From: NoReply@cftc.gov
To: secretary;
Subject: CFTC Public Comment on IF10-012
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A comment has been submitted on IF10-012
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Submitter comment: December 29 2010 Mr. David A. Stawick Secretary Commodity Futures Trading Commission Three Lafayette Centre 1155 21st Street, N.W. Washington, D.C. 20581 Re: KCBT Contract Amendment for Wheat Dear Mr. Secretary: CFTC should approve the proposed contract changes to the Kansas City Board of Trade HRW contract. KCBT, unlike CME, has acted to move its contract specifications toward the cash industry quality standard which represents the overwhelming majority of transactions, while bowing to pressure from warehousemen's groups to force wider-than-market carrying charges to their benefit - but without removing all limits on carrying charges (as does VSR) that has permitted Chicago spreads, and their company's profits, to distort to some 300% of market value. This period of public comment undoubtedly will bring forth plenty of opposition from warehousemen's groups which have succeeded for many years, with CFTC acquiescence, not in addressing empirically obvious problems but in further rigging the Chicago wheat contract drastically to their advantage. They are now actively trying to prevent KC from making perfectly obvious, positive improvements. Futures contract specs cannot be decided by popular survey; they're already decided on, in detail, by the specific details of the standard barge contract for SRW, and the train and mill trade for HRW. Intentional departures from these perfectly transparent trade agreements between what farmers grow and what people eat (which in some cases represent FDA sanitary standards) have slanted the Chicago contract sharply toward the one group, while badly disadvantaging others. As such, a highly vocal constituency in favor of keeping these distortions as severe and as long as possible and extending them to KC has developed, and CFTC needs to be cognizant of

this. One shudders to envision, for example, CFTC analysts reporting to Commissioners every cash-basis advance as evidence of VSR success, as if a mill needing to buy SRW from an elevator already having locked in wildly distorted profits won't be forced to pay a sharply higher basis to compete with uneconomically high guaranteed storage returns. Perhaps they might have failed to notice that delivery registrations of SRW increased sharply just as Chicago carrying charges expanded to a ridiculous 14c/mo. This is exactly the opposite of what should occur if VSR were in the process of successfully rationalizing the contract. Or, perhaps failed to observe that forward long-hedgers (consumers) are disenfranchised by the distortedly high forward prices forced by VSR; or, the false signals sent by distorted forward values to farmers deciding what to plant, encouraging an over-commitment to SRW and less corn or soybean area; or, the radical uncertainty of cash values which has resulted in U.S. SRW being almost entirely uncompetitive in recently expanded international demand, costing U.S. foreign exchange and reducing demand for its artificially stimulated production. The Chicago wheat future is the only standard contract in the world which represents delivery of a grade which no government agency in the world approves for flour. That, and numerous other perfectly obvious distortions, have reduced the utility of the contract so drastically that no one can value or wants the underlying product. Thus VSR has widened carrying charges to indefensibly profitable storage values bearing no relation to warehousing costs or competitive values with corn and soybeans in the same region, and stored in the very same elevators. SRW barges, primary basis of the contract, are still nowhere near what anyone would calculate as "convergence." Kansas, location of all HRW delivery points, has rarely if ever averaged below 11% protein. Nearly all business, even Egypt (largest wheat importer and traditionally a buyer of relatively lower-quality), demands at least 11%. Thus the objection of the National and Kansas Grain and Feed Associations to this positive improvement is a transparent attempt to do to KCBT futures what it has irresponsibly done at CME. Futures cannot function if deliverers continue to reap warehousing income even when plain-average commercial supplies are insufficient. At those times, it is the function of carrying charges to invert, sending signals to consumers to stretch supplies and to farmers to plant more, different varieties, or fertilize more to profitably solve the supply problem. CFTC policy has for decades been "anti-inverse," and it needs to re-examine its position on the matter. Inverses are a legitimate function of getting everyone fed at the most economical price in agricultural markets, whose supply and demand need to adjust to entirely different physical realities

each year. KCBT reversal of its policy of allowing 4 ppm vomotixin is extremely positive, and CFTC should particularly note NGFA and KGFA silence on the matter. VSR gives great incentive to warehousemen to work toward a mutually-beneficial policy of "gaming" the delivery system, which has resulted in so many making such large unearned profits while doing great damage to everyone else in the SRW marketplace. The ridiculous experience of VSR's effects in CME wheat should result in CFTC compelling it to conform with KCBT's proposed carrying-charge schedule.
Respectfully, Kenneth A. Stein Evanston, Illinois