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Senator Cantwell/Americans for Financial Reform/Commodity Markets Oversight Coalition Press Conference
February 3rd, 2010 1 pm

Good afternoon Senator Cantwell, members of Americans for Financial Reform, the Commodities Markets Oversight Coalition, and members of the press. My name is Michael Masters; I am the founder and managing member of Masters Capital Management, an investment management firm. For the past two years I have tried to call attention to the critical need for derivatives reform in food and energy commodities, as well as in the larger financial markets.

I appreciate Senator Cantwell's comprehensive understanding of the cause and effect relationship between derivatives deregulation and its associated consequences. These include significant and unwarranted volatility in food and energy prices, the crash of our financial markets, and a massive loss of jobs in our economy.

You will hear from several people this afternoon, each of who will shine a light on a different aspect of the adverse effects of unregulated derivatives transactions in their businesses. This is just a handful of the over 450 diverse organizations represented by the AFR and the CMOC, all of whom are focused on returning regulatory balance to our derivatives markets.

The following phenomena all share a common heritage: Wildly volatile food and energy commodity prices. The failure of AIG, Lehman Brothers, and Bear Stearns. The collapse of our financial markets. The loss of trillions of dollars of wealth by investors in the United States and around the world. A residential and commercial real estate crisis. The failure of hundreds of banks. A surge in firings and layoffs by employers…

What's the connection? Unregulated and non-transparent derivatives markets.

Unchecked trading by speculators and investment banks in over-the-counter markets – essentially, giant bets on food and energy commodities – caused wild gyrations in prices that consumers pay for life's necessities. AIG, Lehman Brothers, and Bear Stearns all failed as a result of being excessively leveraged with dark market derivatives. As these players couldn't make good on their bets, the interlocking web of derivative gambling between financial institutions created a crisis of confidence and a near collapse of the economy. Stock markets around the world plunged, taking with them investors' retirement savings. Unregulated derivative instruments were used as a "hedge" in the real estate sector, which created a levered speculative bubble in this industry; ultimately exposing many exotic Wall Street financial creations for the shams they really were when the bubble finally popped. This, in turn, led to the takeover by the FDIC of hundreds of banks that failed because of their portfolios of residential and commercial real estate. Collectively, all of these events caused a panic in corporate America and the loss of millions of jobs as companies tried to slash expenses.

The catastrophic effects of unregulated and non-transparent derivative trading are not abating. Already, according to a recent report by the Bank of International Settlements, the level of notional exposure in derivatives by financial intermediaries around the world has grown to over 604 trillion dollars. This level of exposure is higher than all other historical periods, with the exception of June 2008, just before the worldwide financial market collapse. While world policymakers are now expressing anger over large institutional investors speculating in food and energy commodities derivatives markets, it seems few are listening. In 2009, financial institutions pushed over 105 billion new dollars into the crude oil markets, buying the equivalent of almost 400 million barrels of crude oil via derivatives contracts. Undoubtedly, this wall of money had a significant upward effect on the price, as crude oil prices almost doubled last year. Moreover, just in January of this year, according to recently released figures, CME volumes in commodities derivatives soared by over 18% year over year as new speculators poured into commodity markets.

It's time to take decisive action to restore the health of our financial markets, and ultimately our economy. Intelligent re-regulation of derivatives markets will include strong aggregate position limits for all commodities derivatives, as well as mandatory clearing – through an exchange or a centralized clearinghouse – for all derivative transactions. This will protect the US economy from systemic risk and allow transparency for all participants, including regulators. The Commodity Markets Oversight Coalition and Americans for Financial Reform have drawn up a list of recommended measures that include these that I have mentioned, as well as other important regulatory principles.

We are all here today because we care deeply about this issue. The deregulatory chaos unleashed on our markets by the unimpeded use of untested financial instruments can be measured, seen, and felt around the world. The good news is that legislative measures can be taken now in the US Senate to restore regulatory balance and protect our future from the devastation we have experienced in recent times. It's time for Americans to take back their markets.