Where Are These Speculators?

The problem with holding truths to be self-evident is we live in a world where, sooner or later, someone is going to ask you to substantiate your beliefs unless, of course, you are starting a new religious cult or conspiracy theory and can find enough people to go along with your excellent adventure.

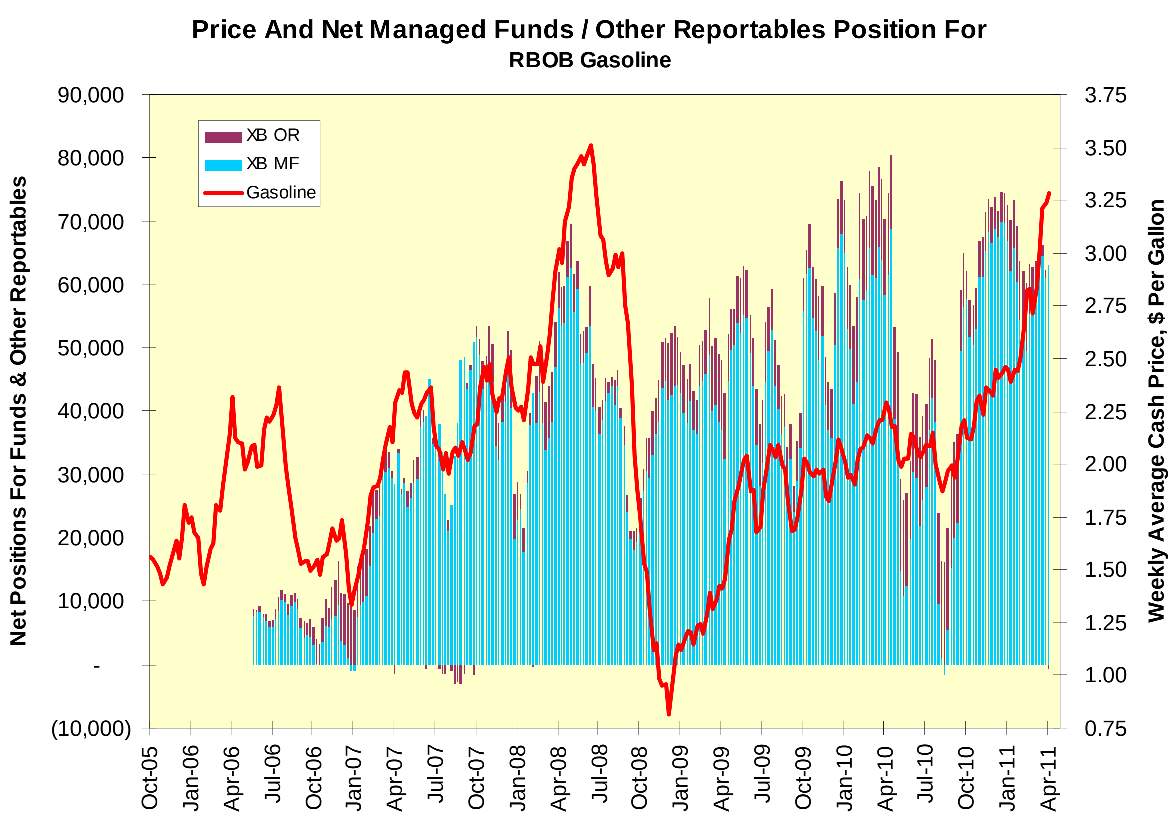
Let's take commodity speculation, please. That we are or have been in spectacular bull runs for a number of physical commodities over the past few years is demonstrable on the surface via price alone. Take a recent chart of silver or one of cotton from earlier in the year and all semblance of a two-way discussion should disappear and disappear quickly. The facts are your proof.

Now let's try to associate people with those prices. An old joke in markets was, when asked why the price of something was rising, was to reply, "More buyers than sellers!" That was not quite true; the actual answer is and has always been, "More anxious buyers willing to pay a higher price." You do not need a greater quantity of buyers or a greater number of open positions in futures markets to propel prices higher; all you need is for those buyers to believe still-higher prices lie ahead.

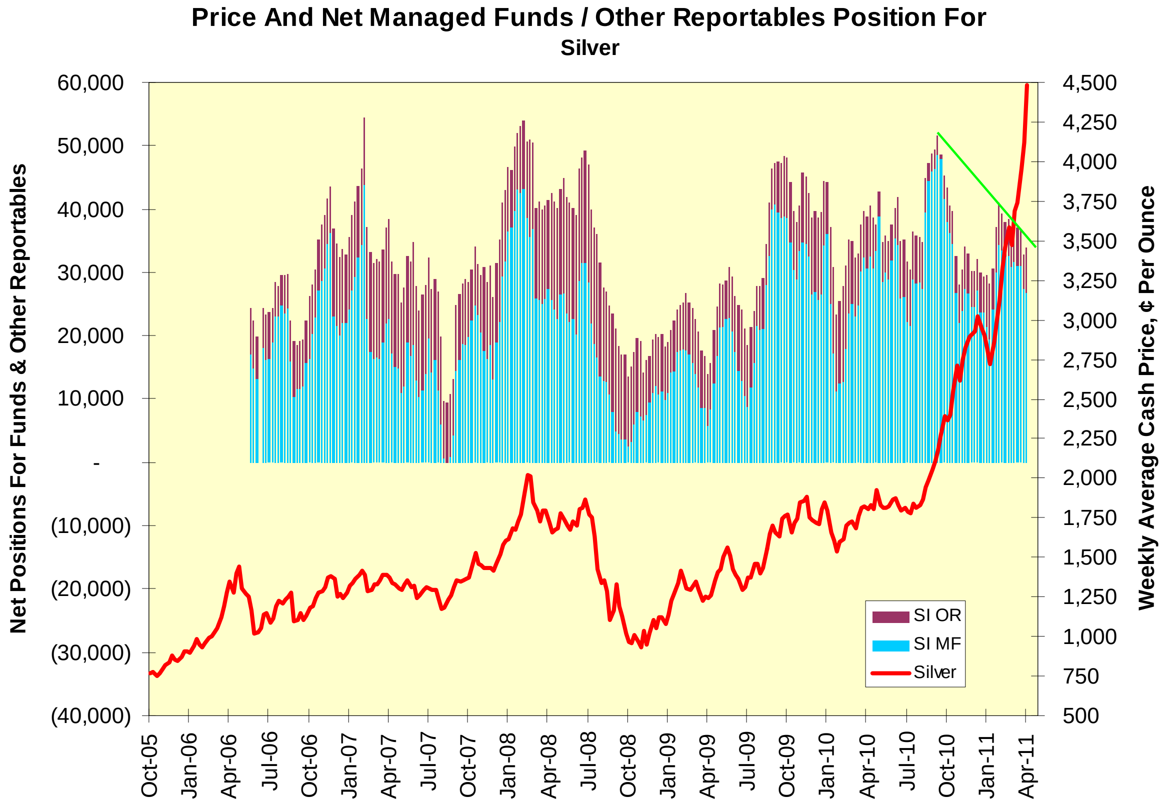
Commitments of Traders

Let's take a look at this in a very narrow sense using the disaggregated futures data from the CFTC for a market such as RBOB gasoline. The CFTC has split its old Commercial and Non-commercial categories into a mix including the self-explanatory category of money managers and the less-obvious categories of producers/merchants, swap dealers and something called "other reportables." A clear definition of the latter is really not available on the CFTC's Website, but it seems to subsume proprietary trading desks.

Let's take a look, then, at the net managed funds and other reportables' positions against the weekly average cash market price for RBOB gasoline. A couple of things are observable immediately, including the very simple fact that regardless of whether gasoline prices are rising or collapsing as they did in 2008, both the funds and the other reportables are net long. A second observation is the two categories' combined positions were higher during the 2009-2010 trading range than they have been during the recent price surge.



What about, say, silver? Here, too, the funds and other reportables are net long. What is remarkable, though, is how their combined net long positions have been declining since late 2010, as marked with the green trendline. This is not evidence of a massive pile-up of futures positions, but rather of a narrowing advance. A small number of aggressive buyers simply is pushing the price higher; whether they are right or wrong in the long-term remains to be seen.



The political implications should be straightforward, but will not be. We will embark on yet another search for speculative miscreants; the White House has embarked on this course already. These investigations have been a regular feature of American life since the first oil shock of the 1970s and always deliver very little.

The problem does not lie with the speculators, as they are hard to identify and do not seem to be part of a swelling multitude. The problem lies with someone deciding a lump of shiny metal that does not represent any productive value is a good store of value.