OPENING STATEMENT
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HEARING ON
EXCESSIVE SPECULATION
IN THE WHEAT MARKET
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Mr. Chairman, I want to thank you for calling this important hearing. The people of Oklahoma are, I think, *uniquely* invested in the commodities markets and are interested in the subject at hand. Oklahoma is the delivery point of West Texas Intermediate crude oil, the global benchmark. It's delivered in Cushing, Oklahoma, not far from my home town of Muskogee. My state also produces a tremendous amount of "hard red winter wheat." So, coming from a farming state, I have had a particular interest in this investigation and am pleased with today's hearing.

Commodity markets exist to help buyers and sellers price their goods efficiently and to manage risks—risks associated with producing and carrying inventory, with acquiring financing, with unanticipated price changes over time. Seasonally produced crops—such as wheat—can be particularly vulnerable to some of these risks. *I* know—I have a lot of friends back home who are farmers, merchants, and elevator operators, and I can tell you they're hurting. As if soaring energy and fertilizer costs last year weren't enough, folks also had to deal with volatile wheat prices at home, an evaporation of credit (if not outright insolvency) at their bank, and a stronger dollar that made their product less competitive abroad—where much of the Oklahoma wheat crop ends up. All of this on top of a persistent, years-long nonconvergence problem in the Chicago wheat market.

At the outset, however, I want to be clear: *we are not alleging any wrongdoing* on the part of index investors or anyone else; these investments represent individuals making economic choices in a free market, regular Americans seeking slightly better returns for their university endowments, stock portfolios, and retirement funds. Index investors are really nothing more than teachers, firefighters, policemen and average hardworking people. Nor are we alleging that index investors *caused* high *cash* commodity prices or that they are somehow responsible for more expensive consumer goods like cereal, crackers, and bread. Our investigation *did not* support such conclusions.

Our investigation *did*, however, reveal that an abundance of long open interest helped to inflate *futures* prices and thereby disconnect futures from cash prices, impairing farmers' and elevator operators' ability to hedge price risk. Because, in the absence of convergence, elevator operators are often forced to liquidate their stocks at a cash price well below the futures price at which they had establish their hedges. This results in expensive and unnecessary losses and drives market participants not to use the futures market at all, hardly a desirable result.

Very few industry participants disagreed that index fund participation contributed to the problems in the Chicago wheat market. For most, the focus of their criticism was not the index investors, but the CME contract, which they believe created persistent structural problems in a market that the large index influx merely *exacerbated*.

So what is the best solution? Frankly, I agree with Mr. Coyle, with the National Grain and Feed Association, that a free market solution is most desirable, and I, too, "prefer to see the wheat contract come back into balance with *minimal intervention*" from the federal government. The question is: is this possible? On the one hand it has not yet done so, but on the other we have seen some recent changes to the CME contract that I hope will do the trick. I applaud the CME for their recently-implemented contract changes. Just this month, it amended its wheat contract, chiefly to provide for additional delivery locations and to increase the storage rate for wheat.

Lastly, a word of caution: like a lot of "solutions" to complex problems, those offered here today—compelled load-out, additional delivery points, higher storage fees and even our own report's recommendation—carry the risk of unintended consequences. While there is little doubt that scaling back index participation will work to improve convergence, investor capital does not stand idle for long, and interest will flow into other products and other markets, perhaps overseas. The world is "flat," and global competition for capital has become more fierce than ever before. The United States is losing this competition to countries like Singapore, Luxembourg, Hong Kong, and especially the U.K. Nations such as these are making smarter tax and regulatory policies, and these decisions are paying great dividends in the form of increased jobs and investment. These countries understand that financial activity—especially those relating to derivatives and money management—crosses international borders with the greatest of ease, and they have rolled out the welcome mat.

So our challenge is to, as *unintrusively* as possible, help to restore balance to the Chicago market and help to ensure a well-functioning marketplace, one with a helpful balance of liquidity, volatility, and risk, and one that does not unnecessarily harm economic activity.

I thank the witnesses for their presence here today and look forward to hearing their testimony.

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