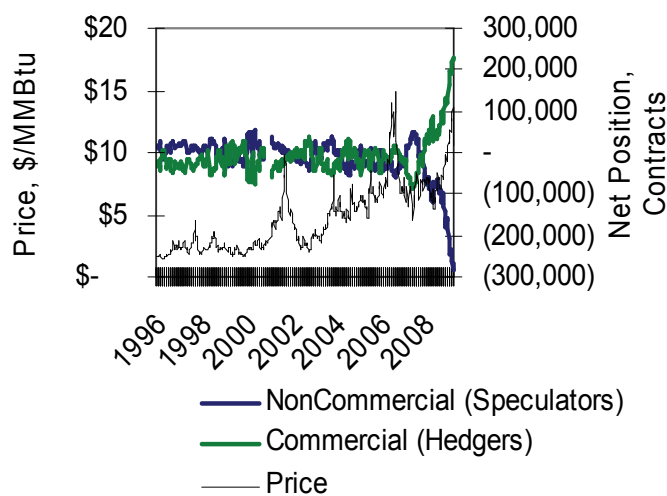
Several conclusions can be drawn from the charts below. First and foremost, speculators and hedgers hold nearly equal and opposite positions over time. Speculators accept the risk that hedgers desire to eliminate from their portfolios. Hedging is a prudent risk management strategy for commercial firms. Second, hedgers held the net long position during the recent natural gas ascent from \$4 to \$13. Conversely, speculators held the net long position during the recent crude oil ascent from \$40 to \$140.

The data 1) clearly identifies the interdependencies between hedgers and speculators, and 2) debunks the speculator myth. The Blame Game is a political and emotional response to a global fundamental supply/demand imbalance.

Nymex Crude Oil Net Positions vs. Price



Nymex NatGas Net Positions vs. Price



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