

**secretary**

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**From:** Dave Hightower [dave@futures-research.com]

**Sent:** Wednesday, September 24, 2008 9:49 AM

**To:** secretary

**Subject:** Public Comment on Request by Chicago Board of Trade to Amend its Wheat Futures Contract

Grain futures markets first emerged at the Chicago Board of Trade in 1865 – 143 years ago. In all that time we have not had as significant a problem with divergence as we have seen in recent months in the soft red wheat market in the United States. And that is the point. A problem of such short duration, which is now slowly being fixed by a corrective recovery in basis levels, should not result in the elimination of an essential element of the world's food system that has served the industry and the country so well for nearly a century and a half.

Besides, the Chicago wheat futures contract and all of the benefits that it brings to the commercial grain industry, is not going to disappear. The minute we throw this critical franchise away it will be eagerly seized by some sort of financial institution somewhere else in the world, and that will become the pricing center of the wheat industry. And when the center of the world wheat pricing system has been established in Dalian, or Paris or Dubai, what will commercials do when they need to resolve an important dispute over transparency, speculative trading limits and a lack of divergence? The answer is that they will have little access and absolutely no control over the institution and whatever regulatory systems that controls it. They will be in an intractably weak position. And their position will only become weaker during times of economic crisis and war.

Furthermore, the problems that will arise in conjunction with a market that is so inhospitably 'offshore' will be far greater than the \$2 problem we have seen over the past eight months in 2008. What will the extremes be in terms of basis divergence between Mount Vernon, Indiana and Dubai? How will that divergence correct itself? If this is the result of an overly large position held by a Sovereign Fund based in the Persian Gulf or China, who do you complain to? What will be the result of your complaint?

The point is that the wheat market is not broke. We have a temporary anomaly that has come in reaction to epic dislocations and changes in a grain market that has had to stretch and extend itself to contain the entire world. If we lose control of the nexus of trade in the 'Staff of Life' it will eventually result in new problems that will dwarf the problem we have with basis divergence today.

Hugh Ulrich  
The Hightower Report