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1250 Eye St., N.W., Suite 1003, Washington, D.C. 20005-3922
Phone: (202) 289-0873, FAX: (202) 289-5388, E-Mail: ngfa@ngfa.org, Web Site: http://www.ngfa.org

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# NGFA Commends CFTC for Increasing Transparency of Futures Market Activity by Funds, Swap Dealers

WASHINGTON – The National Grain and Feed Association (NGFA) this week commended the Commodity Futures Trading Commission (CFTC) for announcing that it will increase the transparency of its reports of futures and options trading by reflecting the activity of "nontraditional" market participants, such as investment fund traders and swap dealers.

The NGFA, beginning in 2005, urged the agency to modify its weekly "commitments of traders" report to create a separate category for futures market activity of fund traders, swap dealers and other "nontraditional interests." The NGFA has maintained that such a change is needed so that more traditional commercial agricultural hedgers and producers can discern the degree to which futures market volume and prices are reflecting supply/demand fundamentals and market conditions when making business and marketing decisions.

Established in 1896, the NGFA consists of 900 grain, feed, processing, exporting and other grain-related companies that operate about 6,000 facilities that handle and process more than 70 percent of all U.S. grains and oilseeds.

The CFTC responded favorably on Dec. 5 by announcing that starting in January, it will begin publishing an additional commitments of traders report, entitled "COT – Supplemental" – that will show aggregate futures and options positions taken by noncommercial, commercial and index traders in 12 different agricultural commodities. Those commodities include the corn, soybean, wheat and soybean oil contracts traded on the Chicago Board of Trade, as well as the Kansas City Board of Trade's wheat contract. Other agricultural contracts that will be covered by the new supplemental report are the live cattle, lean hog and feeder cattle contracts on the Chicago Mercantile Exchange, and the cotton No. 2, coffee C, Sugar No. 11 and cocoa contracts offered on the New York Board of Trade.

"This is an important and positive change that will help market participants, including farmers, better assess whether prices are being driven by hedging in the underlying cash market; by speculative interest that may be shorter term; or by investment interest generated by investment funds and swap dealers that may tend to be longer term," said NGFA Risk Management Committee Chairman Rod Clark, general manager, CGB Diversified Services, Mount Vernon, Ind.

"The CFTC's commitments of traders report is the single most-accessed section of the agency's website, and given the volatility that now characterizes many agricultural markets, it is more important than ever," Clark added. "Publicly available information allows all market users – commercials, farmers, funds and speculators – to better interpret market signals and make appropriate decisions on buying, selling, pricing and hedging."

Until the CFTC made the change, part of the volume of futures market activity of nontraditional participants was imbedded in the "commercial" category of the CFTC's commitments of traders report. But market users had no way to know how much. Traditionally, the "commercial" category has reported the activity generated by grain elevators, processors and other commercial users that depend upon futures markets to hedge price risk. By contrast, investment funds and swap dealers tend to hold "long" positions in the market, having purchased futures or options contracts without direct involvement in underlying physical commodity markets.

The NGFA noted that for some time, rising open interest on the long side of commercial positions had been misinterpreted as being related to export activity and end-user buying. "Most of the marketplace has had little access to this information, and many market participants were unaware of the scope of this 'nontraditional' activity until this issue came to light a couple of years ago," Clark said. "Even now, the scope can only be estimated and inferred by much of the market."

The NGFA has noted previously that this year's wider-than-expected soft red wheat basis – the difference between the cash price for a commodity at a specific location compared to the underlying futures contract price for the same commodity – was caused by several factors, including dramatically higher transportation costs; domestic market changes; revisions to the CBOT's soft wheat futures contract vomitoxin requirements; and lingering transportation disruptions earlier in the year in the aftermath of Hurricane Katrina.

But the NGFA also has contended that the significant influx of investment capital from nontraditional sources that tend to be longer term and less responsive to market prices also had a significant impact on soft wheat basis levels, and has contributed to the lack of convergence during futures contract expiration. "If this continues to occur, then at the very least market participants now should be able to consider the magnitude of activity in the market generated by nontraditional participants" given the CFTC's action, Clark said.

The NGFA's membership encompasses all sectors of the industry, including country, terminal and export elevators; feed manufacturers; cash grain and feed merchants; end users of grain and grain products, including processors, flour millers, and livestock and poultry integrators; commodity futures brokers and commission merchants; and allied industries. Canadian and Mexican firms also are NGFA members, and use its Trade Rules and Arbitration System by specific reference in their contracts.

The NGFA also consists of 35 affiliated state and regional grain and feed associations, as well as two international affiliated associations. It has strategic alliances with the Pet Food Institute and the Grain Elevator and Processing Society, and is co-located and has a joint operating and services agreement with the North American Export Grain Association.

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