Germany in call for ban on oil speculation

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German leaders are to propose a worldwide ban on oil trading by speculators, blaming the latest spike in crude prices on manipulation by hedge funds.

It is the most drastic proposal to date amid escalating calls from Europe, the US and Asia for controls on market forces, underscoring the profound shift in the political climate since the credit crunch began. India has already suspended futures trading of five commodities.

Speculators are split, with some betting that oil will fall

Uwe Beckmeyer, transport chief for Germany's Social Democrats, said his party would call for joint measures by the G8 powers to prohibit leveraged trading on energy contracts. "It's an extreme step but it has to be done," he told the Berlin media.

Mr Beckmeyer said the last 25pc rise in the price of oil to $135 a barrel had nothing to do with underlying supply and demand. "It's pure speculation," he said.

Oil has doubled in price over the past year and the concerns are echoed on Washington's Capitol Hill where irate Democrats want rules compelling traders to take delivery of crude oil, a move which would paralyse the market.

There is now broad support in Germany for a clampdown on "locust" funds. President Horst Köhler said modern capitalism had turned into a "monster", bringing the entire financial system to the brink of collapse this spring. The Social Democrats form part of Chancellor Angela Merkel's ruling coalition. Her own Christian Democrat Party shares concerns that funds are causing a fresh bubble in commodities, risking further havoc for the real economy and society.

In the long run, any scheme to ban futures trading would be extremely hard to enforce as the markets would tend to move offshore. Hedge funds are probably not the culprit in any case.

Speculators are split, with some betting that oil will fall. The mass of money coming into the commodity indexes is mostly from pension funds and long-term investors.

Oil markets are likely to shrug off the moves as political posturing, instead focusing on Norway's suspension of crude output at three platforms, cutting supply by 138,000 barrels a day.

The news comes as Lloyd's Marine Intelligence reported Opec oil shipments fell by 1m barrels per day in the four weeks to May 4, confirming suspicions that the market has been chronically short of supply.

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