Commissioners,

The costs for the traditional long hedger, the end user, to take delivery are interest, insurance, load out and premium or storage charges, as well as, transportation from the delivery point. The long hedger will always purchase the most economical grain possible. Therefore, taking delivery and incurring these costs would be the choice of last resort to source their product. If the end user is able to buy their needs cheaper than taking delivery, then premium or storage charges in the delivery market are completely irrelevant to the traditional long hedger. They will simply purchase the cheaper commodity in the cash market and liquidate their futures position. The end user that takes delivery, does so at option price, or at some premium or discount depending on the delivery point and **only incurs premium or storage charges on a daily rate until load out**. What then, would be considered excessive premium charges (storage rates) to the end user that rarely, if ever, takes delivery and requests load out? **This should be the debate.**

What if deliverable storage rates for corn, soybeans and wheat were increased to 50 cents per month? Most would agree that this is excessive and not balanced, but let's assume so for this discussion.

Cash Merchandising 101 taught us that:

Basis and spreads will widen to slow grain movement

Basis and spreads will narrow to encourage movement.

With 50 cents per month storage in the delivery market in any scenario you wish, you will have consistent convergence.

The problem in today's environment is that spreads are limited to the current premium charges (storage rates), **which are insufficient to slow movement**. When spreads reach full carry, basis must do the rest to slow this movement. When unsuccessful, divergence occurs more often than convergence and confidence in the contract has been lost, which only compounds the problem. Today, the warehouseman will not take the risk without faith in convergence and the spread's limited capacity. Until the spreads offer adequate return for this risk that warehouseman see today, divergence will continue.

If not traditional hedgers, then who would be hurt if storage rates in the delivery market were doubled or more?

1) Index longs that need to roll again and again. This would most likely result in a reduction of their positions. This happens to be what a large number of country elevators and even Congress would like to see, but would ultimately hurt the exchange volume.
2) Financial longs (and those who profit from them) that take delivery for the purpose of earning a better return on their capital than money markets or CDs can provide. Some may well be the index fund's cash reserves, since they require full investment from their investor clients, but are only required to post a substantially less margin with the clearing house.
3) The exchange and their shareholders that will loose volume and therefore profits.

In conclusion, country elevators are getting squeezed by financial interests taking advantage of a well designed futures contract's current flaws. The contracts were designed and developed to provide risk management for the cash grain hedgers, not for the so called financial hedger. If Vomotoxin levels were updated to 2ppm and storage rates were doubled or more, there will be no need to develop or even consider a new contract of any kind. The CME seasonal rates proposal is in the right direction, but I do not believe it is enough of an increase to reach consistent convergence in today's environment.

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