

-----Original Message-----

From: Steve Hamilton [mailto:Shamilton@AMAG.com]

Sent: Tuesday, August 01, 2000 10:55 AM

To: 'secretary@cftc.gov'

Subject: Please review and comment

COMMENT

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Last January a host of new delivery points for corn were approved along the Illinois river. The objective was to make futures more appealing to producers by offering delivery locations well beyond the Chicago and Toledo delivery points that have been in place for years. And while it has improved their usefulness somewhat, I feel there is still inadequate incentive for cash merchandisers to store current surplus. The CBOT storage charge allowed at present is just 4.5 cents per bu. per month, versus the "spot market" storage rate of 5.25 cents per month due to the high demand for storage. And in the futures market, the current spread between December and July futures is less than 27 cents, only 3.8 cents per month. If storage incentives aren't boosted right now, we could be headed for a basis wreck like we haven't seen since the spring of '96. Only that time it was futures racing higher, outdistancing cash. This time it will be cash collapsing faster than futures. The CBOT should increase storage payments to about 6 cents per bushel per month to jumpstart the futures market's vital function of bringing about convergence between cash and futures during delivery. This would also tend to widen carrying charges in the futures market and make it more worthwhile for producers to store surplus on their farms, easing pressure on basis as we brace to absorb a monster crop. I quote the CBOT's own literature in justifying the additional delivery points for the Illinois Waterway Delivery System (IWDS): "Delivery systems in the futures markets exist to ensure (emphasis mine) convergence of cash and futures prices during the delivery month." And unless CBOT is willing to recognize this need, futures markets become far less attractive as hedging vehicles, particularly for farmers, during times of surplus.

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