

September 26, 2011

Dear Journalist,

The purpose of my letter is three fold, first is to bring to your attention the harm that excessive speculation is having on our economy and the economy of the world, second to present an idea that will get the global economy back on a track of strong growth and do it quickly and at little or no cost and third to elicit your help in creating an atmosphere that will not only be receptive to the idea but that might actually persuade the president that he must act as public opinion demands it.

I call the idea the RBOB Gambit and have enclosed a copy of a paper outlining the idea. I have also posted it on the web, which you can find at this address:

<http://www.rbobgambit.org/>

The RBOB Gambit is simply this: The country is suffering a major financial slowdown precipitated by a drastic increase in the price of oil and thereby gasoline (the RBOB contract can be said to be the wholesale price of gas) caused by massive speculation in the commodities and futures markets. Laws have been written and rewritten for decades to stop this very problem, the most recent being the Dodd – Frank Act. The CFTC by the actions of its commissioners have failed in their duty to enforce these laws. The CFTC is part of the executive branch and thereby under the direct control of the President. By exercising the power of his office, Barak Obama has the means to revive the economy, increase employment, stem the tide of bankruptcies and home foreclosures, reduce basic food and energy prices for billions around the world and thereby help revive the world's economic engine. Requiring the CFTC to pass rules to ensure that commodities markets are free of excessive speculation as required by the congress is not only his purview it is his duty. It is legal, requires no new legislation, can be done in weeks not months, costs nothing, and will return hundreds of billions of dollars of purchasing power to American consumers that will drive growth. This singular act of presidential leadership will signal to everyone that the president has the interest of the Main Street rather than Wall Street as his primary focus. Expedient execution of the RBOB Gambit will change the political discussion in the country and probably secure re-election of him while helping the Democrats at the polls. Failure to act swiftly, while still good for the American people, diminishes its effect on electoral politics, as it will have little time to impact the unemployment rate and economic forecasts before the election.

I am no expert in these matters as I am just a small merchant. I have no training as an economist nor am I an expert in commodities markets, but I took some time to examine the congressional testimony of experts in the field of commodities markets and have cited two whose opinions which I believe represent the overwhelming consensus of

experts in this field that do not have a direct financial interest in the status quo. I urge you to speak with these gentlemen and they will confirm that eliminating speculation from the commodities markets will provide a significant and long lasting boost to the economy of the U.S. as well as the world.

Some Details

While it is a little in the weeds, look at the charts of all major commodities for the past 25 years. You will find that they all share a few characteristics, namely that the current price of most are much, much higher than they were at the turn of the century, they all rise in tandem and they all have simultaneous massive swings in price. How can that be if the price of the commodity is supposed to be dependent on the changes in supply and demand? Weather and crop failures should not affect oil and gasoline prices and wheat and rice prices should be independent of fuel market disruptions. Examine the records of open interest in the futures markets of these commodities and you will see an explosion in the volumes. With a little more digging you will find that these anomalies coincide with the advent of indexed commodity funds and commodity based ETFs. As it became acceptable to hold commodities in the endowment funds of major universities, pension funds, sovereign wealth funds and as they began to purchase long positions, the markets started to climb even though there were ample supplies and consumption had not exceeded supply in any of the markets. By constantly holding long positions and rolling them over the indexed speculators in these markets have forced the market prices higher and higher, a self-fulfilling consequence that has been detrimental to every man, woman and child on the planet.

A little back of the envelope math will show the extent of the problem. I chose 3 of the major commodities and have penciled in approximate numbers from charts showing the prices for these commodities over the past 25 years.

The chart links are here: <http://www.rbobgambit.org/Download.html>

Commodity	Wheat	Rice	Oil
Approx Base Price	\$0.17 /kg	\$0.34 /kg	\$40.00 /bbl
Approx current Price	\$0.34 /kg	\$0.57 /kg	\$86.92 /bbl
Increase	\$0.17 /kg	\$0.23 /kg	\$46.92 /bbl
Per capita Annual Consumption (World)	67 kg/person/yr	85.9 kg/person/yr	4.89 bbl/person/yr
Per capita Annual Increase	\$10.72	\$19.76	\$229.44
Annual Global Increase for 6 Billion People	\$64.3 Billion	\$118.5 Billion	\$1,376.63 Billion
Total Annual Increase	\$1.5 Trillion		

A \$1.5 Trillion annual increase in the past 5 years for 3 major commodities leaves one to wonder what the total annual increase would be if all the major basic commodities were included, I for one believe that it could easily double or triple the total. Assuming a double then \$3 Trillion is being siphoned from the world economy through excessive speculation each year. This makes the Wall Street thievery look like pocket change. With the world's GDP standing at approximately \$60 Trillion then this would amount to 5 % so it's small wonder that the world economy is going to hell in a hand basket.

The charts speak for themselves. While you will hear many pundits say that this is caused by the increase in population or the growth in the Chinese markets or the Brazilian markets or the Indian markets, the facts do not bear this out. No way. No how.

The price of oil went from under \$40 a barrel (the high price for over the prior 18 years) to \$140 in less than 3 ½ years. Wall-Streeters would tell you that we are past “peak oil” and that was the cause of the spike. Really? If that were the case, then how would they explain the fact that in as little as 5 months it was trading at \$41.88, arguably the most useful substance in the world which all of a sudden had become scarce was now suddenly worth 70% less. Consumption hadn't changed. Production hadn't changed. This defies logic.

Take the case of both rice and wheat. Again it is the same thing, no change in the relationship of production to consumption, adequate growing supply to meet growing demand and still the price doubles over three years and then drops like a rock. To get that sharp a drop in price (rice went from \$1020 /metric ton in April 2008 to \$563 in Nov 2008, wheat went from \$439.72 /metric ton in March 2008 to \$226.85 in Nov 2008) it would have to have been raining wheat and rice or every person on the planet simultaneously had decided to stop eating. “Growing Asian markets” please. Give me a break.

I contend that logic dictates that what was happening was that as more and more institutional investors were entering the commodities markets between 2003 and 2008 on the long side they forced all prices to rise and when the U.S. economy imploded they panicked and closed their positions. The close of 2008 reveals the true prices that these commodities should have traded at in the prior 3 years as the speculators abandoned the market leaving only those with an interest in producing and consuming the commodities. I am sure that my good buddy Ockham would have to agree, as it is much more logical.

The Pitch

As a member of the “media”, you are uniquely positioned to help shape public opinion, move public policy discussions in a positive direction, and create a dialogue that influences the action of policy makers and as such have the power to correct this speculation in the commodities markets. I hope I can count on your help to look at the facts and speak of the problems and economic injustice that has been taking place. It will continue unless the public demands that it be stopped and it is only through the efforts of the members of media that the general public will start to understand the situation and its implications for the economic health of the planet.

You are the one that must point out the hypocrisy of major university endowment funds holding these long positions, which are forcing people to go hungry and claiming that they are operating their funds responsibly. How is it socially responsible to be continually buying wheat thereby causing the price of bread to rise so high that millions of poor can no longer afford to feed themselves? That is what happened in 2008 when there were food riots in over thirty countries and an estimated 250 million poor around the globe found themselves unable to afford their daily bread. It is continuing to this day. Google “Harvard endowment commodities”.

Please note also that pension funds across this country and in most developed countries are guilty of injuring the very people that they propound to help. For the sake of another couple of extra points in return to their retirees they injure everyone who is retired and on a fixed income. If pencil were put to paper I would bet that the injury exceeds the benefit by an order of magnitude. It is continuing to this day. Google “CALPERS commodities program”

I think that most of the “retail” investing public has no idea as to the havoc that their investments in commodity ETFs have caused in the world. You and your fellow journalists are the ones that must help educate them.

The one ironic note in this mess is that probably most of the governments that were overthrown in the past year during the Arab Spring had much of their sovereign wealth funds invested in the commodities whose price increase lead to their overthrow by citizens who could no longer afford to live.

While this story does not lend itself to sound-bite journalism and 5-minute news segments, it is of vital importance. It has been overlooked as the story of the mortgage mess and Wall Street implosion stole the spotlight. Since then the day-to-day reporting of many other financial stories continue to garner the most attention while this speculation continues to corrode the markets. It would be a really nice change if the media would be proactive on this story instead of arriving in time for the obits.

Any story that might shine light on any facet of this problem will bring the whole problem to the public’s attention. Take your pick: speculation, misuse of pension funds, regulatory capture by industry, food riots and their possible return, the failings of ERISA and the actions of pension funds, speculation and poverty in America, speculation and world poverty, the Great Irony of the Arab Spring, the responsible use of endowment funds at public universities, commodity ETFs are they weapons of mass destructions, etc. I believe that there probably are a couple of “Edward R. Morrow”s, Peabodys or Pulitzers in this story, given its scope and nature.

We find ourselves at a place in time when there is this unique convergence of policy, politics, and economics. This nexus makes possible the RBOB Gambit, and I

believe that it will only happen if there is an atmosphere that will allow the President to execute it. You and your fellow newsmen and newswomen are the only ones that can make this atmosphere possible. So there you have it. I presented my case. I hope you have read the gambit, agree that its' successful execution will change the economic conditions in the U.S. and the world for the better, and that you will help get this story out.

Thank you for your time and consideration.

With Kindest Regards

martin horzempa