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COMMENT

George H. Ryan, Governor • Joe Hampton, Director

Office of the Director

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June 23, 2000

Comments to the Commodity Futures Trading Commission:

As Director for the Illinois Department of Agriculture, I appreciate the opportunity to make comments on the Chicago Board of Trades (CBOT) proposal to increase maximum daily price fluctuation limits for CBOT grain contracts and other contracts. Before I start my comments, I just wanted to state that it bothers me to see such a short period for comments on such an importance issue.

With expanded price limits comes increased counter-party risk and thus more expensive cost of doing business via higher margin requirements and the likelihood of more frequent margin calls. This tends to drive producers who are trying to manage price risk away and they become flat cash longs which is the truest form of speculation.

I believe with this increase, farmers will be less likely to utilize CBOT contracts, and especially right now with the low cash prices, farmers need risk management tools and with this proposal farmers who do use the futures market for risk management purposes will see a greater risk. This is not what we need right now.

Not only will there be less business for CBOT, but the owner will be the one to experience the hardship and roller coaster ride when there is no break for recovery. History (\$5 yellow corn) indicates the "industry" has a hard time managing risk in a volatile market simply because margin calls exhaust operating lines of credit. When the grain merchants are taken out of the position due to inability to meet margin calls it exacerbates risk.

In the commercial world, expanded price limits and volatility result in "taking protection" to preclude losses for overnight fluctuations. This tends to really impede the movement of grain into the market and causes angst among producers in terms of their relationships with the grain merchants.

This proposal is serious and we believe additional time and comments is necessary to get needed information.

Sincerely,

Joe Hampton  
Director

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