U.S. House of Representatives
Committee on Natural Resources
Washington, DC 20515

March 14, 2012

Chairman Gary Gensler
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Dear Chairman Gensler:

I am writing with respect to the Commodity Futures Trading Commission's (CFTC) rulemakings under the Dodd-Frank Wall Street Reform Act. The new protections you are developing are critical to bringing greater transparency to commodity trading and preventing market manipulation, which may be contributing to the current high price of gasoline. I commend your efforts and urge you to move as quickly as possible to finalize and implement these rulemakings. As you know, I joined with several other House Members last week to write you on the subject of speculation in the oil markets, and I trust that you will respond to that letter shortly. I write to you today on a related subject: the vulnerability of the oil commodity markets to rumors.

The House Natural Resources Committee, where I serve as Ranking Member, has jurisdiction over oil production on federal lands, the royalties charged for that production, and the bonus bids submitted by companies seeking leases to produce oil on public lands. Production levels on federal lands are influenced by the price of oil, which is determined by trading on global commodities markets and in derivatives markets such as the New York Mercantile Exchange and the Intercontinental Exchange. The Natural Resources Committee therefore has an interest in ensuring that these markets are not subject to manipulation, so that they can serve their price discovery function.

The oil markets are now responding to fears that conflict in Iran could lead to a further reduction in already tight oil supplies. Since Iran threatened to block oil shipments through the Strait of Hormuz at the end of December, international oil prices have increased by $17 per barrel and U.S. gas prices have increased by 46 cents a gallon—even though supply has essentially remained constant.[1]

The markets may be more sensitive to rumors because of this heightened concern about oil supplies and the reliability of such supplies. On March 1, a rumor of an explosion in a Saudi Arabian pipeline caused an immediate $3 dollar spike in the price of a barrel of oil on the New York Mercantile Exchange. The price of oil had been falling that day, but the rumor of the pipeline explosion made it possible for some parties to sell their oil supplies at a higher price than the market otherwise would have paid. While the Saudi Arabian government swiftly denied the rumor, the price did not immediately return to its prior level but declined only slowly over the course of the afternoon. Moreover, the highest volume of trading occurred shortly after the story was published and before the rumor could be dispelled.

The source of the rumor also raised suspicions among various market participants. The first report of the pipeline explosion appeared on Iranian state television's English language website, according to Bloomberg News. Some commentators have suggested that the publication of this story was actually an effort by the Iranians to pump up the price of oil and allow them to sell their stocks at a premium. "The report of the pipeline fire seems to have been a very successful scam by the Iranians…," Filip Petersson, commodity strategist at SEB AB in Stockholm, told Bloomberg News. "They want higher oil prices to compensate for lost export barrels and are obviously using various means to achieve it. The success clearly shows how nervous the market is."

In order to better understand the facts and circumstances surrounding this event and how we can prevent foreign governments, rogue actors, and others from manipulating oil prices, I request that you respond to the following questions:

1) Is the oil market increasingly sensitive to false rumors and trading activity generated by such rumors? If so, why? And are such rumors significantly inhibiting the price discovery function of the oil commodities markets?
2) Has the CFTC ever seen any indications that market participants might be creating or disseminating false rumors in order to benefit trading strategies or trading positions of such market participants?

---

[1] The resumption of Libyan oil production has partially offset disruptions in Yemen, Syria, and the Sudan.

3) The CFTC published a rule in July 2011 prohibiting price manipulation. Has the CFTC brought or settled any formal enforcement actions against any persons for price manipulation? If so, please describe the resolution or status of any such investigations, and provide the time period in which the investigation has occurred. If not, why not?
4) Under CFTC practice, at what point does the existence of an enforcement inquiry for formal enforcement action become public information?
5) Does the CFTC believe that it currently has sufficient information regarding trading in oil futures and derivatives to be able to promptly detect and respond to potentially manipulative or fraudulent activities that could affect futures and derivatives prices or prices in related spot markets? If not, what additional information does the agency require?
6) Is the CFTC in the process of analyzing oil trades in the market on March 1? If so, have any suspicious trades been identified?
7) Are there any indications that the Iranian government or an entity connected to that government was the source of the rumor that led to the spike in the price of oil on March 1?
8) Last spring, President Obama asked Attorney General Eric Holder to work with state and federal agencies to monitor oil and gas markets for manipulation. Attorney General Holder responded by forming the Oil and Gas Price Fraud Working Group, which includes personnel from, among other agencies, the Department of Justice, the CFTC, the Department of the Treasury, and the Securities and Exchange Commission. During his press conference last week, President Obama stressed that he has asked Attorney General Holder "to reconstitute" that "task force" to examine speculation in oil. Has the CFTC discussed the event in the oil futures market on March 1 with other members of the Oil Price Fraud Working Group? Please describe any actions being taken by the Working Group in response to this event.
9) Are other rumors suspected of causing price spikes in the last few months? If so, please describe these events and any actions the CFTC is taking in response.
10) The CFTC is supposed to be the "cop on the beat" for the derivatives market. Congress is currently considering the President's recent request for additional funding for the CFTC in FY 2013. Will you use some of this additional funding to investigate cases of possible market manipulation of oil prices such as the false rumor on March 1? What would be the consequences for investigations of market manipulation of oil prices if you do not receive additional funding for FY 2013?
11) Are you concerned that foreign governments or other rogue elements can cause price spikes in our energy commodities? What specific steps is the CFTC taking to protect the commodities markets from such threats?

Thank you for your assistance and cooperation in this matter. Please provide me with a written response to these questions by March 30, 2012. If you have any questions, please contact Justin Slaughter on my staff at (202) 226-9971.

Sincerely,

Edward J. Markey

Edward J. Markey
Ranking Member
Committee on Natural Resources