

perinflationary commodity price bubble, as desperate financial firms tried to keep alive by speculation.

CFTC Oil Data Confirm LaRouche Forecast

by Paul Gallagher

Under intense Congressional pressure since late May, the Bush Administration Commodity Futures Trading Commission (CFTC) has apparently been doing its job—investigating the commodities futures markets, and even attempting to get information on the “completely dark” over-the-counter futures trading. The results are getting extremely interesting.

Especially interesting, the results of interrogating the British Financial Services Agency about the Intercontinental Commodities Exchange (ICE) in Atlanta, which, incredibly, the CFTC had been allowing the British to “regulate” until \$4/gallon gasoline got Members of Congress screaming.

According to anonymous reports from officials familiar with the CFTC investigations, the data are revealing that the oil futures price markets went through a hyperspeculative phase change at the end of July 2007. Speculation became dominant over commercial uses of these markets, along with illegal hoarding, and manipulation of the sort made notorious in the British-run “oil hoaxes” of the 1970s. The oil price, then, more than doubled in 11 months, and the prices of wheat, rice, corn, and other vital food commodities exploded, triggering global famine threats.

The timing is notable: July 25, 2007 was marked by economist Lyndon LaRouche’s webcast announcement that the international banking system was in collapse. LaRouche said consequences would follow: mass home foreclosures (within a month he introduced his Homeowners and Bank Protection Act [HBPA] as the “fire-wall” against the mortgage bubble meltdown); and—if central banks reacted to the banking collapse with bailouts—hyperinflation. Massive central bank money-printing would allow banks, investment houses, and hedge funds to bail out of some of their worthless securities, and pour their own and their clients’ funds into a new commodities futures bubble.

The CFTC is unintentionally revealing that the banking collapse LaRouche announced, triggered a hy-

The Phase Change

On July 18, this year, the CFTC revealed that data it had gathered showed that 81% of all ICE, and 48% of all NYMEX oil futures trading, was speculation in “paper barrels”—not a function of production, distribution, or use of energy commodities. This was exactly the opposite of what CFTC chairman Walter Lukken, and New York Mercantile Exchange CEO James Newsome had been telling Congress at hearings during June.

And most of this speculation was being run, the CFTC found, by a few very large speculative corporate, hedge fund, and bank operations. Names that leaked out, were the Swiss-based Vitol oil-trading firm, and the Morgan Stanley investment bank.

Then, on Sept. 4, the *Wall Street Journal* learned that CFTC investigators are finding that big speculative operators engaged in market manipulations of the type made notorious in the 1970s’ “oil hoaxes”: keeping “floating inventories” at sea; falsely reporting inventories in tank farms, etc. The *Journal* was told that the CFTC is “examining ... a rapid shift in the structure of oil markets at the end of July 2007. Price relationships [between short- and long-term futures] flipped in a way that was extremely profitable for traders.... Suddenly, oil for immediate delivery became much more expensive when a glut of oil at a key hub in Cushing, Okla. rapidly drained.”

The oil futures price, then at \$70, took off, and did not stop until it reached nearly \$150 in June 2008.

The CFTC’s forced new level of investigative activity, from late May onward, may have been a significant factor in the temporary breaking of the speculative commodity bubble, with prices sliding in June and July.

Some of the biggest hedge funds most prominent in these markets have, in the process, been ruined—most notably the \$4 billion Ospraie Capital Partners, which had to liquidate on Sept. 2; and the Rothschild-run \$20 billion hedge fund Atticus Partner, which reportedly has lost 30% of its capital. This is an ironic form of proof of the dominance of speculation in the commodities bubble.

A further irony: The CFTC has also discredited itself. Democratic Senators have jumped on the fact that the CFTC is revealing that its testimony to Congress in June was completely false, at the height of demands for reregulation—which the CFTC opposed.