

## **Securities Regulation Daily Wrap Up, CFTC NEWS AND SPEECHES— CFTC’s Energy and Environmental Markets Advisory Committee focuses on COVID-19 related wreckage in world oil markets, (Mar. 25, 2020)**

Securities Regulation Daily Wrap Up

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By [Brad Rosen, J.D.](#)

Leading analysts from DMO’s Market Intelligence Branch briefed the Commission’s EEMAC on the unprecedented turbulence wracking global markets as a result of the COVID-19 coronavirus, as well as the crude oil standoff between Saudi Arabia and Russia.

Noting the unprecedented and historic activity in the financial markets resulting from the COVID-19 outbreak, CFTC Commissioner Dan Berkovitz, who is the sponsor of CFTC’s Energy and Environmental Markets Advisory Committee (EEMAC), led off the [committee’s recent remote meeting](#) underscoring the importance of understanding the latest developments and volatility in the derivatives markets. Towards that end, Berkovitz [tabled a scheduled discussion](#) of the CFTC’s position limits proposal in favor of an exclusive presentation by the CFTC’s Division of Market Oversight Market Intelligence Branch (MIB) focusing on many of the recent dislocations in the financial and energy derivative markets. The commissioner also noted that a discussion of the proposed position limit proposal would be rescheduled for a later meeting.

**The central role of market intelligence.** In his opening remarks, [Commissioner Berkovitz observed](#) that in times of market stress, it is critical that the markets are transparent and that participants have accurate and up-to-date information. He also noted that to date, the derivatives markets have been functioning effectively, but that continued vigilance will be required as conditions evolve. In particular, Berkovitz recognized the vital role played by the CFTC’s MIB, which has been leading daily briefings over the past few weeks to apprise commissioners and staff of market developments. As a result of these briefings, various CFTC operating divisions continue to share key market data and consider potential areas of risk.

**MIB analysts survey a battered market landscape.** MIB Chief Market Intelligence Officer Mel Gunewardena and Market Analysts Chris Goodenow and Mike Nouri concluded that while economic threats remain elevated, the derivative markets have appeared resilient in face of lower liquidity and historic volatility and volume. Some of their specific observations included:

- The velocity of the COVID-19 market sell-off is one of the most extreme in the equity markets in the past 100 years. Moreover, equity volatility during the crisis has been the highest observed in the past 30 years.
- U.S. government bond yields reached their lowest levels in history as domestic and international investors seek safety, as the whipsaw price action registered the largest down move in history and the steepest climb of yields within a seven-day period.
- Futures liquidity and top-of-book-depth declined, and spreads have widened. Likewise, swap and credit derivatives spreads have expanded, and liquidity has diminished.
- On March 9, 2020, West Texas Intermediate (WTI) and global oil prices had the largest single day drop in percentage terms since the Gulf War in 1991.
- COVID-19 and the global lockdown have all but removed demand for oil in the short term as price volatility has moved oil prices by almost \$22.50 per barrel during the month.

- Supply and demand forecasts showed an oversupply market even before OPEC+ failed to reach an agreement. Additional barrels from Saudi Arabia and other OPEC+ members in the second quarter will only exacerbate the global supply glut.
- Asia's largest oil importers (China, India, Japan, and South Korea) are recovering from COVID-19, and their demand is expected to be lower next quarter.
- In the U.S., tight oil wells have high decline rates requiring new drilling to keep overall production up. Average breakeven costs for new wells in many tight oil basins are well above current market prices. Absent price appreciation, domestic production may fall significantly in the coming months.

**Other commissioners weigh-in.** In her remarks, [Commissioner Dawn Stump focused](#) on the Commission's role in promoting resilience of the derivative markets through sound regulation. She noted that the commodity production and distribution business is inherently risky and recognized the nation's gratefulness to those who are willing to take on such endeavors in order that the rest of us might eat and power our modern lives. She stated, "resilience is everyone's shared responsibility, and at the CFTC it is a part of our mission."

For his part, [Chairman Heath Tarbert recognized](#) the hard work CFTC staff and market participants in the face of immense economic and personal difficulties around the country. Tarbert also underscored that the American derivatives markets are so far showing resilience and underscored that margin calls are being met by the major clearing members, and "sellers can find buyers, and buyers can find sellers."

**Unity and discord at Commission.** An interesting dynamic appears to be shaping up at the CFTC. While a sense of unity and *we're all in this together* seemed to prevail at the EEMAC meeting, a rift among commissioners is also apparent. Despite the COVID-19 crisis, Chairman Tarbert has favored a "full steam ahead" approach when it comes to moving forward with his goals and strategic objectives. In his prepared remarks, the Chairman has been clear, "[W]hile we are laser focused on the turbulence in our market, the agency must continue pursuing its broader mandate. The current turbulence in the markets will eventually subside and we will take stock of the system's resiliency. In the meantime, we must push forward with all the vital issues we were called to address even during normal times."

In stark contrast, [Commissioner Behnam recently stated](#), "[F]or the immediate future, and until financial markets demonstrate signs of stability and normalcy again, I believe the CFTC should temporarily table all non-critical policy work, shifting all our efforts and resources towards monitoring market and institutional stability and resiliency, prioritizing surveillance and enforcement, working with other regulators, and exhaustively engaging with market participants to consider necessary agency action that will alleviate market disruptions and support stable financial markets."

Meanwhile, Commissioner Berkovitz has indicated that the EEMAC intends to schedule a meeting where the position limits proposal will be discussed in early May. [That comment period](#) is scheduled to close on April 29, 2020.

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