

CFTC –Index Investment Data Report Update

February 24, 2011

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The CFTC publishes a monthly report that delineates the overall exposure of index activity within various commodity markets. According to the explanatory notes that accompanies the report “index activity” is defined as investors participating in commodity markets that are index funds, swap dealers, pension funds, hedge funds, mutual funds, ETF’s, ETN’s and any other participant/product that tracks a basket of commodity prices in a passive manner.

There are two parts to the report: notional values and equivalent number of futures contracts. The notional value is simply adding all of the positions that a firm has in a particular commodity (futures, cash, OTC, etc.) and then applying that day’s settlement price to get a notional value of their overall position. The report breaks out long, short and net positions held by index participants in the market. The second part is the equivalent number of futures, which is a relatively simple calculation. The notional value of the index position is divided by the notional value of one contract for each respective commodity. This in turn tells you theoretically how many futures positions the index notional value would account for.

When initially looking at what the data tells you, it is a little hard to see the real value. However, if you compare the notional value that the index participants hold in a given market to the notional value of the open interest in that futures market the picture becomes clearer.

Most passive index participants have a predetermined percentage for the notional value of their investment that is allocated to individual commodities and classes of commodities based on the weights specified for the index that is being tracked. When the price of a particular commodity increases or decreases over time, the fund manager adjusts the positions within the fund to make sure each commodity maintains its set percentage. When looking at the data that was released, the indexed percentage mainly moved in the opposite direction of the commodity price. That is, when the price went up in a particular commodity the fund manager reduced the position in that commodity

and allocated the money to another asset class. This ensures the fund’s investment stays in line with its original percentage allocation. Conversely, when the price of a commodity goes down, funds are shifted to that asset class to maintain its proper percentage.

In light of many opinions that index participants are artificially inflating commodity prices, this data contradicts those notions. It is much easier to see this graphically, so charts have been included below to show the inverse relationship between commodity prices and index participation.

As you can see from the graphs, recent prices have moved in the opposite direction of index positions. For example, if you look at the period from June 2010 through December 2010 in corn, a period of rising futures prices, indexed percentages have dropped sharply. A similar pattern is noted in the soybeans, wheat and crude oil markets. Alternatively, falling prices in natural gas futures during that period have been associated with rising percentages of indexed positions. This shows that index participation in commodity markets has had little to no influence on artificially increasing overall commodity prices.

With this data we can also see that index participation does not control the majority of the open interest in many major markets. For example, when you net futures and OTC positions, index participants only account for about 40% of the corn, soybeans, wheat, crude oil, and natural gas markets.

For more information, please contact:

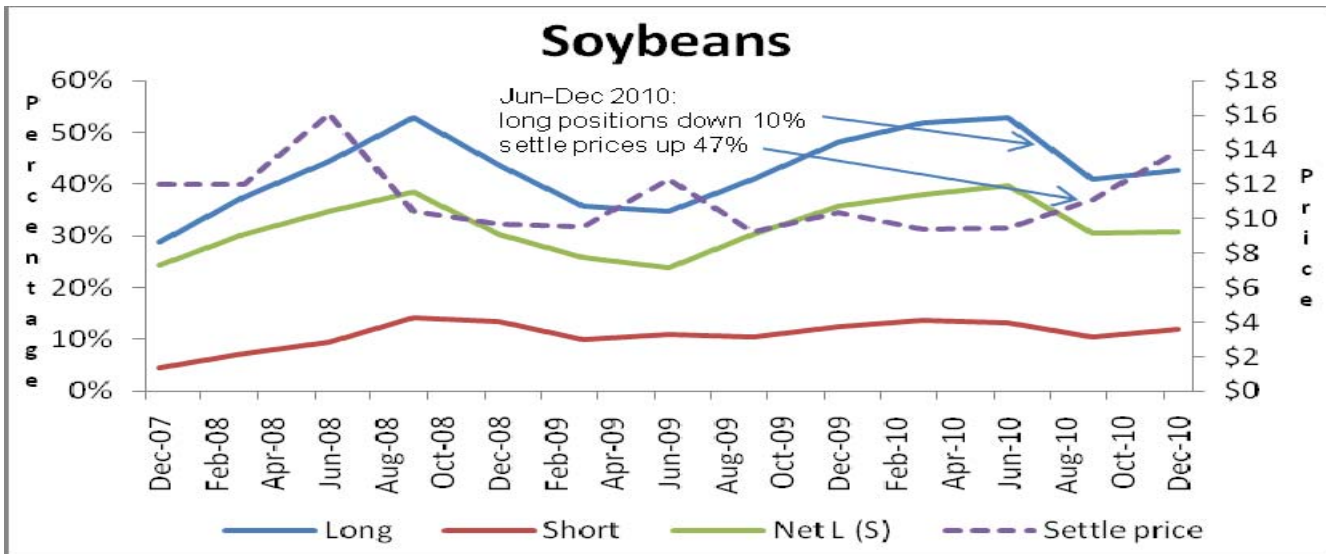
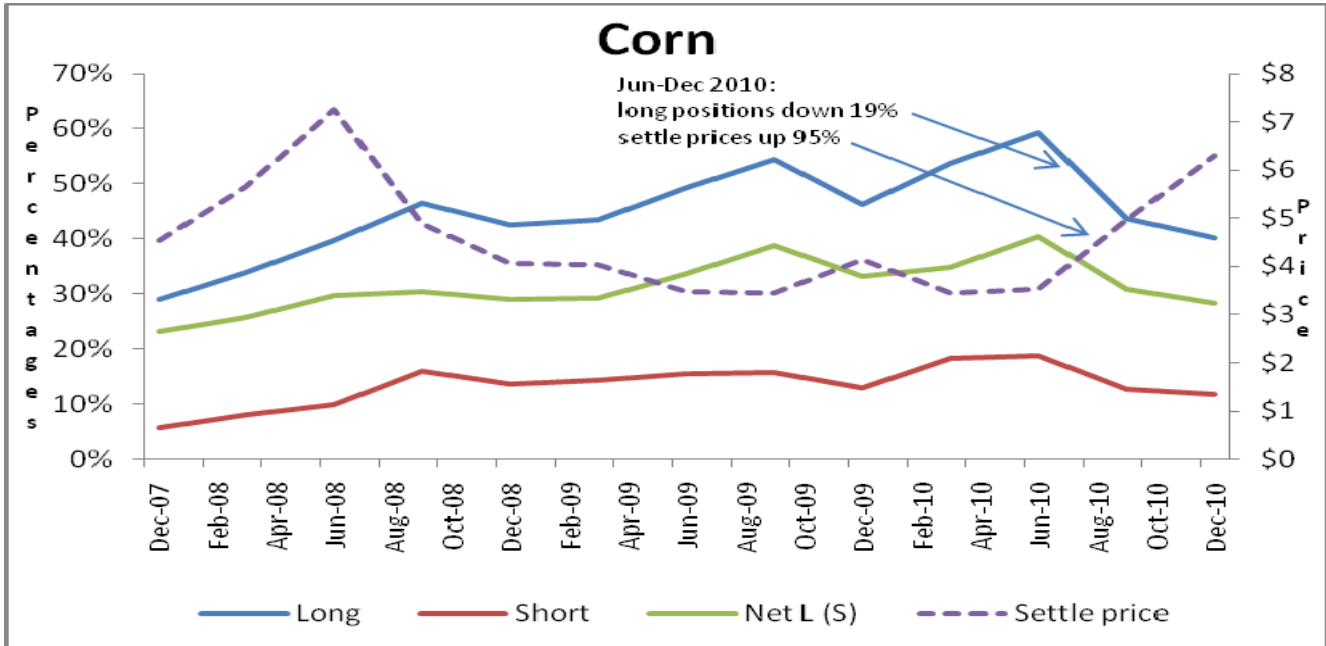
John D. Hill, Economist
Research & Product Development
(312) 930-1852, John.Hill@cmegroup.com

Jack Cook, Associate Director
Research & Product Development
(312) 930-3295, Jack.Cook@cmegroup.com

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