CFTC

FACT SHEET

Consumer Protection Position Limits: The CFTC Protecting Your Pocketbook

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For 50 years, the Commodity Futures Trading Commission (CFTC) has been charged with keeping commodity markets fair, ensuring that prices for essential goods like food, gas, and electricity reasonably reflect supply and demand and aren't manipulated by big financial firms due to excess speculation. Created in 1974, the CFTC was designed to prevent market abuse and keep everyday essentials affordable for Main Street Americans.

One of the most important tools the CFTC uses to prevent price manipulation is position limits. Position limits are guardrails designed to stop financial firms from hoarding too many commodity contracts and unfairly driving up prices. But what exactly are position limits, and why do they matter to you?

What Are Consumer Protection Position Limits?

When you buy groceries, gas, or airline tickets, you expect prices to be based on supply and demand, which is how much is available and how much is needed at a given point in time. What many people don't realize is that these everyday items either are or rely on commodities—raw materials like oil, wheat, and corn that are used to produce essential consumer goods. Commodity prices affect everything from the cost of filling up your car to the price of your morning coffee.

But what if big financial firms could drive up commodity prices just to make a profit?

That's where the CFTC position limits come in. A position limit is a rule that caps (i.e., limits) the number of commodity contracts (i.e., positions) a trader or company can hold, ensuring that no single trader or firm can have such a large position that it could manipulate the market, create artificial shortages, or cause needless price swings (i.e., volatility). These commodity contracts for oil, gas, wheat and other everyday necessities are called futures contracts, which allow businesses to lock in prices ahead of time, protecting them from sudden price swings.

For example, Southwest Airlines has historically used futures contracts to lock in the price of jet fuel it will need in the coming years. It purchases fuel contracts in, for example, this year but the fuel is purchased to be delivered in future years. By setting the price this year for future fuel deliveries, the airline protects itself from price increases, which helps it to keep ticket prices for travelers from spiking. This is called "hedging" and is incredibly important to a well-functioning economy like the U.S. To ensure there are orderly commodity futures markets for commercial hedgers like Southwest, financial speculators are allowed to participate but only in limited amounts and only in ways that do not disrupt the fundamentals of supply and demand. In fact, excess speculation by financial firms—where they buy too many futures contracts and therefore are able to manipulate prices—is expressly prohibited by law to protect consumers and ensure that essential goods are available when needed and at reasonable prices.

Without position limits, large financial firms could gain outsized control over key markets, distort prices, and create artificial shortages. This unchecked speculation would drive up costs for everyday consumers, making necessities like food and travel unaffordable for many households.

Because position limits protect consumers from artificially inflated prices and volatile price swings, they are best described as ***Consumer Protection Position Limits***. By preventing excess speculation, these limits help ensure that prices remain fair and reflect actual supply and demand rather than market manipulation.

Why Should You Care?

Consumer Protection Position Limits protect everyday Americans from artificially inflated prices on the goods they rely on every day. Without these limits, Wall Street traders could manipulate commodity prices, making basic necessities unaffordable.

By preventing these traders from having an outsized influence on the price of essential commodities, Consumer Protection Position Limits help:

Keep gas prices in check – Without limits, traders could hoard oil contracts, creating artificial shortages that drive up prices for gasoline, heating oil, and airline tickets.

Stabilize food costs – Large investors could manipulate wheat, corn, and sugar markets, making everyday staples more expensive, including:

- **Wheat** – Bread, pasta, cereal, crackers, flour, baked goods.
- **Corn** – Cornmeal, tortillas, chips, soda (corn syrup), animal feed (affecting meat and dairy prices).
- **Sugar** – soft drinks, baked goods, condiments (ketchup, BBQ sauce), ice cream.

Protect chocolate and cocoa products – Excessive speculation in cocoa can drive up prices on:

- Chocolate bars, hot cocoa, chocolate milk, baking cocoa, chocolate cookies, cocoa butter (used in skincare products).

Prevent price hikes on coffee and beverages – If traders manipulate coffee prices, consumers could pay more for:

- Ground coffee, instant coffee, espresso, lattes, cold brew, coffee-based desserts (tiramisu, mocha-flavored items).

Keep soybean prices fair for food and industry – Excessive speculation in soybeans can inflate the cost of:

- Tofu, soy milk, soy sauce, vegetable oil, animal feed, plant-based meat alternatives, biodiesel fuel.

Maintain affordability in meat and dairy products – Excessive speculation in live cattle could raise prices on:

- Beef (steaks, burgers, roasts), dairy (milk, cheese, butter), leather goods (shoes, handbags, car seats).

Protect homebuilding and renovation costs – Speculators could drive up the price of lumber, increasing the cost of:

- New homes, renovations, furniture, flooring, cabinets, paper products (toilet paper, notebooks).

Ensure fair prices for clothing and textiles – If cotton prices are manipulated, it could impact:

- Clothing (t-shirts, jeans, socks), bedding (sheets, towels), personal hygiene products (cotton balls, swabs).

Prevent juice and beverage price spikes – Excessive speculation in Frozen Concentrated Orange Juice could raise the cost of:

- Orange juice, citrus-flavored sodas, fruit-based cocktails, vitamin C-enriched drinks.

Keep metal prices stable for essential products – Excessive speculation in metals like copper, silver, and platinum could inflate costs for:

- Electronics (smartphones, laptops, TVs), appliances (refrigerators, microwaves), medical devices (pacemakers, surgical instruments), jewelry.

Most people don't think about how commodity markets affect their daily lives, but the reality is that nearly everything we buy, from food and fuel to clothing and housing materials, is tied to these markets. When prices rise due to natural supply and demand changes, that's part of a well-functioning economy. But when big financial firms hoard commodity contracts to drive up prices, families feel the impact at the grocery store, at the gas pump, and in their everyday expenses.

That's why Consumer Protection Position Limits exist. These limits prevent market manipulation by ensuring no single trader or financial firm can control supply or create artificial shortages. These rules are not just about regulating Wall Street. ***They are about protecting Main Street consumers' wallets***.

How Do Consumer Protection Position Limits Work?

To ensure fair and stable commodity markets, the CFTC enforces Consumer Protection Position Limits, which limit the number of futures contracts a trader or financial firm can hold at any given time. These limits are designed to prevent excess speculation and market manipulation, keeping commodity prices aligned with real-world supply and demand rather than financial speculation.

Spot Month Limits: Preventing Last-Minute Market Manipulation

The spot month is the final month before a futures contract expires when traders either close out their positions for cash or take delivery of the actual commodity. It is the most important month in any commodity futures market because it determines the market value of that commodity. Since prices can be more vulnerable to manipulation at this stage, the CFTC enforces stricter position limits to prevent traders from hoarding contracts and artificially inflating prices.

These limits are set at or below 25% of the available supply of a commodity, ensuring that no single trader or financial firm can dominate the market and create artificial shortages.

For example, in the natural gas market, traders cannot hold more than 2,000 contracts per exchange during the spot month. This prevents a handful of speculators from manipulating prices to their advantage, which drives up heating and electricity costs for millions of households and businesses.

Non-Spot Month Limits: Keeping Markets Balanced Year-Round

Even outside the spot month, the CFTC enforces limits to prevent any single trader or firm from holding too much control over a commodity market. These formula-based limits help ensure that prices remain fair and reflect real supply and demand, not financial manipulation.

For example, in key agricultural markets like wheat and corn, a trader cannot hold more than 10% of the total open contracts for the first 50,000 contracts, with a smaller limit of 2.5% allowed for any contracts beyond that. This keeps one firm from dominating the market and unfairly influencing prices, ensuring that farmers, food producers, and consumers all benefit from stable and predictable pricing for essential goods.

Exemptions for Businesses That Use Futures for Real-World Needs

While Consumer Protection Position Limits prevent excessive speculation, they do not apply to businesses that use futures contracts to manage actual costs. These businesses are often referred to as “end users” or “commercial” market participants and the CFTC allows exemptions for them to engage in bona fide hedging. This allows businesses that actually use the commodity—such as farmers, food manufacturers, airlines, and energy providers—to purchase futures contracts as needed to stabilize their prices without being constrained by position limits, which are applicable to non-commercial financial firms and other speculators.

For example, a farmer might use futures contracts to secure a fair price for their wheat months before harvest, or an airline might lock in fuel prices to avoid sudden spikes. These exemptions ensure that businesses can manage real financial risks without being grouped together with Wall Street speculators who seek to profit from price swings.

Looking to the Future: The Need for Stronger Oversight

While the CFTC's Consumer Protection Position Limits are a key tool in preventing market manipulation, the effectiveness of these limits is only as strong as the agency's willingness to use its authority to enforce them. Even if the CFTC had the political will to police these critical position limits, the CFTC's chronic underfunding means it lacks the resources necessary to fully monitor and regulate today's increasingly complex commodity markets. As financial firms develop new ways to speculate on essential goods, the CFTC must be provided with the funding needed to effectively police these markets. Without this, consumers will likely face artificially inflated prices driven by prohibited excess speculation.

The CFTC Must Assess Whether the Customer Protection Position Limits Are Working

In 2021, the CFTC enacted an updated position limits rule purportedly designed to curb excessive speculation in commodity futures markets. However, Better Markets and others, including two CFTC Commissioners at the time, believed that the rule was too weak to actually curb excess speculation and protect American consumers. Unfortunately, because the CFTC has not provided the report required by law or publicly disclosed the impact of the limits set in the 2021 rule, it remains unclear whether these limits are effectively preventing market manipulation and excess speculation, or protecting consumers. Given the rapid evolution of trading practices and financial speculation, the CFTC should conduct a comprehensive, granular, commodity-by-commodity assessment of its current position limits and provide the public with a detailed report on whether they are in fact effective. If these limits are not functioning as intended, additional reforms must be considered to strengthen consumer protections and ensure fair pricing in commodity markets.

The Bottom Line

As the CFTC marks its 50th anniversary, it must evaluate both its past achievements and the challenges that lie ahead. Position limits are a crucial tool for preventing excess speculation and protecting consumers from artificially inflated prices, but these limits are only as effective as their enforcement.

Congress must ensure that the CFTC has the resources necessary to monitor and regulate today's complex commodity markets. Without proper oversight, financial firms will continue to exploit loopholes, driving up prices for everyday necessities like food, gas, and electricity.

Without strong and enforced **Consumer Protection Position Limits**, we all pay the price—at the pump, at the grocery store, and in our monthly bills. Strengthening these limits and ensuring they work as intended is key to maintaining fair markets and safeguarding consumers' pocketbooks for the next 50 years and beyond.

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Better Markets is a public interest 501(c)(3) non-profit based in Washington, DC that advocates for greater transparency, accountability, and oversight in the domestic and global capital and commodity markets, to protect the American Dream of homes, jobs, savings, education, a secure retirement, and a rising standard of living.

Better Markets fights for the economic security, opportunity, and prosperity of the American people by working to enact financial reform, to prevent another financial crash and the diversion of trillions of taxpayer dollars to bailing out the financial system.

By being a counterweight to Wall Street's biggest financial firms through the policymaking and rulemaking process, Better Markets is supporting pragmatic rules and a strong banking and financial system that enables stability, growth, and broad-based prosperity. Better Markets also fights to refocus finance on the real economy, empower the buyside and protect investors and consumers.

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