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Commodity swings not solely due to speculators

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From Mr Brett Ladendorf.

Sir, The "financialisation" of the commodities markets reflects investors' want of exposure to hard assets. Moreover, the movement of capital flows into speculative margin accounts is a byproduct of a continued low interest rate environment. These free market actions facilitate positions in the commodity futures markets and provide centuries old risk-transfer services to commercials and other kinds of natural longs.

Gillian Tett's piece "Beware whacking speculators for commodity swings" (September 9) is spot on. I would add that because many commodities are priced in US dollars, a falling value of that currency relative to other currencies over the last 10 years has further propelled commodity prices higher. Marginal costs of production have probably gone higher, but as the article points out, the data are hard to obtain. Nonetheless, these cycles, especially in an ever more integrated world economy, demonstrate increased correlations. It does take more steel to build out more energy transportation and exploration/ production infrastructure.

Regulators and politicians in Washington are being politically egregious when they blame commodity price swings solely on the investment community and on speculators.

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