



## Industrial Energy Consumers of America

*The Voice of the Industrial Energy Consumers*

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July 16, 2008

The Honorable Bob Etheridge  
Chairman  
Subcommittee on General Farm Commodities and Risk Management  
1533 Longworth House Office Building  
Washington, DC 20515-3302

Dear Mr. Chairman:

This letter and its attachments are a response to your request during the July 10, 2008 hearing on the review of legislation amending the Commodity Exchange Act and excessive energy speculation. You requested that I provide additional information relating to a concerning potential relationship between bank borrowing from the Federal Reserve and the corresponding rise of energy commodity prices.

As we said in our testimony, we encourage the Congress to ensure that Federal Reserve monetary policy is not causing higher energy and food costs by providing low cost money to banks to speculate on commodities. The attached graphs show an almost linear relationship between lower Federal Reserve interest rates, increased borrowing by banks and corresponding higher commodity prices. We are concerned that the timing is not coincidental.

The attached graphs include:

- Graph 1. Federal Reserve Fund Borrowing (February 2007 – June 2008)
- Graph 2. Federal Reserve Fund Borrowing (August 2007 – July 2008)
- Graph 3. Federal Reserve Fund Borrowing vs. Light Crude Oil
- Graph 4. Federal Reserve Fund Borrowing vs. Natural Gas
- Graph 5. Federal Reserve Fund Borrowing vs. NY Harbor RBOB Gasoline Blendstock
- Graph 6. Federal Reserve Fund Borrowing vs. Heating Oil

Thank you for your interest in this matter and we look forward to hearing from you on the response from the Federal Reserve.

Sincerely,

Paul N. Cicio  
President

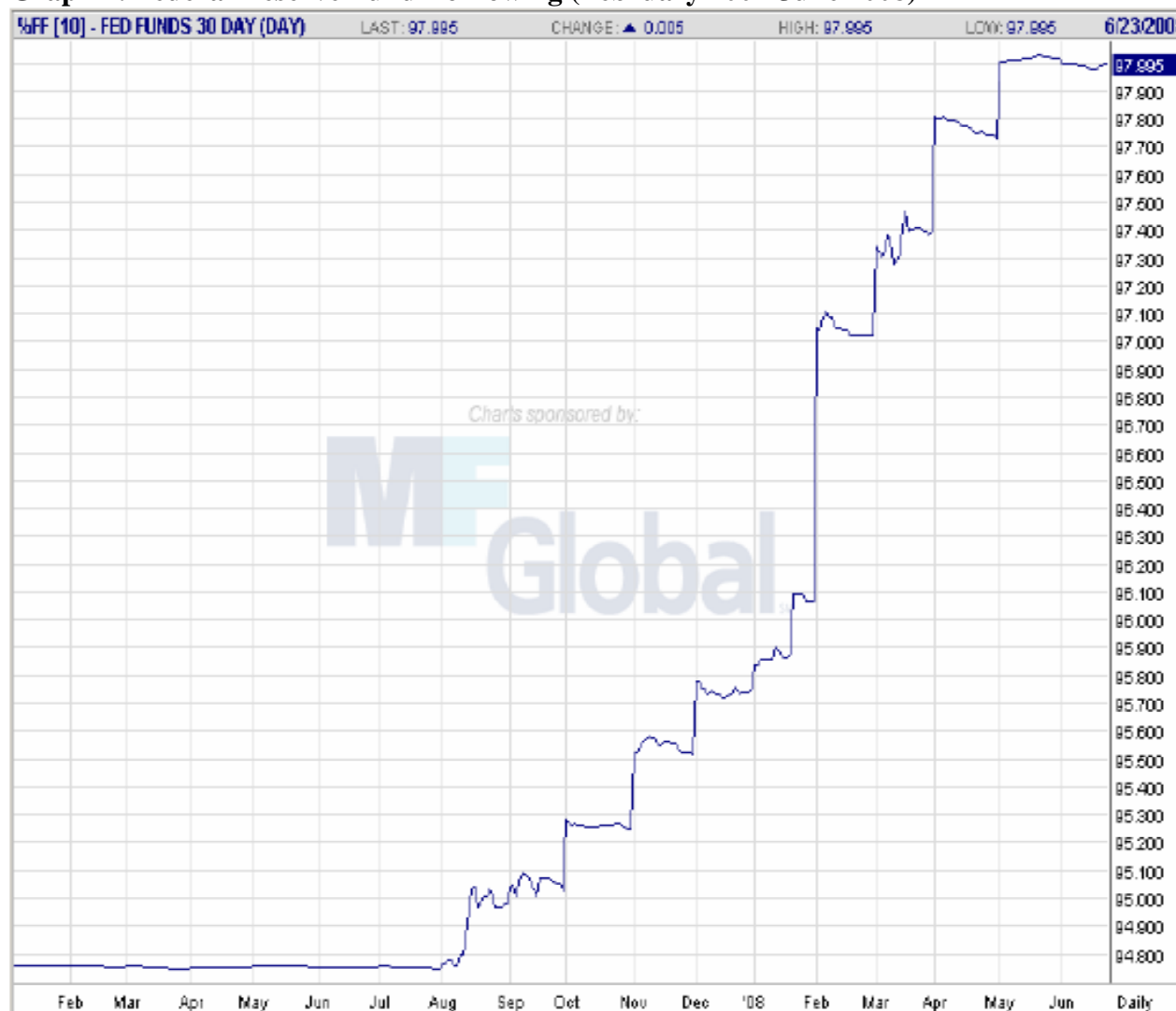
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IECA is a 501 (C) (6) national non-profit non-partisan cross-industry trade association whose membership is exclusively from the manufacturing sector. IECA promotes the interests of manufacturing companies for which the availability, use and cost of energy, power or feedstock play a significant role in their ability to compete in domestic and world markets. IECA membership represents a diverse set of industries including: plastics, cement, paper, food processing, aluminum, chemicals, fertilizer, brick, rubber, insulation, steel, glass, industrial gases, pharmaceutical, construction products, automotive products, and brewing.

**Table 1: Intended federal funds rate Change and level, 1990 to present**

Change			
(basis points)			
Date	Increase	Decrease	Level (percent)
<u>2008</u>			
30-Apr	...	25	2
18-Mar	...	75	2.25
30-Jan	...	50	3
22-Jan	...	75	3.5
<u>2007</u>			
11-Dec	...	25	4.25
31-Oct	...	25	4.5
18-Sep	...	50	4.75
<u>2006</u>			
29-Jun	25	...	5.25
10-May	25	...	5
28-Mar	25	...	4.75
31-Jan	25	...	4.5

**Graph 1: Federal Reserve Fund Borrowing (February 2007-June 2008)**

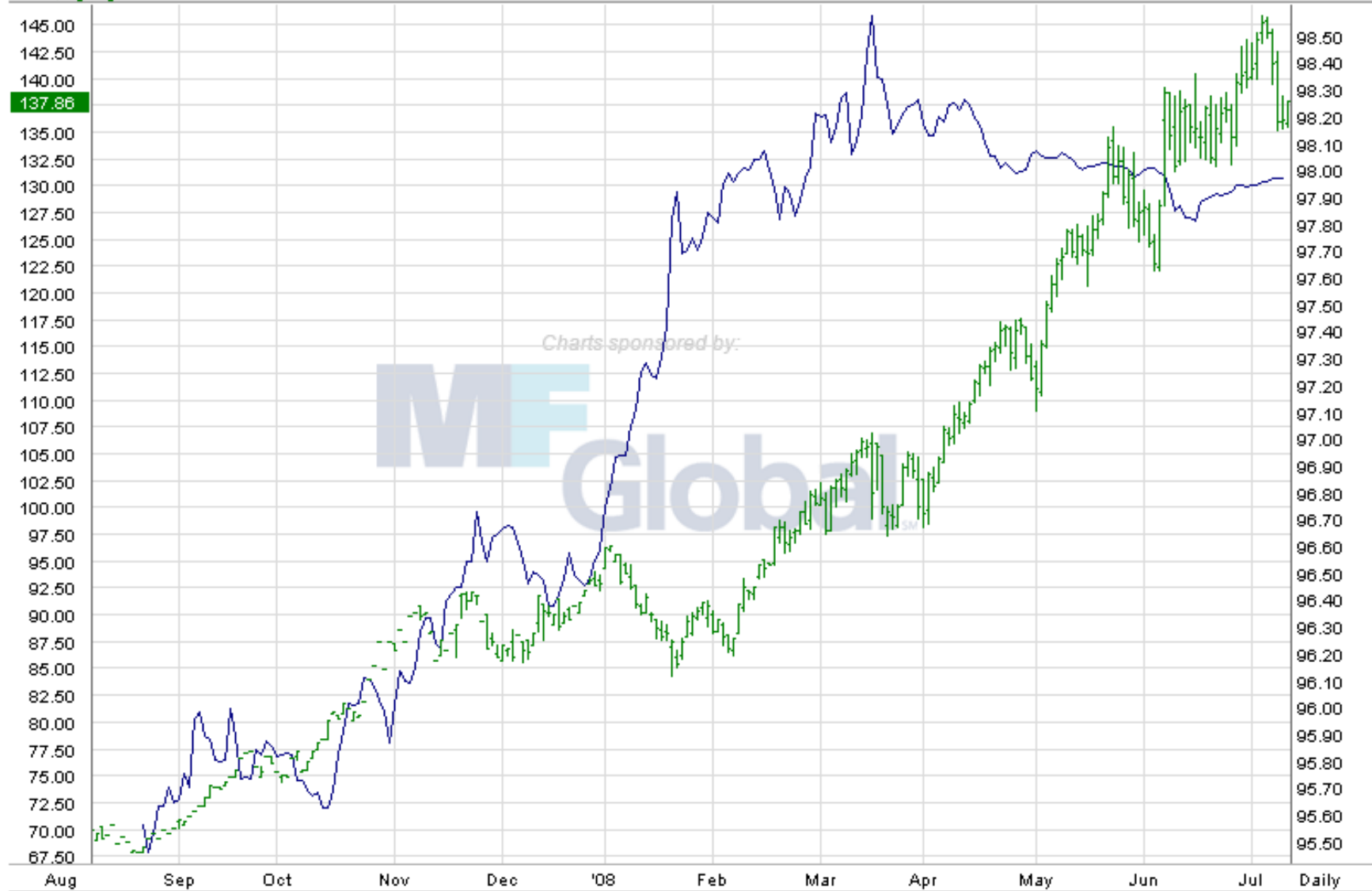


Graph 2: Federal Reserve Fund Borrowing (August 2007-July 2008)



**Graph 3: Federal Reserve Fund Borrowing vs. Light Crude Oil**

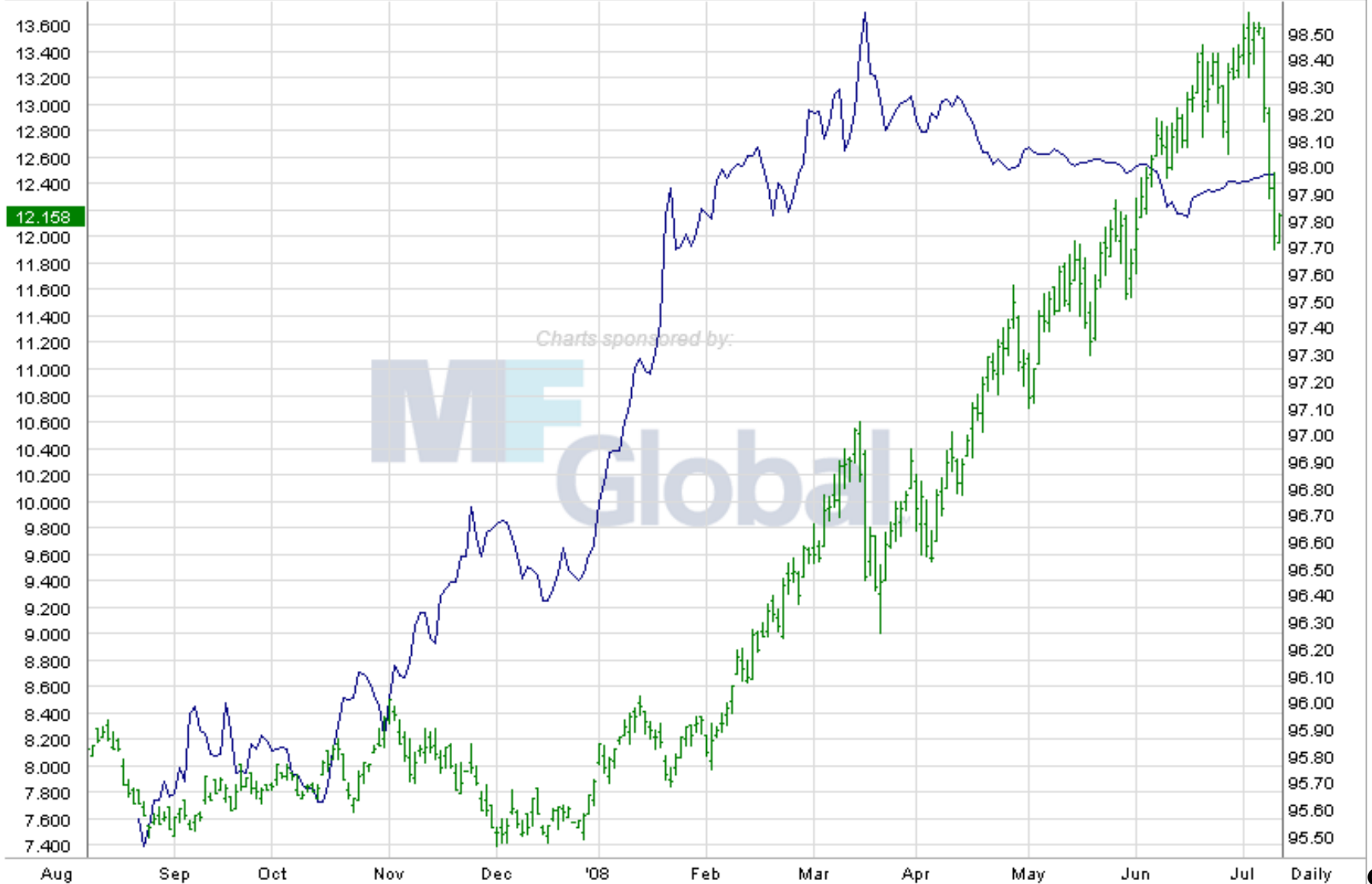
<b>FF Q8 [10] - FED FUNDS 30 DAY (DAY)</b>	LAST:	CHANGE:	HIGH:	LOW:	<b>7/10/2008</b>
<b>CL Q8 [30] - LIGHT CRUDE OIL</b>	LAST: 137.86	CHANGE: ▲ 136.50	HIGH: 137.94	LOW: 135.43	<b>7/10/2008</b>



**Graph 4: Federal Reserve Fund Borrowing vs. Natural Gas**

Graph

<b>FF Q8 [10] - FED FUNDS 30 DAY (DAY)</b>	LAST:	CHANGE:	HIGH:	LOW:	<b>7/10/2008</b>
<b>NG Q8 [30] - NATURAL GAS</b>	LAST: 12.158	CHANGE: ▲ 12.148	HIGH: 12.170	LOW: 11.955	<b>7/10/2008</b>



h 5: Federal Reserve Fund Borrowing vs. NY Harbor RBOB Gasoline Blend

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FF Q8 [10] - FED FUNDS 30 DAY (DAY)

LAST:

CHANGE:

HIGH:

LOW:

7/10/2008

XRB Q8 [30] - NY HARBOR RBOB GASOLINE BLENDSTOC

LAST: 3.418

CHANGE: ▲ 3.418

HIGH: 3.429

LOW: 3.363

7/10/2008



**Graph 6: Federal Reserve Fund Borrowing vs. Heating Oil**

<b>FF Q8 [10] - FED FUNDS 30 DAY (DAY)</b>	LAST:	CHANGE:	HIGH:	LOW:	<b>7/10/2008</b>
<b>HO Q8 [30] - HEATING OIL</b>	LAST: 3.948	CHANGE: ▲ 3.948	HIGH: 3.960	LOW: 3.846	<b>7/10/2008</b>

