

**CONVERGENCE**

**POTENTIAL SOLUTIONS**

**PROs**

**CONs**

**ADD DELIVERY POINTS "at par value"**

- Mid-South River Stations
- Ohio River Stations
- Ohio Rail Facilities

Likely improves local basis levels  
 Reduces basis volatility in the region

Does not resolve the problem with convergence  
 The market is not suffering from a lack of deliveries  
 Would represent a disadvantage for the stopper

**ADD DELIVERY POINTS "safety value"**

- At a discount to the primary  
 Delivery Point

Same as above

Same as above, but no disadvantage to the stopper

**CHANGE STORAGE RATES**

- Modest Increase in all Storage Rates

Better reflects current value of storage

Does not resolve the problem with convergence

- Large Increase in all Storage Rates  
 (e.g., doubling of storage rates)

Allows more volatility in spreads and less in basis  
 Enhances convergence in surplus years

Makes the market less responsive to bullish fundamentals  
 Creates potential for an opposite imbalance in tight stock years  
 Creates incentive for "production" for CME rather than consumer  
 Increases burden on long hedgers

- Implement Seasonal Storage Rates

Better reflects value of storage during peak periods

Does not resolve the problem with convergence

POTENTIAL SOLUTIONS	PROs	CONs
<p><b>COMPELLED LOAD-OUT</b></p> <p>No Qualifications or Limits</p> <p>With Limits to Maintain Market Balance</p>	<p>Would force convergence in cash/futures</p> <p>Would force convergence in cash/futures</p> <p>Restores confidence/dependable of short-hedges</p>	<p>Creates an unmanageable risk for the long-hedger</p> <p>Creates an imbalance in favor of the short-hedger</p> <p>Could dramatically reduce liquidity as long-hedgers see other alternative</p> <p>Could force current "on-exchange" volume to OTC</p> <p>Represents a material change that could destabilize the market</p> <p>All of the comments in compelled loadout section apply unless structure &amp; limits are designed properly to assure market balance</p>
<p><b>CASH SETTLED INDEX</b></p>	<p>Potential solution to convergence</p>	<p>Represents a radical change with unknown consequences</p> <p>Creates new basis exposure for elevator operators</p> <p>Elimates delivery system as the ultimate market and source for physical</p> <p>Could create advantage for large networks over smaller operators</p> <p>No guarantee that it will create convergence</p>
<p><b>SERIAL FUTURES CONTRACTS</b></p> <p>(e.g.monthly ctr)</p>	<p>Creates enhanced hedging opportunities</p> <p>Reduces time-frame/risk of market imbalances</p>	<p>Not a solution for convergence</p>

COT REPORT	Non-Commercial			Commercial		Index Traders		Non-Reportable		Total	Total	Spreads	Total
	Long	Short	Spreads	Long	Short	Long	Short	Long	Short	Longs	Shorts		
WHEAT													
Long OI as of 7/22/08	43249	72076	124287	34121	156490	209408	33347	27170	52035	313948	313948	124287	438235
CIT Long share of Total OI						48%							
CIT Net share of Total OI						40%							
CIT Net share OI excl Spreads						56%							
						Net Long as % of Production >	145%						
BEANS													
Long OI as of 7/22/08	94559	31932	193653	102319	284185	163630	13521	52888	83761	413396	413399	193653	607052
CIT Long share of Total OI						27%							
CIT Net share of Total OI						25%							
CIT Net share OI excl Spreads						36%							
						Net Long as % of Production >	29%						
CORN													
Long OI as of 7/22/08	183689	92628	737306	547952	904339	432662	46104	157116	278349	1321419	1321420	737306	2058726
CIT Long share of Total OI						21%							
CIT Net share of Total OI						19%							
CIT Net share OI excl Spreads						29%							
						Net Long as % of Production >	15%						