

Posturing in the Congress: Ankle-Biting the Genocidalists

by John Hoefle

With oil and food prices soaring, the U.S. Congress held a set of hearings in late May to investigate. That's the good news. The bad news is that the hearings were largely useless because they did not address the cause of the soaring prices, preferring instead to examine some of the effects. One of the hearings examined the question of financial speculation in the commodities markets, while the other two focussed on the reasons for high oil prices. These matters are certainly worth investigating, but they can only be competently addressed within the context of the collapse of the global financial system, which is driving the rush into commodities speculation, and driving up prices. Because that context was missing from the hearings, they accomplished little more than calling attention to problems of which people are already painfully aware.

The sharp rises in the prices of food, oil, and other commodities are due to the collapse of the global securities markets, and the enormous losses that collapse has imposed on the balance sheets of speculators of all stripes, from banks to hedge funds to money market funds, and pension funds. The speculators, desperate to find a place to make money to plug the holes in their own books, are increasingly turning to two areas of the "market" where buying and selling is still occurring: food and oil.

The reason why the food and oil "markets" are active, is because people still have to eat, and the functioning of the economy still requires transportation. We put the word markets in quotation marks because basic human necessities should not be treated as grist for financial speculation. Pricing the necessities of life out of the range of a growing portion of the population is unacceptable, and must be stopped. Killing the poor to save the rich is a crime against humanity.

The Three Monkeys

The first of the hearings was held by the Senate Homeland Security and Governmental Affairs Committee, on the question of "Financial Speculation in Commodity Markets: Are Institutional Investors and Hedge Funds Contributing to Food and Energy Price Inflation." The committee, headed by political transvestite Joe Lieberman, was rigged from the start, stacked with what one might call "market friendly" witnesses, including the proverbial three monkeys (see, hear, and speak no evidence of manipulation) from the Commodities Future

Trading Commission (CFTC), a speculators' trade group, and the Council on Foreign Relations (CFR).

Jeffrey Harris, the chief economist of the CFTC, was the first of the monkeys to speak (excluding Lieberman, who is more of an ass). Harris claimed that the commodities markets "play a critical role in the U.S. economy," and that "overly restrictive limitations ... would likely have negative consequences for commerce in commodities and ultimately, for the nation's economy." Harris went on to note that "commodity exposure substantially reduces portfolio risk when combined with equity and/or debt investments" and that "on average, portfolio volatility was reduced by ten percent by diversifying into commodities."

The next time you are in the checkout line at the grocery store, or filling your tank at the gas station, you should take great comfort in knowing that you are doing your part to reduce portfolio volatility for speculators. I'm sure the speculators appreciate your pain. You might even consider bleeding a little extra, just to help out.

Thomas Erickson, the chairman of the Commodities Markets Council (CMC), proved to be an even bigger jerk, expressing the view that "given time to respond, market participants will adapt." That might sound a bit callous, but Erickson is also a vice president of Bunge, one of the powers in the international grain cartel, a group not known for its humanitarian impulses. Perhaps he didn't really mean to suggest that once all the people who could not afford food died off, things would settle down. That might be unpleasant, but it is hardly a reason to interfere with what he termed "legitimate 'financial hedging.'" Sometimes, sacrifices have to be made.

Representing the CFR was its director of international economics, Dr. Benn Steil, who asserted that there is "very little evidence" of manipulation in the commodities markets, claiming that "commercial rather than speculative position changes are driving price changes." The CFR is not exactly known for its expertise in commodities, so it is fair to suspect that Steil was at the hearing representing the financial markets, and adding its weight to the "mind your own business" arrogance which dominated the hearing.

Oops, Something Interesting

The most interesting testimony was from Michael Masters, a hedge fund manager and commodities speculator, who

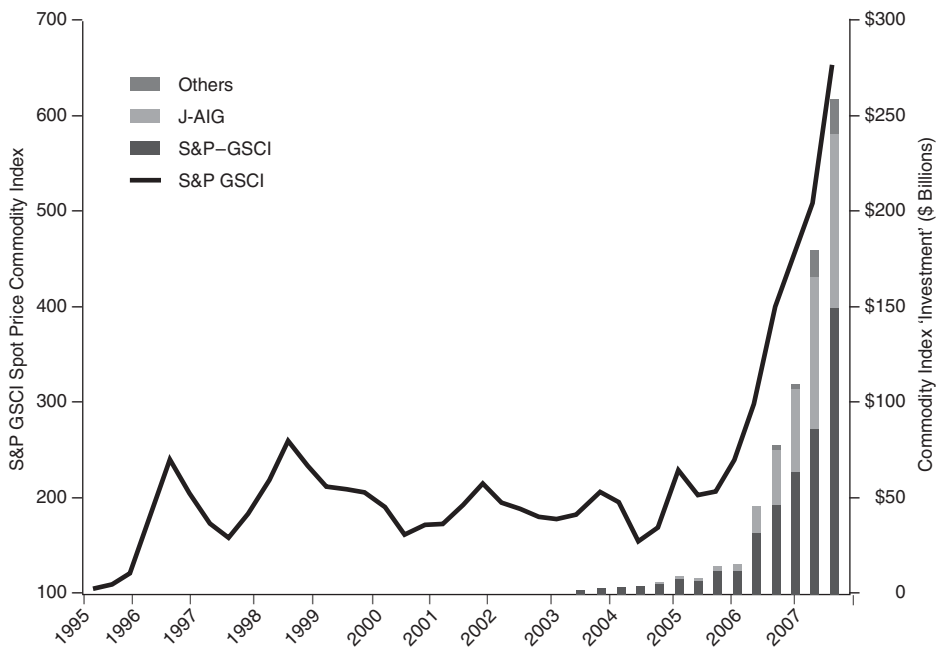
asserted that institutional investors were driving up commodities prices. He produced a chart (**Figure 1**) which showed the relationship between the rise in commodities prices, as represented by the S&P Goldman Sachs Spot Price Commodity Index (S&P GSCI), and the influx of funds from institutional investors into the commodities market. Masters called these institutions “index speculators” because they allocate their funds across the 25 key commodities futures in the major commodities indices, and that those funds have grown from \$13 billion at the end of 2003, to \$260 billion as of March 2008, or 183% in five years.

Compare Masters’s chart with the rise in the price of crude oil (**Figure 2**) and the similarities are obvious. Part of the reason, is that oil and oil-related products make up nearly 80% of the S&P GSCI and a third of the Dow Jones-AIG Commodity Index. Things begin to get interesting, however, when you compare these curves to the sharp drops in activity in the securities markets. Activity in the market for private label mortgage-related securities (that is, those not issued by agencies such as Fannie Mae and Freddie Mac) have collapsed in recent months (**Figure 3**), as has the market for collateralized debt obligations (CDOs) (**Figure 4**). Both of the securities charts show the issuance of new securities collapsing dramatically, in the same period that oil and the commodities prices shoot upward.

What this means is fairly obvious: As the securities markets blew up, speculators surged into the commodities markets, driving prices into the stratosphere. The high commodities prices, including those of food and oil, are the result of the collapse of the global financial system, and the failure of the Bush/Cheney Administration and the Congress to do anything to protect the population from its effects. In effect, it is open season on ordinary people, as the system is warped to protect what FDR called the “economic royalists.”

FIGURE 1

Commodity Index Investment Compared to S&P GSCI Spot Price Commodity Index

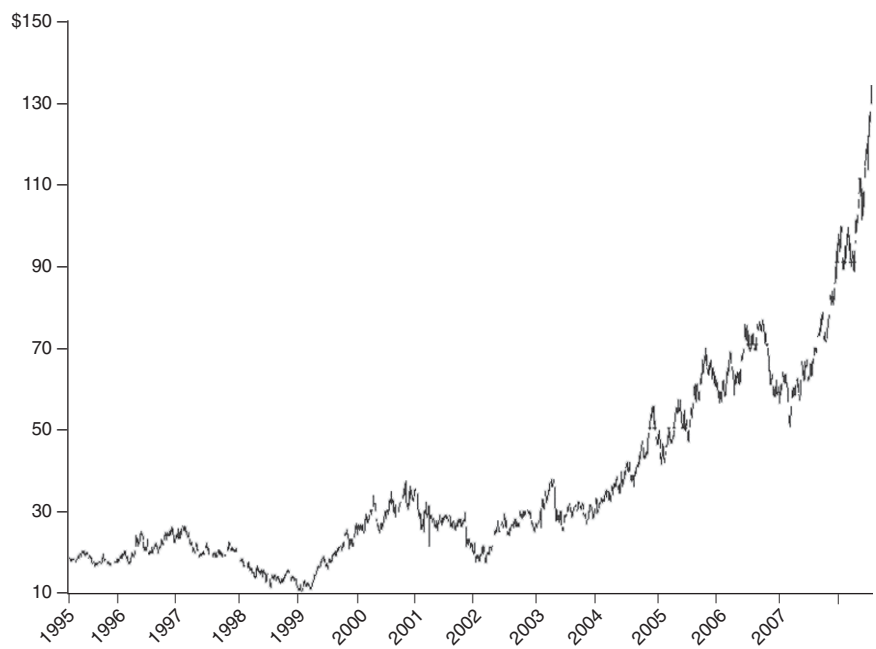


Source: Goldman Sachs, Bloomberg, CTTC Commitment of Traders CIT Supplement.

FIGURE 2

Price of Crude Oil

(\$ per Barrel)

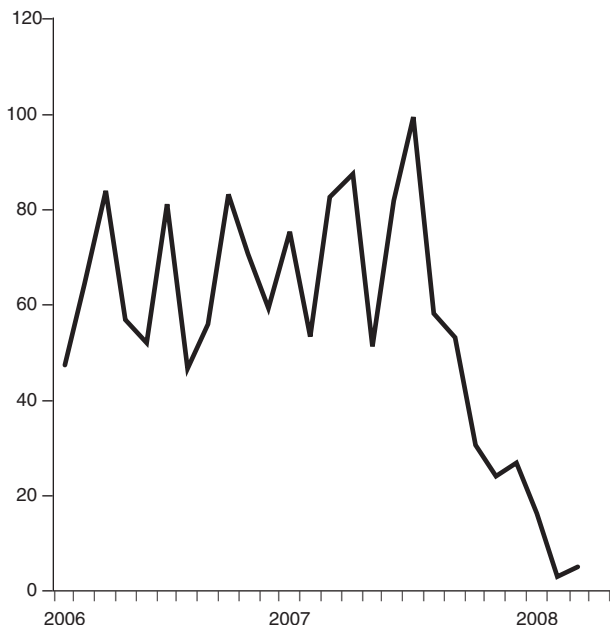


Source: New York Mercantile Exchange.

FIGURE 3

Non-Agency Mortgage-Related Securities Monthly, 2006-2008

(\$ Billions)

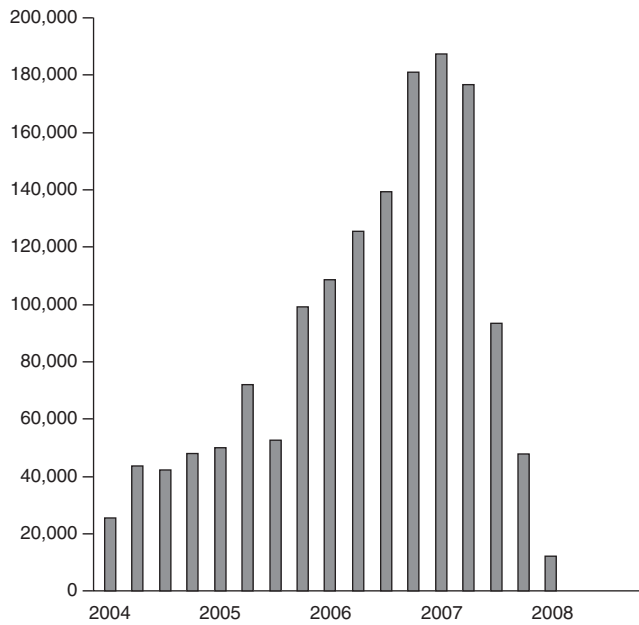


Source: Securities Industry and Financial Markets Association (SIFMA).

FIGURE 4

Total Collateralized Debt Obligations (CDO) Issuance by Quarter

(\$ Millions)



Source: Securities Industry and Financial Markets Association (SIFMA).

Crude Performance

One would think that Congress, with all the resources at its disposal, could uncover this picture, but judging by the hearings on oil, they apparently can't. The Senate Judiciary Committee hearing on May 21 and the House Judiciary Committee hearing the following day, consisted of little more than hauling oil company executives in to be grilled by Democrats and defended by Republicans. While it might be satisfying to watch the oil execs get grilled, the hearings accomplished nothing, because they were focussing on the wrong subject.

The oil companies are certainly guilty of price-gouging and making obscene profits, but they are only part of a larger system, and attacking them alone accomplishes little. The oil cartel executives, all reading off the same page, blamed the super-high price of oil on a market over which they have no control, in a world dominated by "an international cartel of oil-producing countries." To listen to them talk, you'd think they were victims, struggling heroically to provide energy to an ungrateful world.

Take the plight of Shell Oil Co., the U.S. arm of Anglo-Dutch energy giant Royal Dutch Shell, for example. John Hofmeister, the retiring president of Shell Oil Co., claimed that oil is "a highly competitive industry." He cited as proof, the "competition emerging with brands such as WaWa, Sheetz,

and Turkey Hill." It's a wonder that Royal Dutch Shell can even stay in business, faced with such competition.

Things are so bad, testified Chevron vice chairman Peter Robertson, that "energy companies are making very little money on retail gasoline."

Shell's Hofmeister did allude to the falling value of the dollar as a factor in the higher oil prices, adding that "global investment funds are rebalancing their portfolios to include a higher portion of commodities, including oil and natural gas."

Stop the Insanity

If the Democrats in Congress really want to shake things up, they should haul the Queen of England and some of the grandees of the City of London before one of their committees, and grill them. As we have covered in past articles, the oil market is dominated by the giant oil companies which collectively form the London-centered oil cartel. Oil in the ground is worthless without the capability to transport, refine, and market it; and the oil cartel dominates that capability. The cartels of the British Empire—among them oil, grain, and finance—are all part of a conspiracy to depopulate the world through their control over the supplies and prices of the necessities of life. If Congress is serious, it should stop the ankle biting, and go after the British Empire.