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The Honorable Walter Lukken
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: Ag Forum Comments

Dear Chairman Lukken,

As an organization that serves as a marketing agent for farmers, the dilemma that is created by not being able to forward contract grain is very difficult. Staggering increases in fertilizer, pesticides, diesel fuel, seed, land rents and other input costs for spring planting leaves a farmer at risk of lower priced commodities next year without being able to forward contract to protect a profitable level. There is even greater concern that for 2009 and 2010 crop years, input costs will not decrease, but with the world responding to the high prices on the Chicago Board of Trade (CBOT) by planting record acres that the prices will come down and farmers will have missed an opportunity to capture prices high enough to lock in their cost of production plus a reasonable profit.

The CBOT is no longer accurately reflecting the price discovery mechanism that has been relied upon by farmers for many years. The fundamentals of supply and demand are now being reflected in the basis rather than in the futures prices. This creates the convergence problem being experienced by commercials trying to protect price.

It was apparent that the Index Funds represented at the CFTC April 22 Hearing did not care what the fundamentals of the grain markets were. Mr. Gresham noted that an addition of 5% commodity investments in pension funds reduces volatility for the fund. Mr. Calpers stated that slowly increasing commodities as a percentage of a portfolio was a great performing asset in the portfolio. How is that helping to accurately discover the price of any commodity?

From 10/1/2007 to 2/11/2008 the July 2008 Corn contract on the CBOT (CN8) generally traded between 850 and 3700 contracts per day. On 2/12/08 volume jumped to 11,581. 2/29/08 was 34,199 contracts traded, 3/31/08 was 98,683 contracts traded, 4/29/08 201,586 contracts traded, or 1,007,930,000 bushels of corn. According to the USDA April Supply and Demand Report, carryout of 2007/08 crop corn is 1,283,000,000 bushels and practically the whole amount was traded on 4/29/08. With the lack of transparency in the market place, how do we know who is trading all these contracts? Can we be assured that someone is not trying to corner the market? With lack of transparency and electronic trading platforms, grains, oil, and other commodities are at risk of manipulation by foreign interests.

The CBOT was to be the price discovery mechanism to offer farmers and end users price protection. With a minimum percentage of the trading on the CBOT from either farmers or end users, how can we be assured that commodity prices accurately reflect supply and demand? And with so many buyers now not offering any opportunity for farmers to protect their prices, it becomes a "great performing asset" for pension funds instead of a risk management and price discovery mechanism for agriculture.

Transparency and position limits are tools that could help stabilize the market and help convergence. Ensure that all "hedgers" truly hold a cash grain position.

In order to facilitate forward contracting for farmers, a loan program for grain elevators and end users could be implemented by the USDA, administered by the Commodity Credit Corporation (CCC), that would be similar the CCC loan program for farmers. When an end user purchases grain on a forward contract from a farmer, the purchase contract, signed by the elevator and the farmer, could serve as documentation to allow hedge accounts to be financed by the CCC until the contract delivery period.

To minimize convergence issues and margin requirements, the USDA may consider recommending the use of the National Index Futures traded on the Minneapolis Grain Exchange. According to a research study by Sparks Commodities, Inc., there is a much greater correlation between cash prices reflected by the National Index Futures for most of the Midwest Grain Producing areas than there is for the CBOT.

The main concern is that farmers and end users are able to use the CBOT for risk management in volatile markets. When opportunities exist to lock in the cost of production plus a reasonable profit, the CBOT was supposed to be the tool for agriculture to utilize for that purpose. A strong agricultural economy is a necessity to underpin the US economy, and the CBOT is the tool to ensure our strength.

Sincerely,

Linda Reineke, Grain Marketing Consultant
Gilbert Kleaving, National Grain Director