

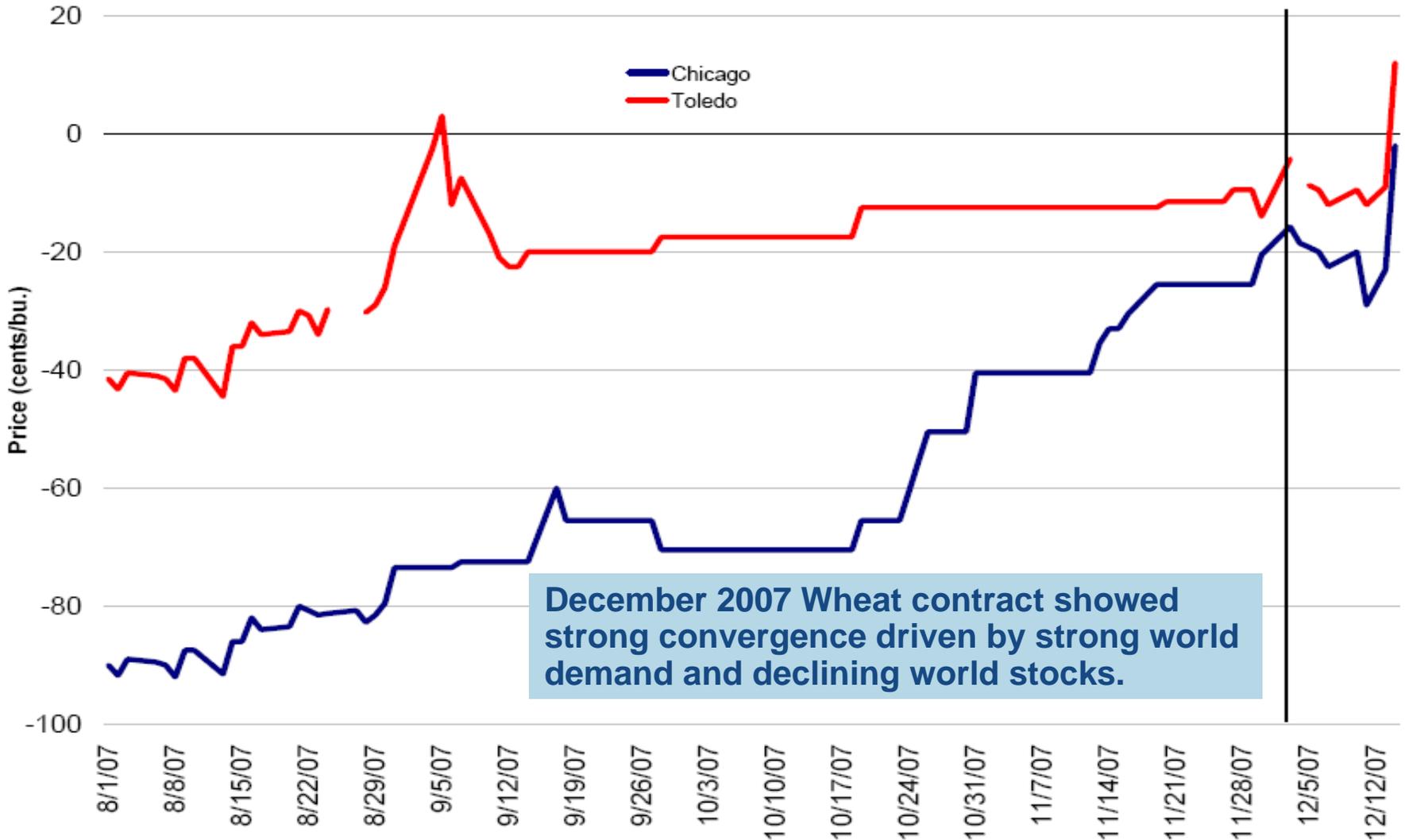
# CFTC Agricultural Advisory Committee Meeting

July 29, 2008

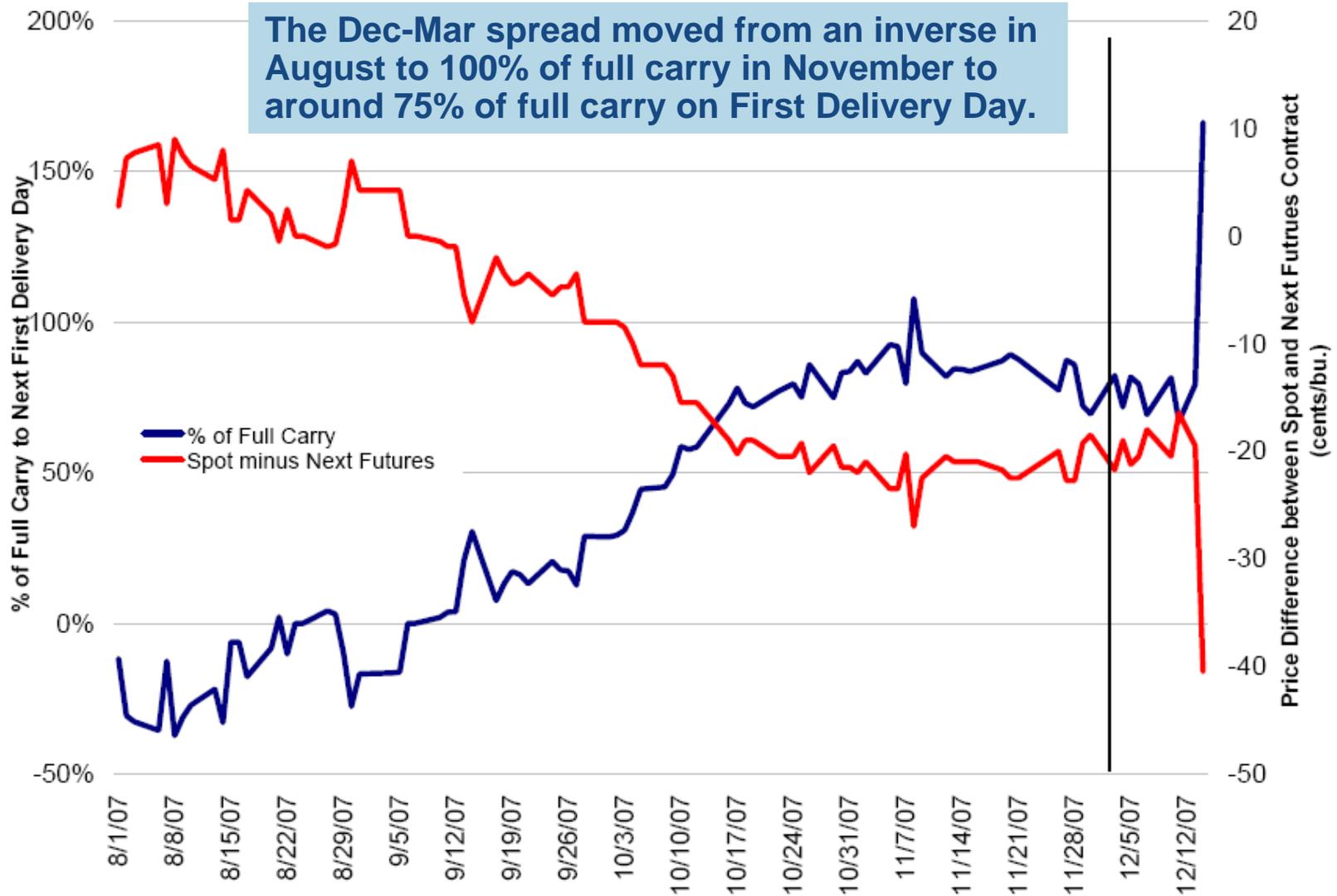
Dave Lehman  
Director, Commodity Research and Product  
Development

- **Last Ag Advisory meeting (Dec 2007)**
  - Discussed benefits of cleared ag swaps and ethanol swaps
  - December Corn and Wheat expirations indicated good convergence
- **6 months of fundamental factors which caused rising prices, high volatility, etc**
  - World wheat stocks fell to a 30 year low and U.S. Wheat stocks fell to a 60 year low
  - Input costs increased sharply, led by fuel and fertilizer
  - Corn, Wheat and Soybean prices increased sharply to record highs
- **Focus on contract performance – specifically wheat**
  - Price limits were expanded in February and March 2008 in corn, wheat and soybeans to improve market performance
  - Wheat delivery instrument changed from a warehouse receipt to a shipping certificate and storage rate increased by 10% to expand effective delivery capacity and improve convergence, effective with the July 2008 expiration
  - Due to excellent SRW harvest, basis weakened leading up to the July 08 expiration and the July – Sep spread moved near full carry, resulting in fewer deliveries than expected and limited arbitrage between futures and cash markets.

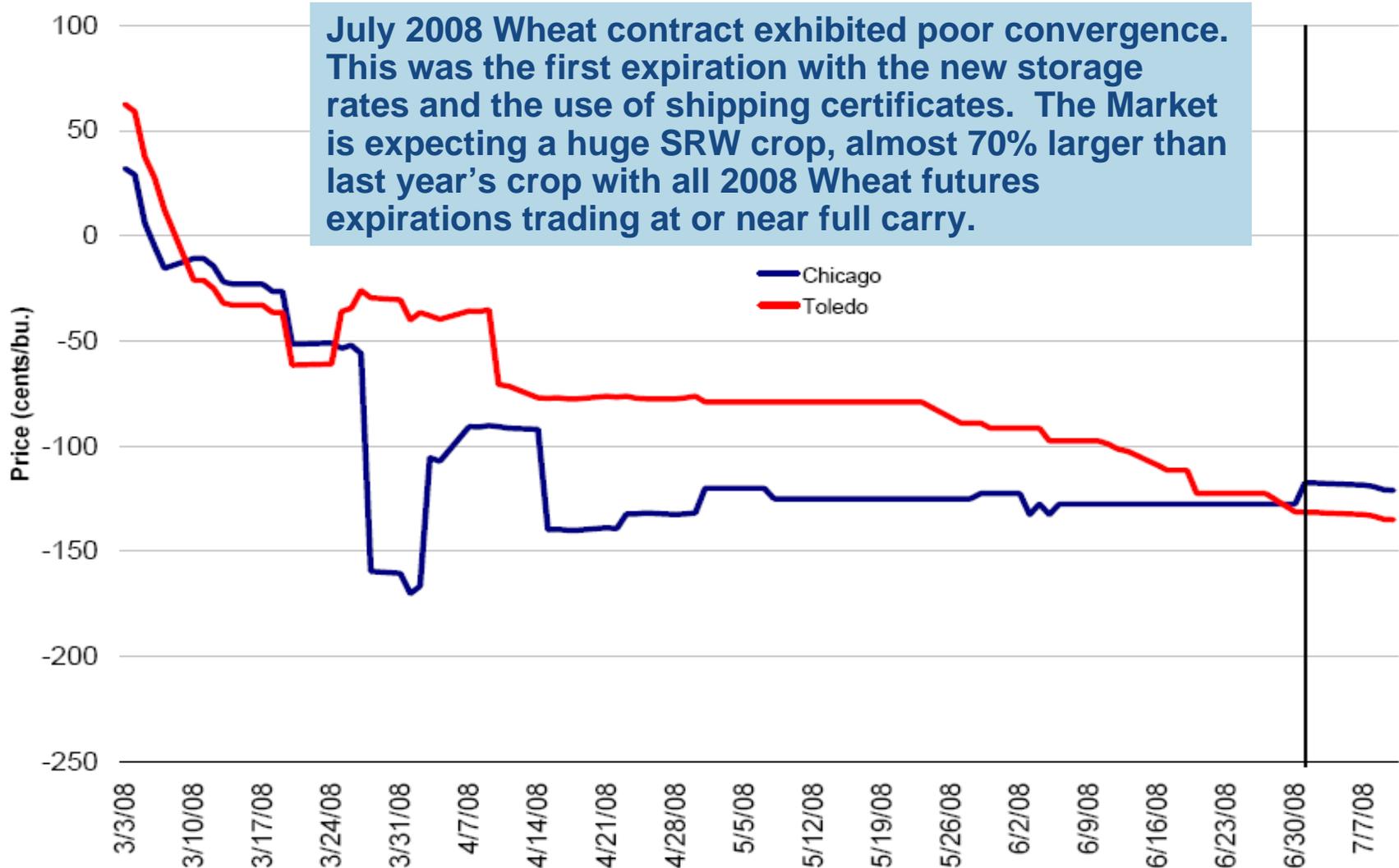
# December 2007 CBOT Soft Red Winter (SRW) Wheat Basis



# Dec 07 to Mar 08 Spread and Percent of Full Carry

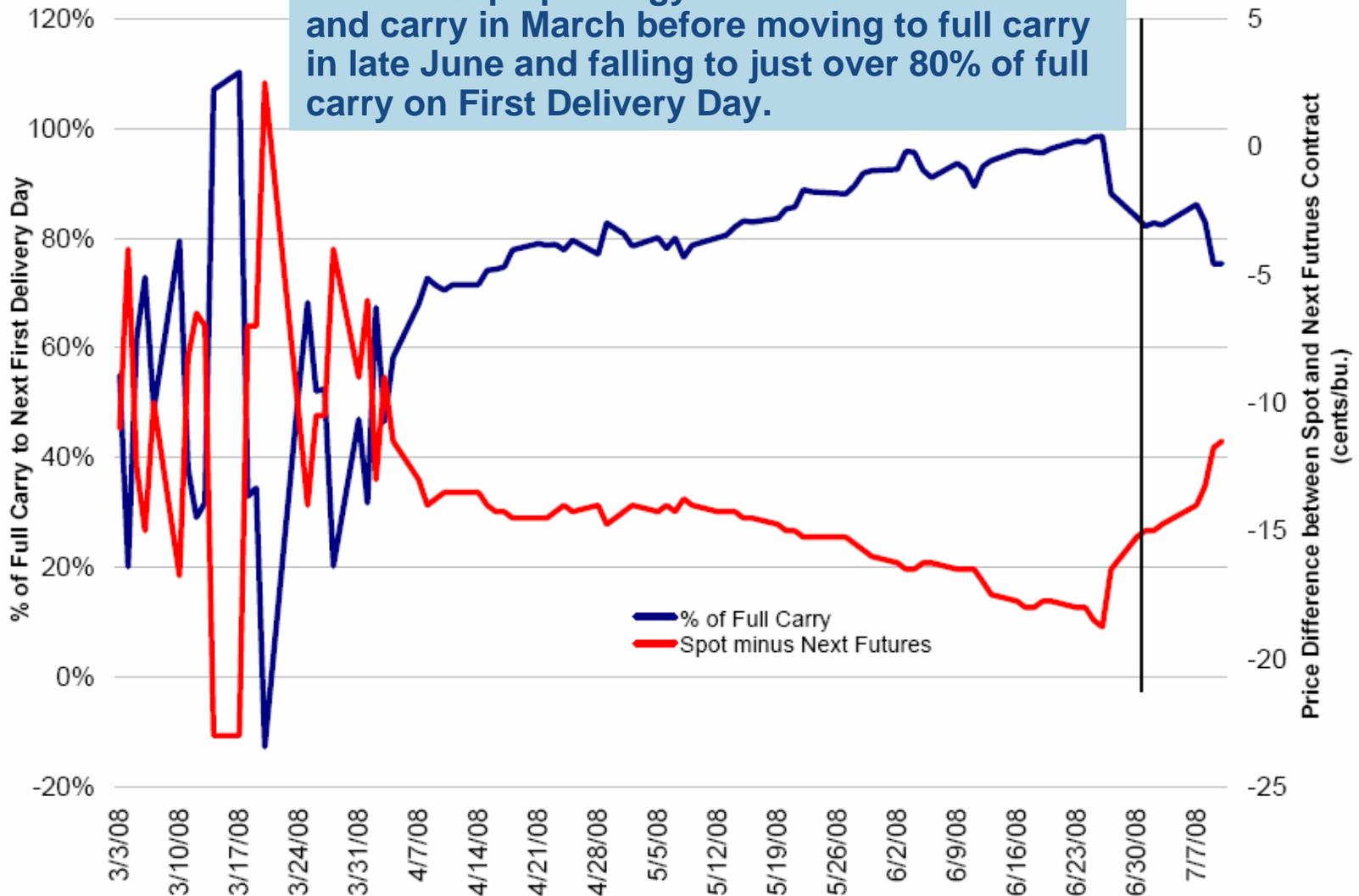


# July 2008 CBOT SRW Wheat Basis

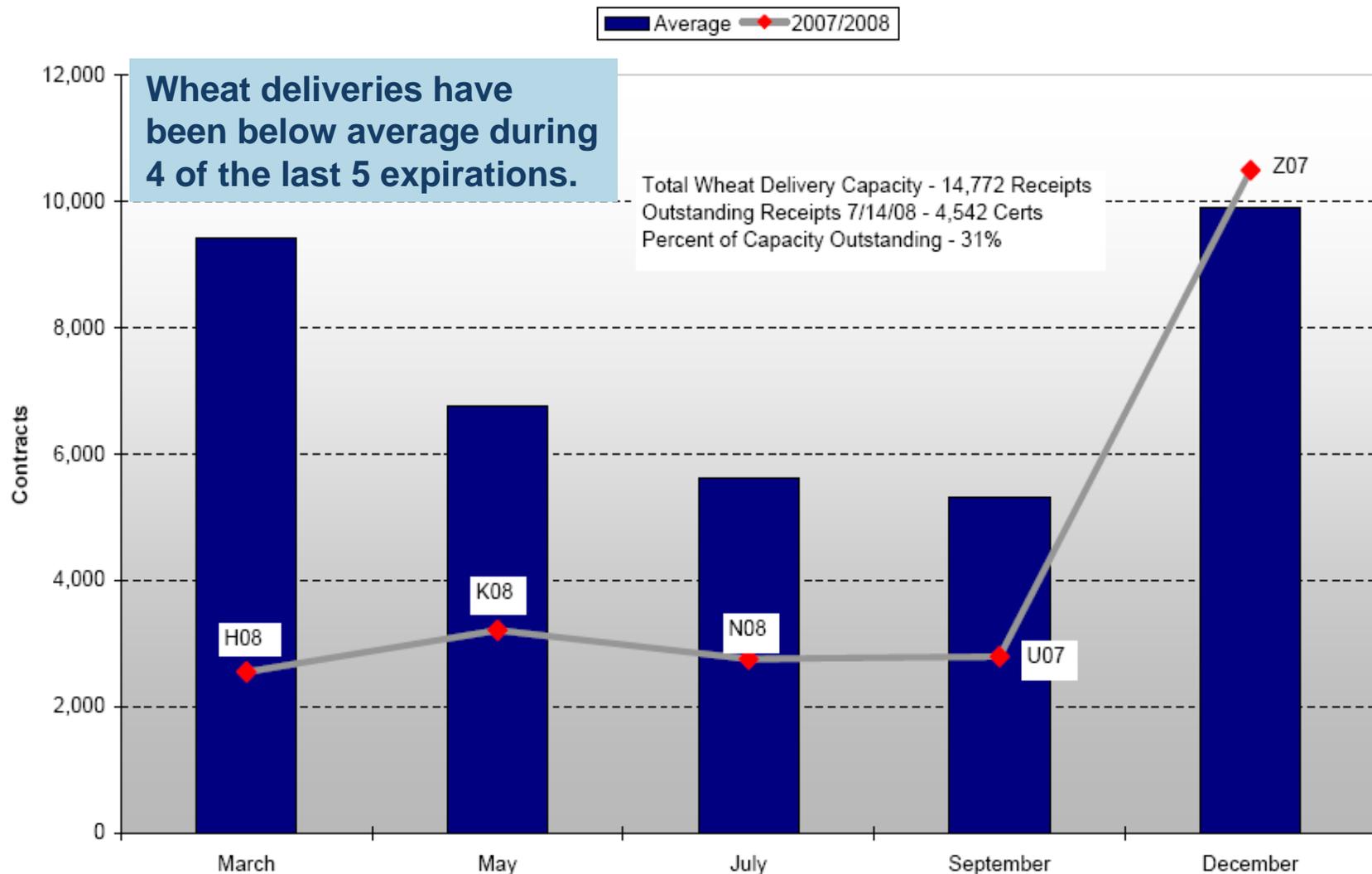


# Jul 08 to Sep 08 Spread and Percent of Full Carry

The Jul-Sep spread gyrated between inverse and carry in March before moving to full carry in late June and falling to just over 80% of full carry on First Delivery Day.

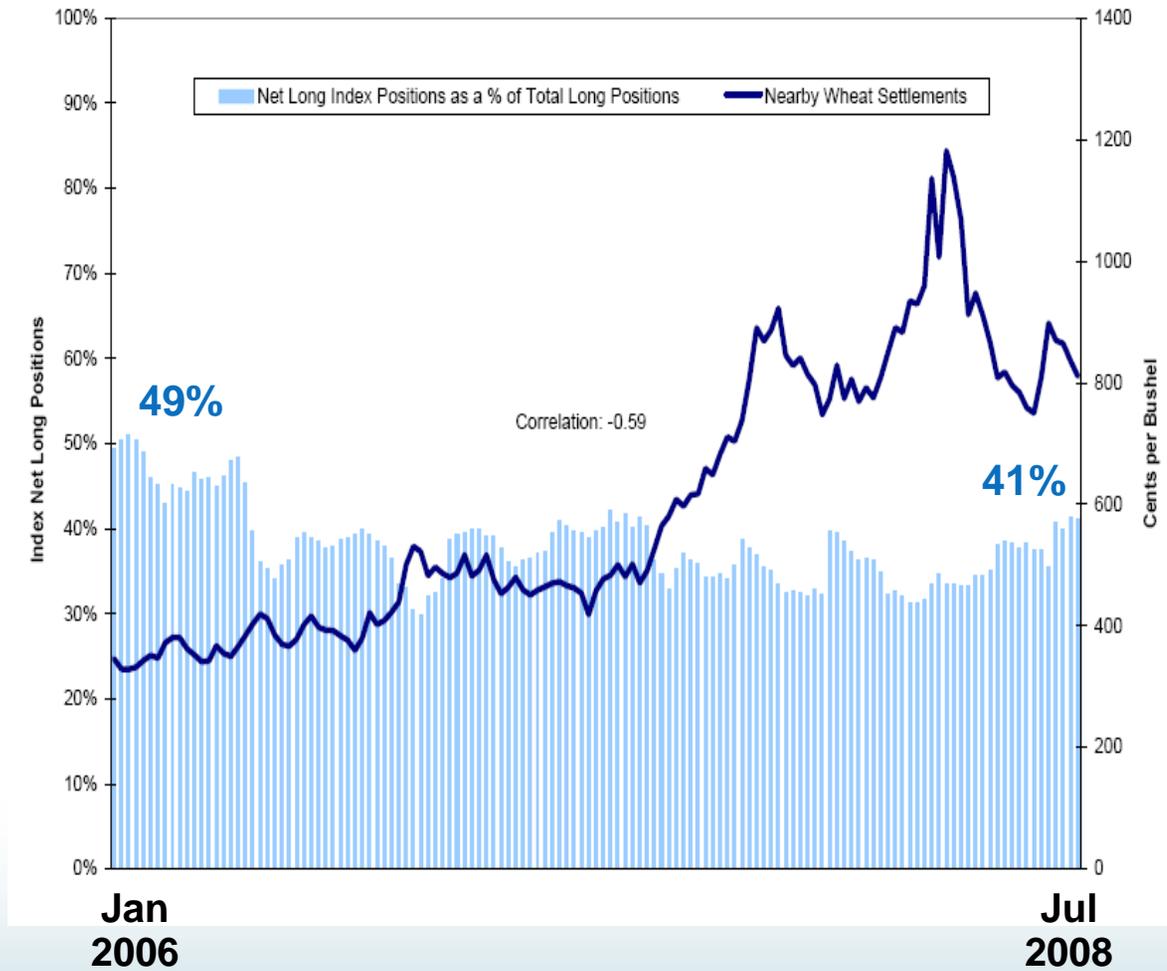


# Average and Actual 2007/08 CBOT SRW Wheat Deliveries



# Index Fund Net Long Positions Have Decreased in CBOT SRW Wheat Futures Market

Though index fund positions as a percentage of open interest declined from 49% to 41% over the last two years, prices increased 151%.



# CME Group Actions to Date to Address Wheat Performance Issues

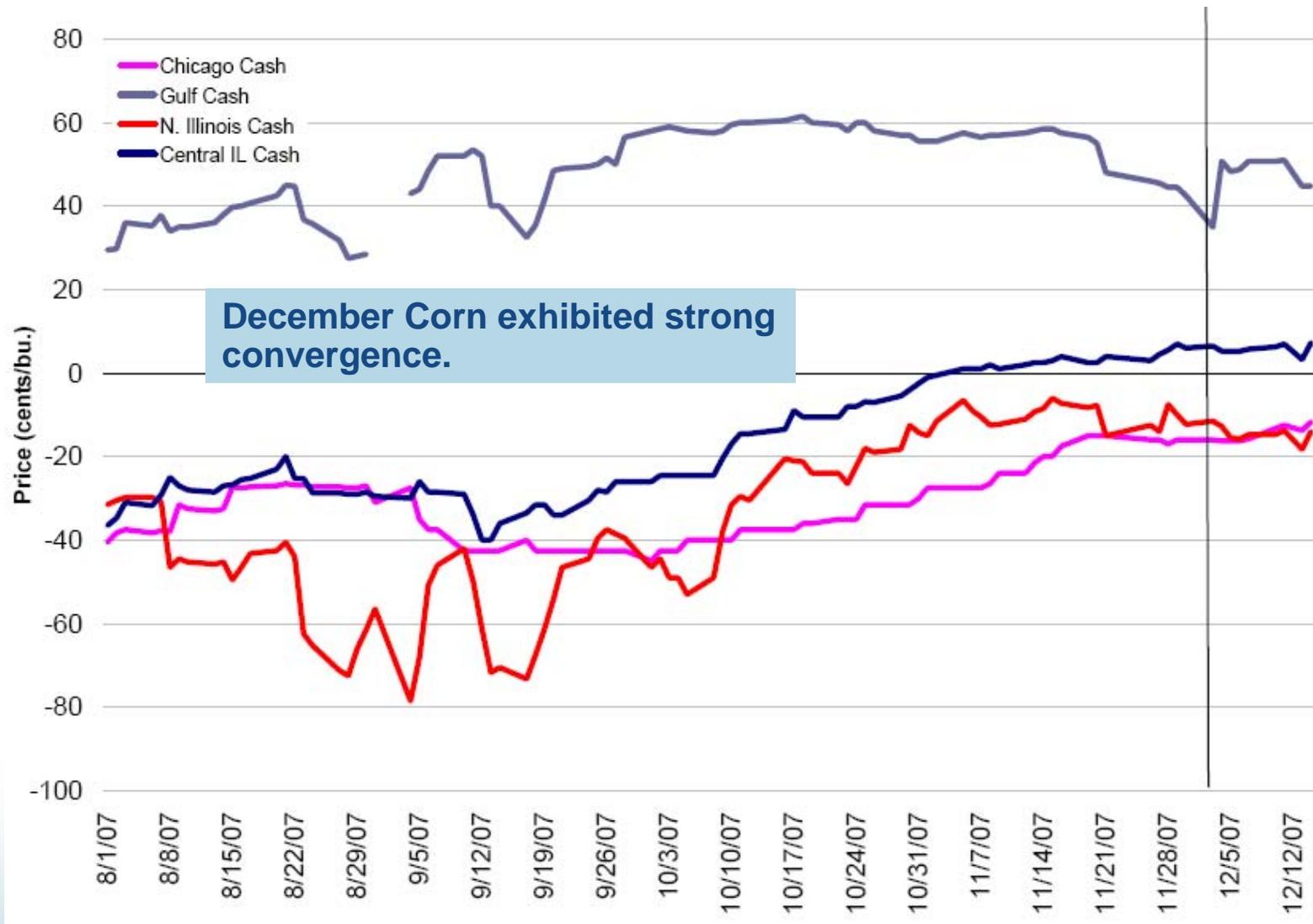
- **Since last fall, CME Group has been working closely with market participants and trade associations to gather market feedback and monitor contract performance**
- **In April, meetings with market participants held in association with the Commodity Markets Council to discuss contract performance; identify potential solutions**
- **In June, CMEG conducted a storage rate survey with National Grain and Feed Association**
- **Following the July expiration, CMEG held industry roundtable with major wheat market participants to discuss potential changes to the contract**
- **Roundtable reached consensus to move forward with broader industry vetting of the following proposals for the wheat contract:**
  - **Seasonal storage rates**
  - **Additional safety valve delivery points (Memphis and Central Ohio)**
  - **Consideration of serial futures**
  - **Consideration of adding delivery certificates to existing shipping certificates**
  - **Consider enhanced quality by lowering the vomitoxin limit to 2 parts per million**
  - **Research potential for index settlement**

# CME Group Timetable to Address Wheat Performance Issues

- **During next 30 days, CME Group will be working through these detailed industry proposals with market participants to draft specific changes for implementation in the contracts**
  - Seasonal storage rates and additional delivery locations appear to have broad industry support
  - Delivery receipts (forced load-out), cash settlement and lower vomitoxin are more controversial and must be thoroughly researched
- **An industry meeting is planned for September with a broad cross-section of market participants to present proposed wheat contract changes**
- **CME Group will also explore a cash settled contract based on world and/or U.S. production. If an index is feasible, a new cash settled contract could be launched side-by-side with the current contract**
- **CMEG needs to work closely with CFTC to determine how quickly these contract changes could be implemented for wheat**
  - How quickly could seasonal storage rates and additional locations be implemented?
  - How quickly could delivery receipts, cash settlement or a lower vomitoxin standard be implemented?

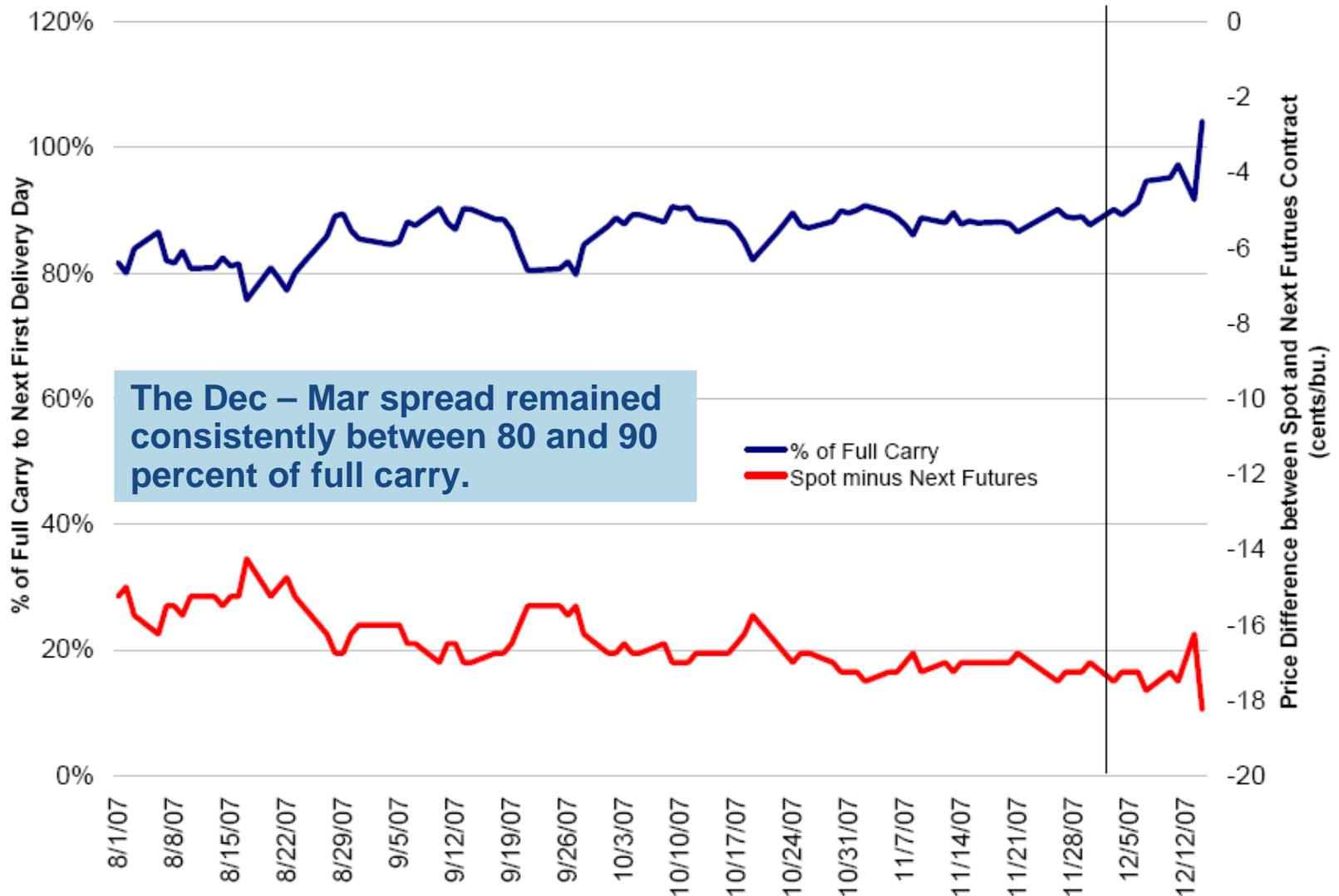
# Appendix

# December 2007 Corn Basis

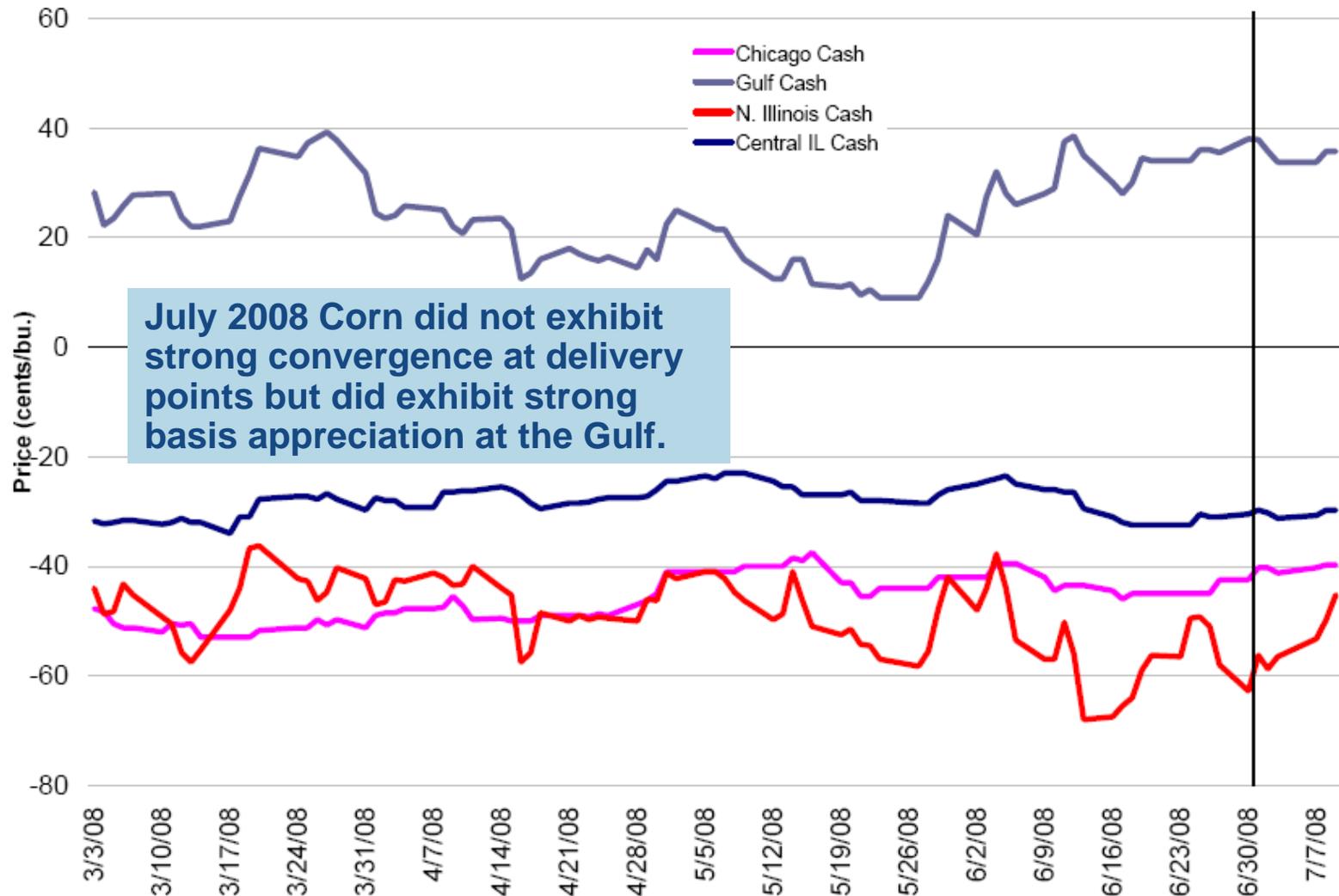


December Corn exhibited strong convergence.

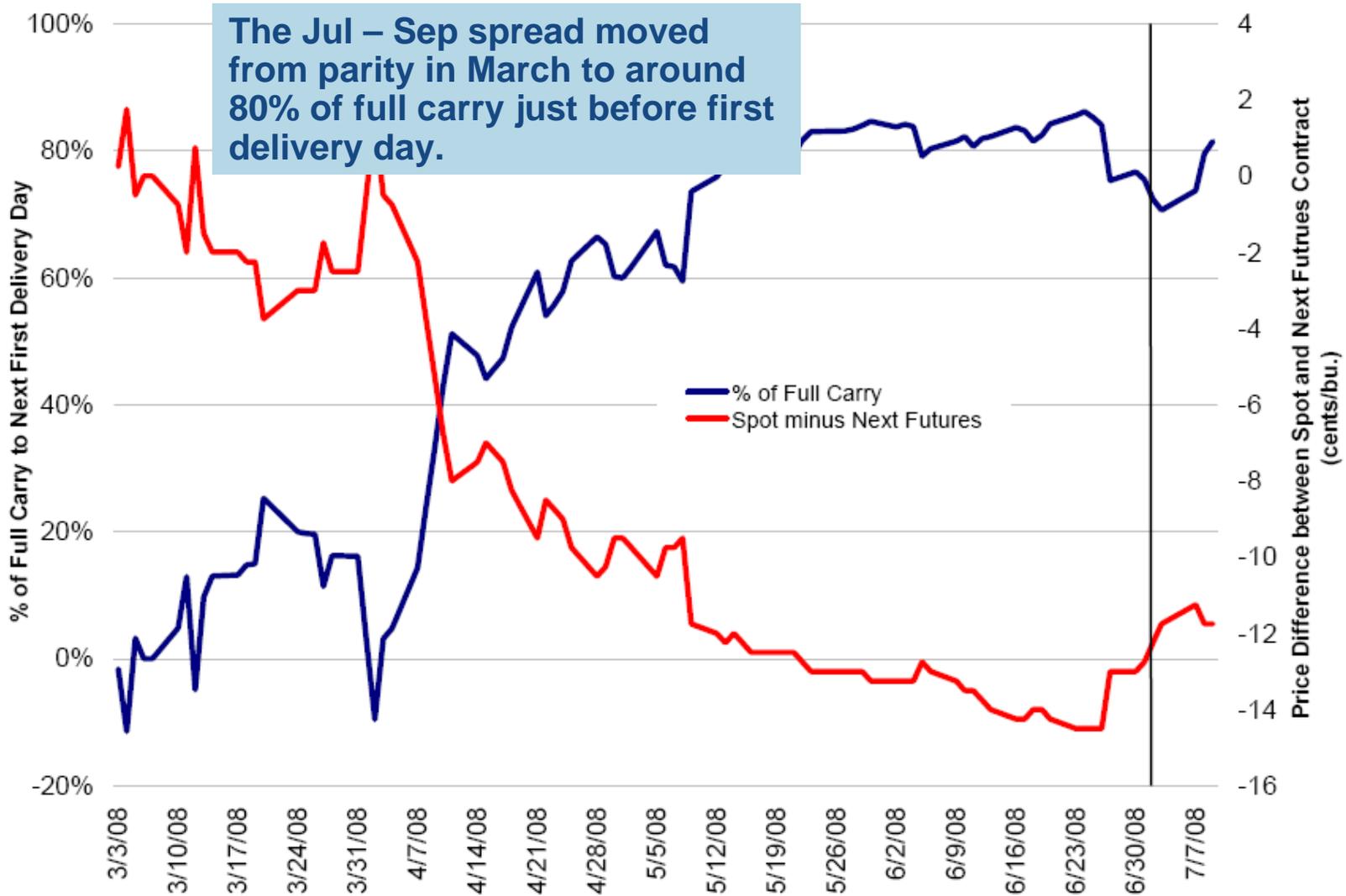
# Dec 07 to Mar 08 Corn Spread and Percent of Full Carry



# July 2008 Corn Basis



# Jul 08 to Sep 08 Corn Spread and Percent of Full Carry



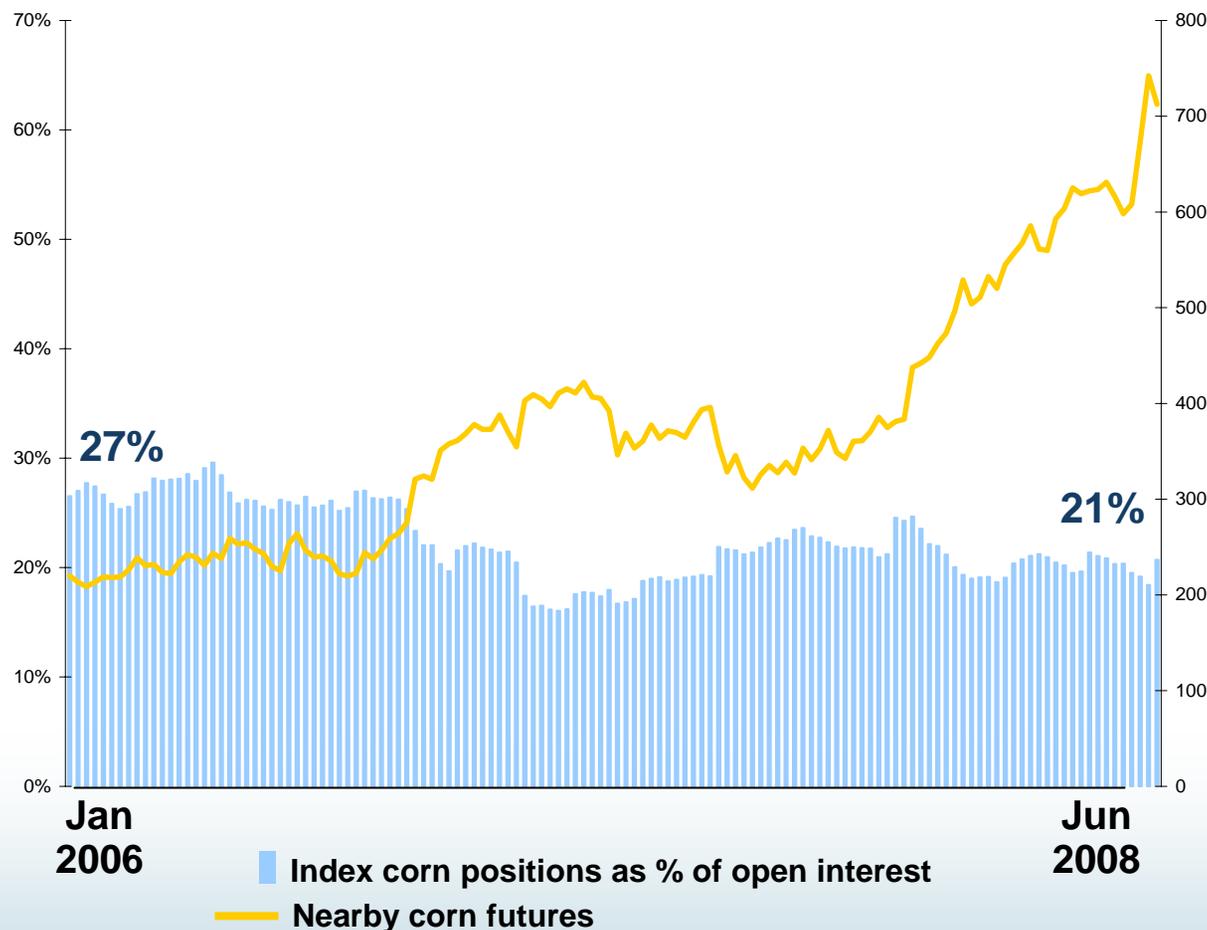
# Index Fund Net Long Positions Have Decreased in Corn Futures Market

Index Net Long (Short) Positions  
as % of OI

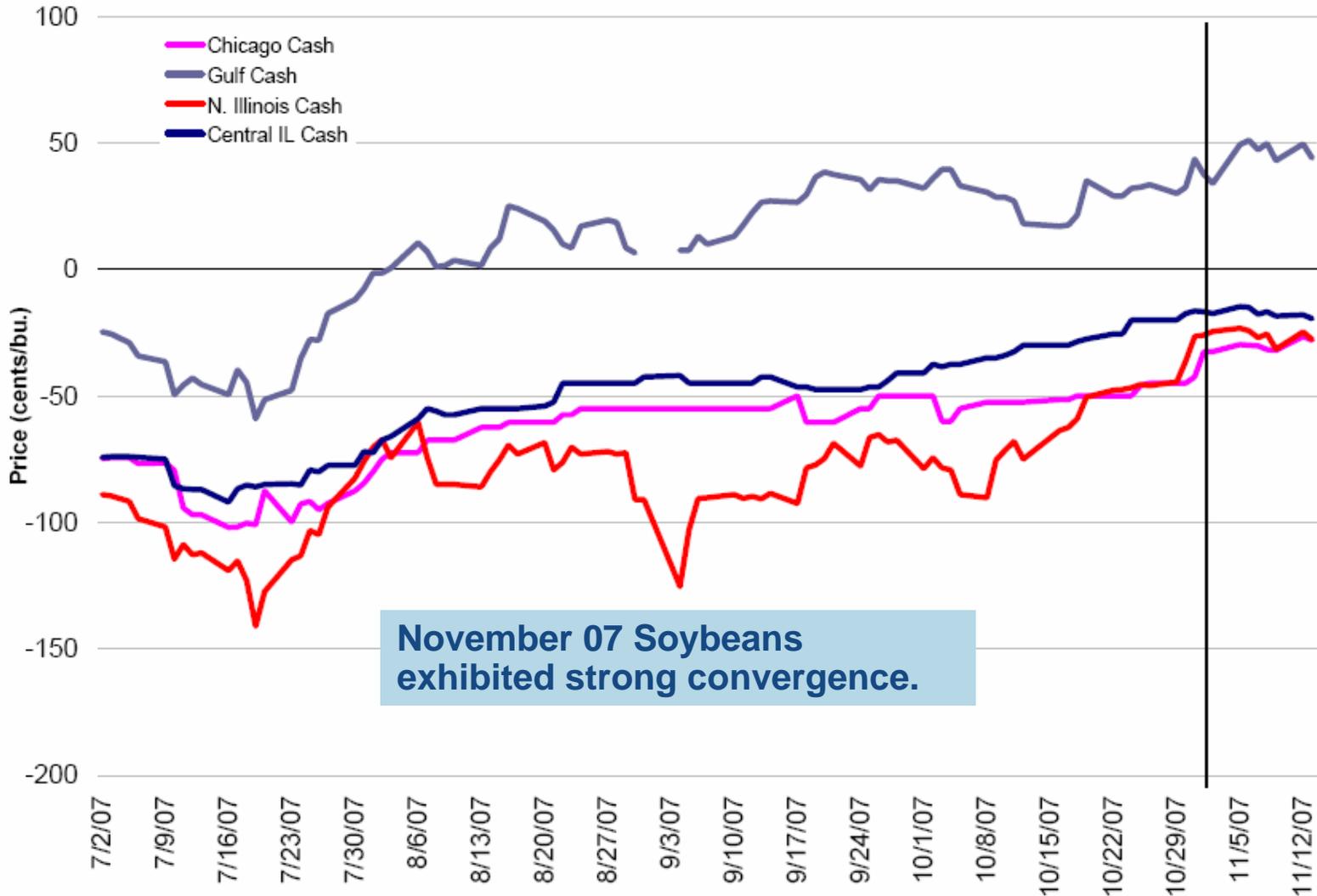
**Corn**

Nearby Price  
Cents per Bushel

Though index fund positions as a percentage of open interest declined from 27% to 21% over the last two years, prices increased 224%.

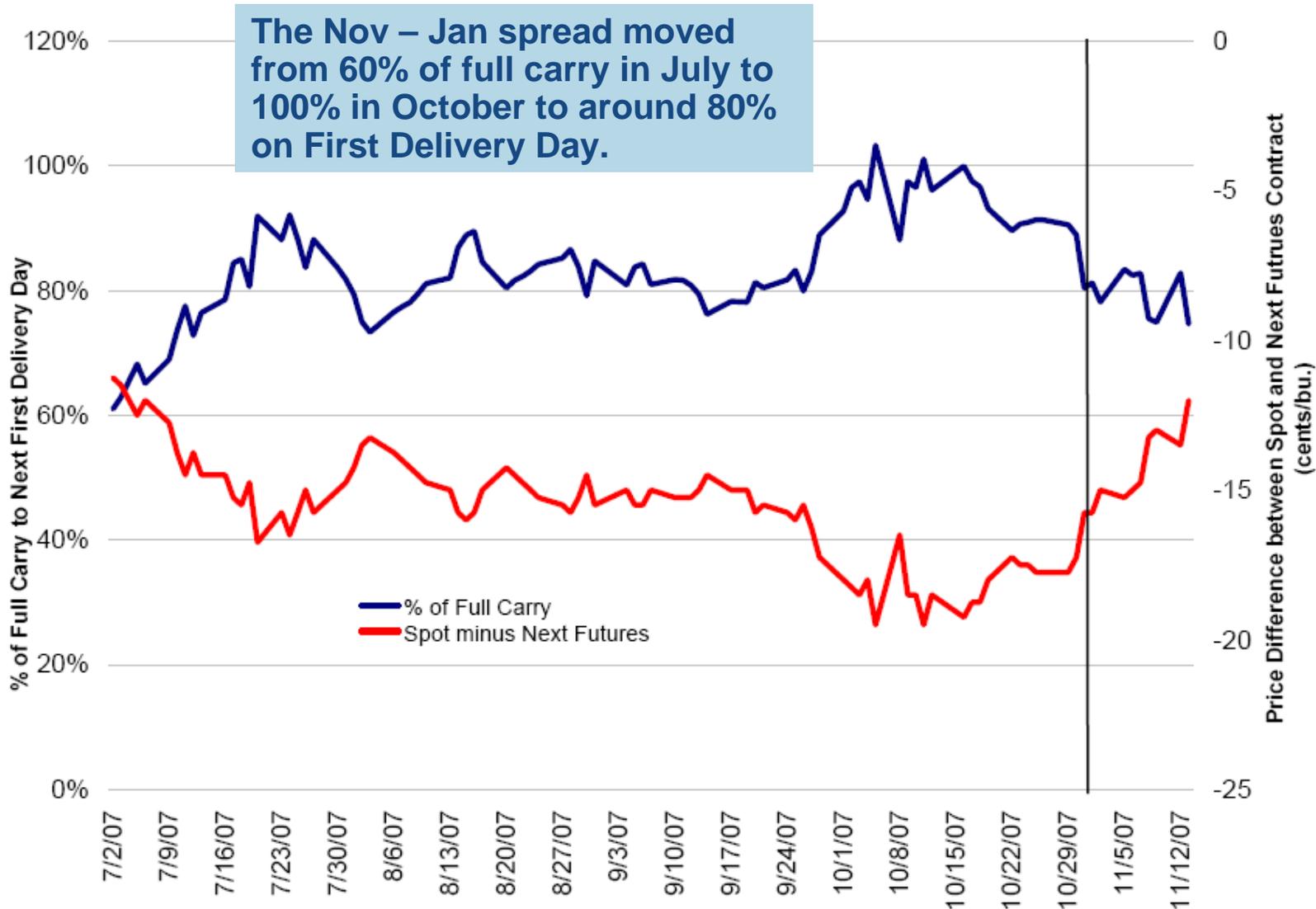


# November 2007 Soybean Basis

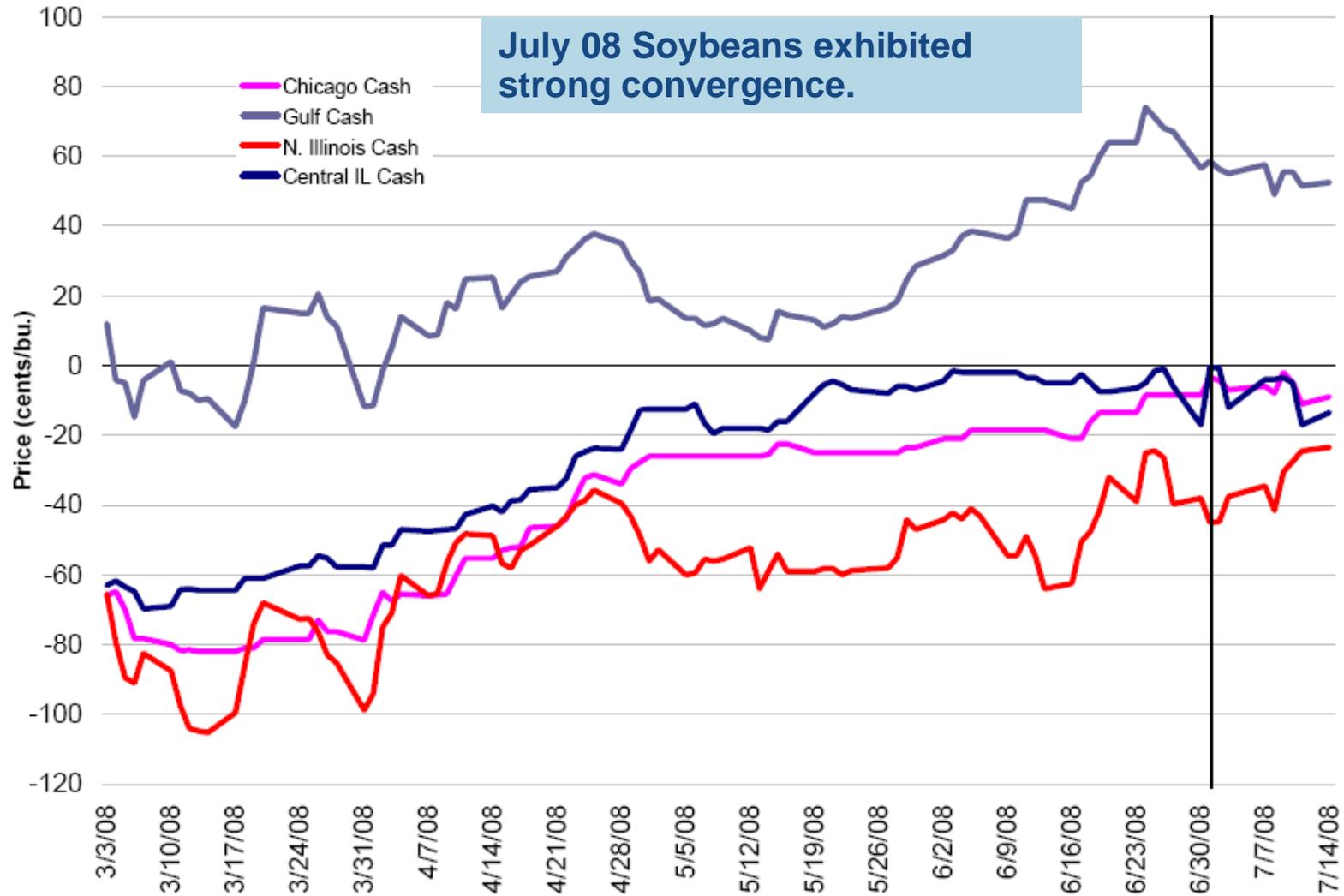


**November 07 Soybeans exhibited strong convergence.**

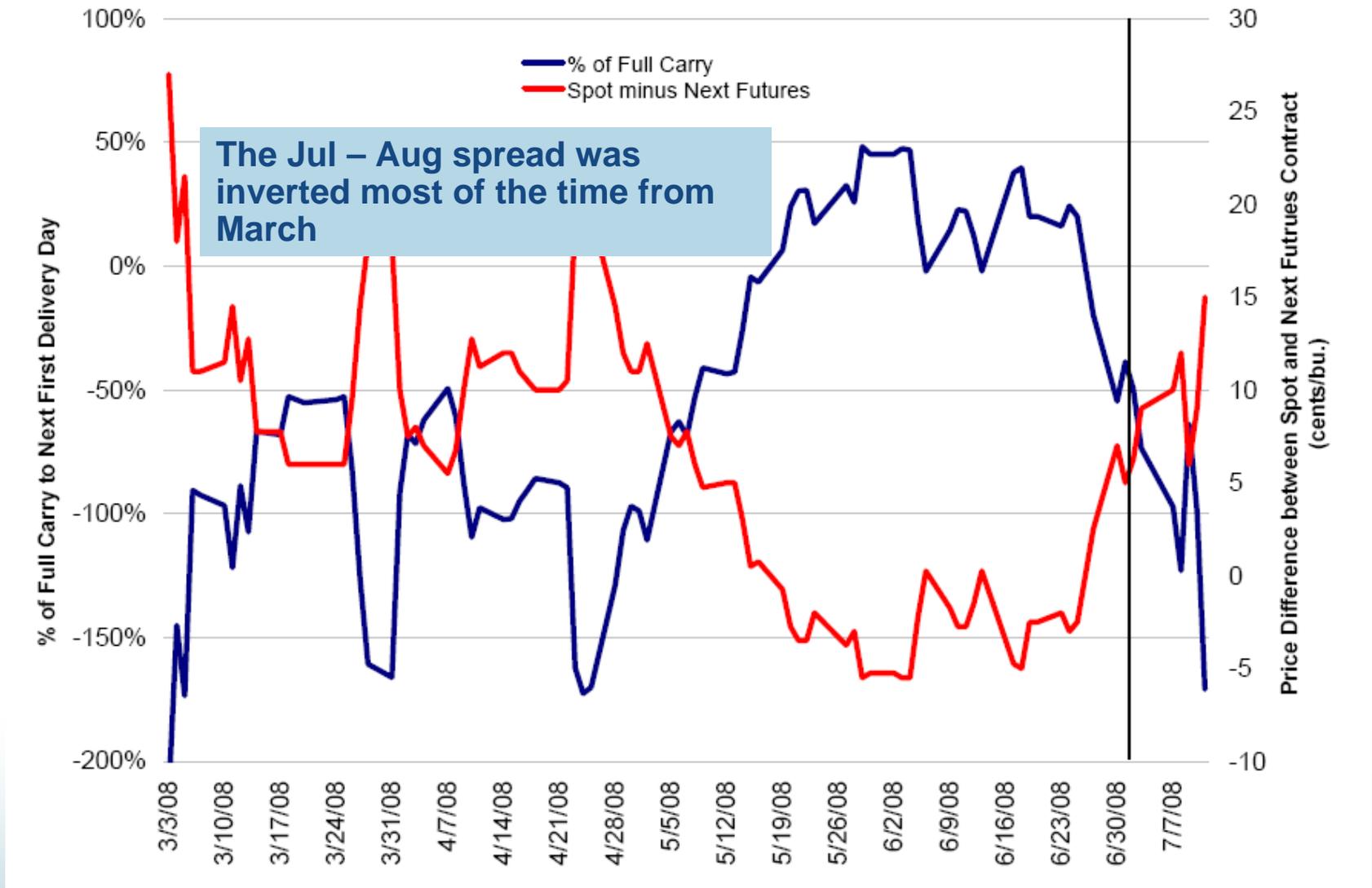
# Nov 07 to Jan 08 Soybean Spread and Percent of Full Carry



# July 2008 Soybean Basis



# Jul 08 to Sep 08 Soybean Spread and Percent of Full Carry



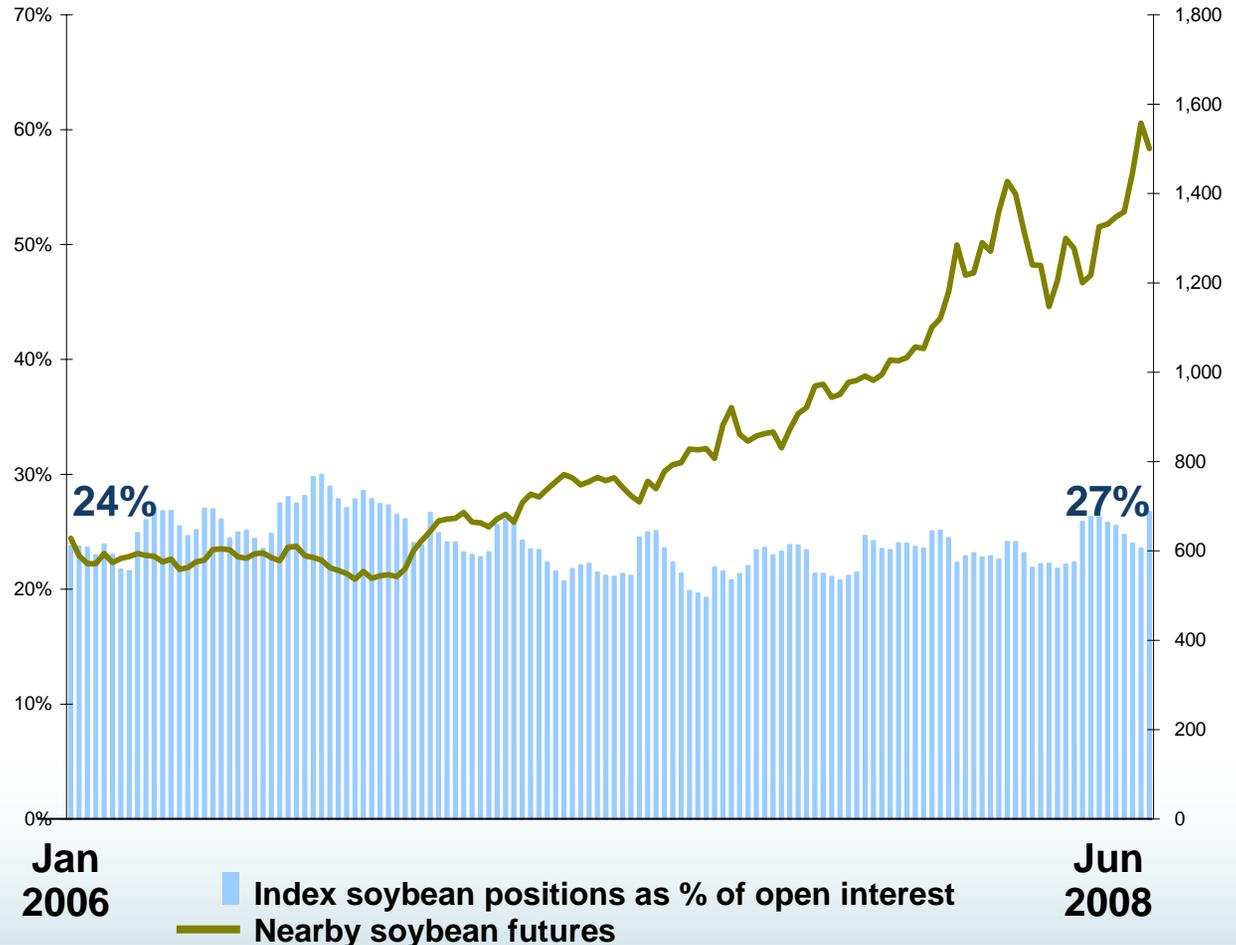
# Index Fund Net Long Positions Have Remained Steady in Soybean Futures Market

Index Net Long (Short) Positions  
as % of OI

Soybeans

Nearby Price  
Cents per Bushel

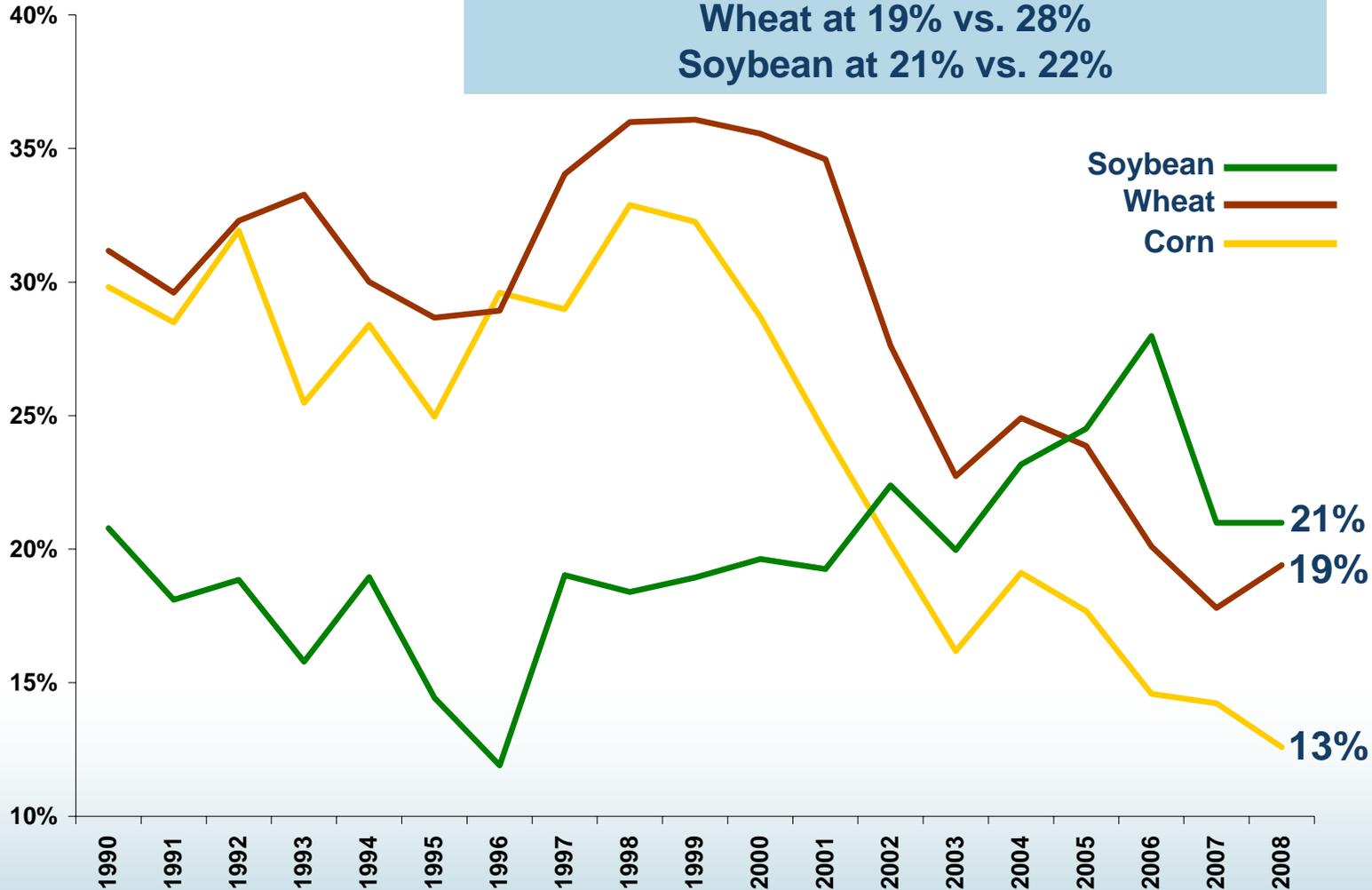
Index fund positions as a percentage of open interest increased slightly from 24% to 27% over the last two years while prices increased 139%.



# Agricultural Commodity Stocks Are Extremely Low

Current ratio versus the 10-year average ratio:  
 Corn at 13% vs. 22%  
 Wheat at 19% vs. 28%  
 Soybean at 21% vs. 22%

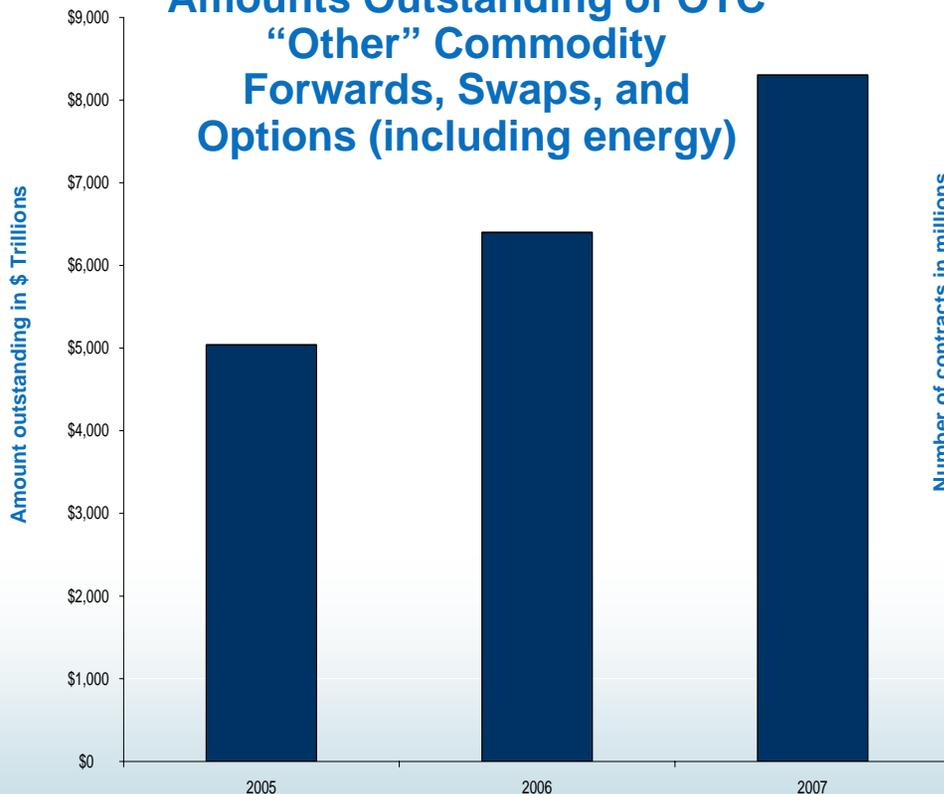
World  
Stocks-to-Use Ratio



# Over Regulating US Commodity Markets Will Encourage Flow to the Already Active OTC Markets and Overseas Exchanges

- 65% growth in OTC commodities in two years while overseas exchange traded commodity market is now 58% of global annual volume
- OTC commodity market is estimated at 5 times the size of the exchange traded commodity market

**Amounts Outstanding of OTC "Other" Commodity Forwards, Swaps, and Options (including energy)**



**Annual Volume Turnover for Exchange Traded Commodity Derivatives**

