



American Bakers Association

Serving the Baking Industry Since 1897

May 7, 2008

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

Re: CFTC Agricultural Forum, April 22, 2008:
Volatility within the Commodity Futures Market

Chairman Lukken:

The American Bakers Association (ABA) appreciates the opportunity to provide these comments for the record in response to the concerns raised during the April 22, 2008, Commodity Futures Trading Commission (CFTC) Agricultural Forum.

ABA is the leading advocate for the baking industry. It has been the voice of the baking industry since 1897, representing its members before the U.S. Congress, federal agencies, state legislatures, and international regulatory authorities. ABA addresses issues facing the baking industry and initiates positive reforms benefiting the industry and its customer, the consumer.

ABA member companies produce approximately 85% of all baked goods consumed in the United States. Membership includes large and small producers of all segments of grain-based foods, from bread and rolls to crackers, tortillas, sweet goods and other baked food items.

ABA commends CFTC for holding the April 22 forum to discuss current commodity market concerns, including extreme volatility and lack of convergence, and for its continued efforts to safeguard participating market entities from unreasonable fluctuations within the commodity futures market. The commodities purchased and sold on the Chicago, Kansas City and Minneapolis exchanges are vital to every ABA member. It is of the utmost importance that these markets continue to be accessible to all participants and are protected against unwarranted market manipulation.

ABA submitted comments in January 2008 regarding the CFTC's proposed rule to increase federal speculative limits, arguing that such a move would only exacerbate the current situation. ABA strongly supports the CFTC decision announced during the April 22 agricultural forum to postpone any action on this proposed rule. ABA continues to

oppose adoption of this rule as we believe its implementation will dramatically increase market volatility, possibly forcing traditional market hedgers, including many small businesses, out of the futures market. Unfortunately, even without implementation of this rule, volatility has dramatically increased and traditional participants have been forced to use alternative, less transparent means to purchase wheat and other commodities.

Overall, we believe that the root cause of the current dilemma is a lack of regulation upon the largest single participant in the futures markets- the long only commodity index. This index owns +60% of all futures contracts in wheat, soy, and corn. They have material length on crude oil, natural gas and precious metals. We cannot continue to ignore the impact of this futures participant. Over the counter products dwarf futures open interest and continue to distort their impact upon cash markets. Positions need to be visible (CFTC reporting) but more importantly, ABA believes that steps should be taken to ensure parity between market participants. There is increasing concern that all futures market participants are not scrutinized equally. ABA believes that clarifying definitions and roles of all market participants is an important first step in understanding the current conditions impacting today's markets. ABA asks that the CFTC investigate these abnormalities and aggressively pursue rules that will help level the playing field.

As we stated in our remarks at the forum, ABA believes the commodity exchanges have moved away from their original intent – to allow producers to sell their product in a transparent, regulated manner to physical users of the commodity. ABA is concerned that traditional market participants are being pushed out of the market – in favor of more non-traditional, new market participants that are essentially using the commodities market as a financial investment.

While we encourage active participation in the agriculture markets by all entities, we ask that you examine the way in which some of these participants enter into the futures market. If the agriculture markets are being used for a financial hedge, we advocate that the risk be spread over more than the one or two of the closest options to expiration. We suggest that the CFTC consider limiting the investment in the nearby futures months while, at same time, allowing these entities to invest in the “strip” at the total volume limitations put upon them.

We also ask the CFTC to re-examine the “hedge exemption clause” exempting certain participants from speculative position limits. ABA is opposed to increasing contract limits for any market participant, since it could create an opportunity for market monopolies.

Furthermore, ABA is troubled by the lack of convergence between futures and cash prices. By implementing the restrictions outlined above, we believe the exodus of these financial hedgers in the expiring futures option will have less of a distorting effect on the convergence between futures and cash prices. This would also prevent the nearby month from being “overvalued” due to the nonequivalent presence of these entities in those positions.

Finally, ABA is extremely apprehensive about the sustainability of our current cash trading model due to the abnormalities being experienced in the agriculture futures markets. This volatility has put an inordinate amount of financial pressure on all those that use these instruments for hedging in the cash market. If we choose to continue status quo in the agriculture futures markets over action to address these critical issues, we risk significantly altering the effectiveness of these markets and the effectiveness of those who rely on them for many years to come.

Again, ABA thanks the CFTC for the opportunity to provide these written comments following the April 22 agriculture forum. We look forward to working with CFTC staff and others in the agriculture community to ensure the strength, transparency and effectiveness of the agriculture futures markets.

Sincerely,

A handwritten signature in blue ink, appearing to read "Robb MacKie".

Robb MacKie
President & CEO

A handwritten signature in blue ink, appearing to read "Lee Sanders".

Lee Sanders
Senior Vice President
Government Relations &
Public Affairs