

U.S. COMMODITY FUTURES TRADING COMMISSION
AGRICULTURAL ADVISORY COMMITTEE

Deliverable Supply
Agricultural Commodities

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Deliverable Supply

*“The Commission believes that, to meet the statutory requirement of tending **to prevent or to diminish price manipulation**, market congestion, or the abnormal movement of a commodity in interstate commerce, **a futures contract should have a deliverable supply that, for all delivery months on the contract, is sufficiently large and available to market participants that futures deliveries, or the credible threat thereof, can assure an appropriate convergence of cash and futures prices.**”*

- *CFTC Federal Register Notice, November 13, 1997*
(emphasis added)



Significance

- Most short futures positions do not result in physical delivery of the commodity, but the **credible threat of delivery drives convergence** between cash and futures prices (arbitrage).
- When determining whether DCMs are compliant with **Core Principle 3**, Appendix C to Part 38 notes: “[t]he specified terms and conditions, considered as a whole, should result in a “deliverable supply” that is sufficient to ensure that the contract is not susceptible to price manipulation or distortion.”



Guidance

- Appendix C to Part 38 states that in general, deliverable supply defined as the quantity of the commodity that potentially could be made **available for sale on a spot basis** at current prices at the contract's delivery points.
- Qualifiers:
 - meets the contract's delivery specifications;
 - reasonably can be expected to be readily available to short traders and salable by long traders;
 - at its market value;
 - in normal cash marketing channels;
 - at the contract's delivery points;
 - during the specified delivery period; and
 - barring abnormal movement in interstate commerce.



Guidance

- Exclusions
 - Quantities of the commodity that would not economically obtainable or deliverable at prevailing price levels (i.e., supplies that are “out of position”)
 - Amount of commodity “committed for long-term agreements” of deliverable supply (acknowledges information about long-term agreements may not be publicly available)
- Longstanding Commission policy that spot month speculative position limits – for **physical delivery and cash-settled** futures contracts – are appropriately set based on deliverable supplies.
- While fairly detailed, the guidance does not provide any commodity-specific information.

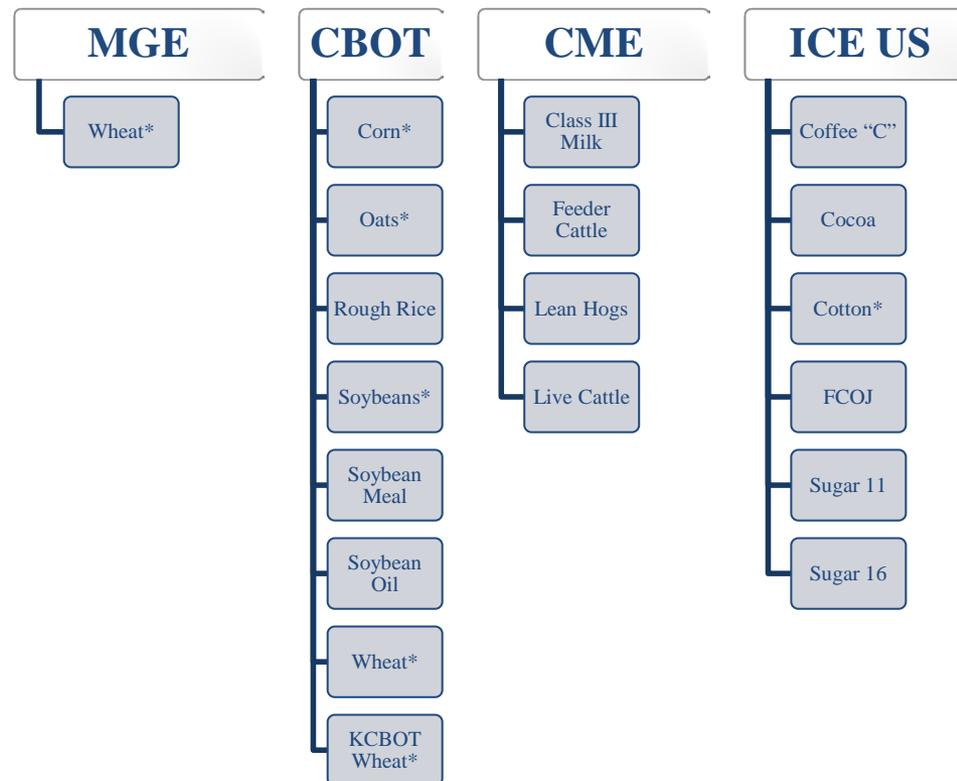


Supplemental Information



Position Limits

- 19 agricultural commodities identified in the proposed rule:



* denotes federal legacy limit. See *Position Limits for Derivatives* 78 FR 75725.

Position Limits

- Proposed rule sets initial spot month position limits at the **current DCM-set or federal legacy limit levels** for the core referenced futures contracts (and associated referenced contracts and swaps) for a period of **two years** after the rule becomes effective.
- Rule stipulates that position limit levels shall be reset on *at least* a biennial basis, at which time DCMs listing core referenced contracts will be required to submit deliverable supply estimates, accompanied by a methodology description and supporting data.

(See Position Limits for Derivatives 78 FR 75727)



Position Limits

- Alternative 1: Base initial spot month limits on estimated deliverable supplies submitted by CME Group (July 1, 2013). Under this alternative, the Commission would use the exchange's estimated deliverable supplies and apply "the 25 percent formula" in a final rule pending verification that the CME's estimated deliverable supplies are reasonable.

Exchange	Ag Commodity	Current	Implied	% Increase
KCBOT	Wheat*	600	4100	583%
CBOT	Wheat*	600	3700	517%
CBOT	Corn*	600	1000	67%
CBOT	Oats*	600	1500	150%
CBOT	Soybeans*	600	1200	100%
CBOT	Soybean Oil*	540	5300	881%
CBOT	Soybean Meal*	720	4400	511%
CBOT	Rough Rice	600	1800	200%
CME	Class III Milk	1500	5300	253%

Footnote 206 states that CME did *not* propose to set the level of spot month limits using the 25 percent formula in its letter. See Position Limits for Derivatives 78 FR 75727.



Position Limits

- Alternative 2: If the Commission was not able to verify that an exchange's estimated deliverable supply was "reasonable" in a particular commodity, the rule would apply the current limits, or a higher level based on a Commission estimate of deliverable supply for such commodity, but **not greater than would result from the exchange's estimated deliverable supply**.
- Alternative 3: Permits the Commission, in its discretion, to set an initial spot month limit and subsequent levels, at
 - A DCM-recommended level;
 - A level corresponding to (not greater than) 25 percent of estimated deliverable supply; or
 - The current levels.

(See Position Limits for Derivatives 78 FR 75728)



Public Record

- December 26, 1996: Commission published notice, and requested public comment on, notification to CBT that it had 75 days to amend delivery specifications on its corn and soybean futures contracts. See 61 FR 67998.
 - **New Crop:** Emphasized level of deliverable supplies available for the new crop futures contract month are the most critical in deterring manipulation and promoting convergence. Discussed at length whether, on an annual basis, the amount of commodity left over from the previous year (“old crop”), combined with the amount of newly harvested commodity (“new crop”) would be sufficient to ensure an adequate deliverable supply for the New Crop futures contract month.
 - **Locational Differentials:** Determined that the inclusion of a delivery territory, in and of itself, was insufficient to increase deliverable supplies. Locational differentials must be assessed to delivery territories and set at levels that make that territory “economic” for delivery.



Public Record

- Diversion of supplies for domestic processing considered an abnormal movement in interstate commerce; confined calculation to commodity in export channels.
- Declined to include deliverable supplies that would be made available in response to price increases in the futures markets (for the same reason).
- Pointed out that capacity of firms in the delivery territory should not be construed as an indicator of adequacy of deliverable supplies
- Suggested that general information about production and commercial activities in the vicinity of the delivery territories was insufficient and resulted in a comingling of supplies destined for domestic processing and the export market.
- Included data only from firms meeting regularity requirements.
- Declined to include through-put facilities (warehouse receipts)

(See 62 FR 60831)



Public Record

- The Commission offered a deliverable supply calculation (for the Illinois River)
 - Sum of barge shipments from the proposed delivery points for a contract delivery month and all subsequent months of the same crop year with some downward adjustment for the final delivery month of the crop year (when barge shipments typically include supplies from the new and old crop years).
 - For Chicago, the deliverable supply was calculated as the sum of stocks available at warehouses meeting the net worth requirements in the delivery territory at the beginning of each delivery month plus the number of warehouse receipts issued during that month, and adjusted by each firm's ability to issue receipts (according to their capacity and daily loading rate).
 - Reiterated that the estimates were just a starting point that could be revised further downward to reflect decreases in supplies due to natural and manmade phenomena (weather-related disruption of river traffic, supplies committed via long-term agreements, delivery territories that are temporarily uneconomic, etc).

(See 62 FR 60831)



Links

- Commission Guidance:
 - Appendix C to Part 38: http://www.ecfr.gov/cgi-bin/text-idx?SID=c01ba9a00172f492251347d0cd5e0d57&node=ap17.1.38_11201.c&rgn=div9
- Federal Register Notices:
 - 61 FR 67998, 12/26/1996: <http://www.gpo.gov/fdsys/pkg/FR-1996-12-26/pdf/96-32708.pdf>
 - 62 FR 60831, 11/13/1997: <http://www.gpo.gov/fdsys/pkg/FR-1997-11-13/pdf/97-29895.pdf>
 - 63 FR 26575, 05/13/1998: <http://www.gpo.gov/fdsys/pkg/FR-1998-05-13/pdf/98-12664.pdf>