news
cafécoop

Rumors Emerged About Big Found Liquidation

Edited by Marvin G. Perez
mperez@coffeenetwork.com

New York (Coffeenetwork) With commodity markets tumbling in recent weeks, it's not surprising that rumors emerge about big liquidations from hedge funds or some other market participants as possible culprits for a decline, which is largely welcomed by consumers and industry players.

Over the last few sessions, rumors circulated that big fund liquidations were to blame for the plunge seen in grains and natural gas futures, raising fears that the same thing could happen in other markets, such as coffee.

On Wednesday, there were rumors permeating the market Wednesday about possible action from the Commodity Futures Trading Commission, which – the rumor said – forced a hedge fund to liquidate its grain positions.

Corn and wheat futures prices have more than doubled in the past 18 months and soybean has also seen a big jump. But prices have fallen steadily since early July – as was the case for coffee - and accelerated

Monday, when the CRB Reuters Jefferies

Commodity Index dropped 3%, its largest one day sell-off since last March.

Up to early July, the CRB index had risen nearly 30% in 2008, but has given up most of that, and is up just 11% as of Tuesday Aug. 5.

Grain traders blame the recent drop in prices to market fundamentals, including good weather for the crop in the United States. The sharp declines in oil prices have also dragged the entire commodity index.

"Today's rumored forced hedge fund liquidation- if accurate- could signal CFTC follow through on Lufkin's pledge," commented a trader, referring to CFTC Chairman Walter Lukken. "The prospect and or potential for more forced fund liquidation of situations that do not meet CFTC hedge exceptions will certainly cast a pall over the grain markets for the next week that will be difficult for bulls to cope with - especially with favorable weather and a potentially bearish crop report in the wings."

CFTC PLEDGES MORE OVERSIGHT

Called for comments on the recent talk on forced fund liquidations, a CFTC spokesman gave the customary answer that the CFTC does no comment on market rumors, but referred to the June 3 initiatives.

CFTC chair Lufkin, under intense Congressional questioning, several weeks ago committed to reviewing all existing hedge exceptions to ascertain if each met CFTC guidelines.

On June 3, the CFTC announced several initiatives to increase the transparency of agriculture futures markets, including requiring more detailed information from funds that trade commodity index investments and developing a new monthly publication ontrader data.

In a rare step, the CFTC also announced in the spring that it was investigating the oil and cotton futures markets due to rapid price increases in those commodities. The CFTC usually keeps such investigations confidential.

JULY 29 MEETING

On July 29, Federal regulators met to scrutinize the role of financial speculators in driving up prices for corn, cotton and other agriculture commodities during an all-day meeting. Representatives from farm groups, futures exchanges, and the banking industry discussed the issue before the CFTC's agricultural advisory committee.

The meeting came as the CFTC, under pressure from Congress, is stepping up its oversight of futures markets.

Representatives from several futures exchanges, including the CME Group Inc., which operates the Chicago Mercantile Exchange and the Chicago Board of Trade, made presentations to the advisory committee.

Members of the advisory committee include the American Farm Bureau Federation, National Corn Growers Association and American Soybean Association, as well as financial groups such as the Managed Funds Association, which represents hedge funds.

In late July, Sen. Maria Cantwell, D-Wash., blocked three Bush administration nominees for the five-member commission, complaining that the CFTC hasn't been aggressive enough in combating the role of speculators in boosting oil prices.

The nominees included acting CFTC Chairman Walter Lukken and acting commissioners
Bart Chilton and Scott O'Malia.

COMMODITIES AHEAD, BUTHEDGE FUNDS HURTING

Coffee traders say that rumors of this kind discourage industry participation in commodities as they suspect that similar swings are likely to come – but if that was not the case, there would not be a market, some argue.

Whatever the reason, the certain fact is that commodities have lost some of their luster displayed earlier in the year, say market participants. And yet, the category is still ahead of the stock market.

The Dow Jones Industrial Average is down 12.4% for the year. In fact, of all major stock indices across the globe, only the Caracas Stock Exchange is up in 2008, up 5%. China leads the world to the downside, down 47% so far in 2008, followed by Belgium, Russia and India, down 26%. Canada is the second best performer worldwide, down 4% so far this year.

Amid this environment, even the mighty hedge funds are hurting and learning the ropes of a changing world.

Although some hedge funds have received returns on investments in commodities and emerging-market stocks and are still outperforming the broader market, as a whole, the industry's July performance was its worst since July 2002. Opening data from Hedge Fund Research suggested that the industry was down 2.8% for July. By comparison, the S&P 500 index suffered only a 1% fall for the month of July, but is down 14% for the year.