 98-38

(2)

Bill Dodds
12/28/98 08:22 AM

To: Secretary@cftc.gov.
cc: (bcc: Bill Dodds/Ag_Group/Andersons)
Subject: CFTC/WHT

Jean A. Webb
Secretary
Commodity Futures Trading commission
Three Lafayette Center
1155 21st Street, N.W.
Washington, DC 20581

COMMENT

The Andersons submits these comments on the "notice of proposed CBOT grain futures contract delivery specification proposals" published in the Federal Register of November 25,1998.

Below we have addressed the questions the Commission has raised regarding these proposed changes.

1. Would available deliverable supplies under the proposed contract terms for wheat be sufficient to prevent or diminish price manipulation, market congestion, or abnormal movement of such commodity in interstate commerce.

The Andersons Inc. believe the proposed contract changes would better allow for adequate deliverable supplies to prevent or diminish price manipulation. In particular, the changes to the speculative limits for the last 5 days of both the March and May contracts reduces the "potential" for price manipulation as deliverable stocks at this time frame have a tendency to be relatively low. The changes proposed by the CBOT relative to the last trading day and the last delivery day are subtle, but could impact spreads in the July contract as SRW harvest for the Toledo area typically does not begin until after the July 4th holiday. Given this, spread volatility should increase until adequate new crop supplies are perceived available for delivery. This does not imply that spread volatility is negative, we are simply stating that the proposed changes could potentially change the psychology of the market place where the July spreads have generally traded with relatively wider carrying charges as the basic assumption was that Toledo would have adequate supplies for delivery by the end of the month.

We had similar concerns relative to the corn and soybean contracts with respect to the September contracts. The Andersons position relative to last trading day is, all contracts should trade until the last business day of each delivery month, and delivery intentions to take place the next business day. This would be better for the industry, the CBOT and all those desiring better price convergence. It is our understanding that the commission has a rule prohibiting trading during the last seven days of all delivery months. We don't understand why.

2. Does the proposed location price differentials for delivery of wheat at Toledo and St. Louis reflect cash market price differentials for wheat at such locations relative to cash market values at Chicago.

The Andersons Inc. believes that the proposed change in the Toledo differential to "par" with Chicago is rational as Toledo has demonstrated the ability to consistently secure relatively large deliverable stocks of SRWW. Also, consistent with this, is the fact that the largest SRWW mill in the world is located in Toledo providing a reasonable demand base which should ensure annual SRWW plantings and hence SRWW supplies tributary to Toledo.

As for the St. Louis differentials, we do not have enough cash data to support a strong opinion. However, recent history would indicate that the present eight cents differential did not attract wheat deliveries at that location. The proposed change keeps the Toledo/St Louis differential unchanged at 10c. This makes sense to us.

3. Do the proposed quality price differentials for delivery of U.S. No. 1 and U.S. No. 2 grade northern spring wheat reflect cash market pricing relationships between such wheat and other deliverable classes and grades of wheat, particularly U.S. No. 2 grades of SRWW?

We do not have enough cash data to support a strong opinion on the differentials between U.S. No. 1 and U.S. No. 2 grade northern spring wheat. As for the relationship between classes, we assume that northern spring wheat premium is typically more than the existing premium to the CBOT SRWW contract as we seldom see deliveries of this class. Typically, classes other than SRWW are not used in satisfaction of CBOT wheat contracts unless there is an anomaly in the cash market.. The poignant example would be shortages of SRWW causing the CBOT spreads to trade at relatively strong inverses, allowing other classes to be used in satisfactions of CBOT contracts. Given this scenario, coupled with our belief that the commercials that use the CBOT contract for hedging purposes do so with the expectation that the class being delivered is SRWW, we believe that the CBOT contract would be more potent if it were strictly a SRWW contract.

4. Are the proposed amendments to the corn, wheat, soybeans and oats futures contracts concerning loading out of grain against warehouse receipts and shipping certificates consistent with the cash market practices for those commodities at the regular warehouse at the contracts' delivery points? If not, to what extent, if any, will the proposed load-out amendments limit deliverable supplies available for wheat, oats corn and soybean futures contracts.

It is not a practice of The Andersons to load-out grains basis "Preferential Treatment" nor do we think it is a general practice of the trade in the market place. Placing conveyances arbitrarily would be viewed negatively by our cash grain customers and could potentially jeopardize future cash business. Given this, we are not in favor of "Preferential Treatment" relative to delivery load-out. Preferential Treatment will act as a deterrent to wheat deliveries during September through December time frame as our facilities are busy with corn and bean harvest. Moving a train or vessel up in the line up during this time frame could be very disruptive and potentially very costly. Under present rules, the taker of delivery must give 3 days pre-advice and the warehousemen has three days after the warehouse receipts are canceled, which ever is later, to be in the loading line-up. We can not recall this ever being a problem here at Toledo with rail and vessel loadings. However, as it relates to the Illinois river, there has been barge line-up's that have caused concern for the taker to get timely loading of his or her barges. The cash markets allow placement of the freight in the line-up with demurrage chargers per contract terms to apply.

We believe that logistically it is not hard to finish two barges during the day shift and then if you wish, simply place another barge or two for delivery. As a result, you take care of the cash obligation and the delivery obligation. The barge loader generally has arranged freight and if necessary he can easily trade out of his cash obligation at a minimal cost because of the liquid barge market. It is virtually logistically impossible to juggle an extra 50 cars on the night shift because of railroad constraints beyond the control of the elevator (ie one switch per day). This is even more difficult with vessels due to tug boat and Pilot availability. If the delivery elevator were required to remove a cash traded vessel from its berth to load delivery stocks, then bring it back to commence loading, it would be very costly and as well as impractical. Given this, and the fact that Toledo does not load barges, we recommend that the wheat contract maintain the existing "line-up" requirement for loading delivery obligations.

Loadout for the new corn and soybean contract being River and Chicago starting with the 2000 contracts this is not a issue for The Andersons. It's only at Toledo where vessel loading is predominate that this problem will exist.

5. In light of recently announced plans concerning changes \4\ (Footnote on ANDE/Cargill agreement) in the ownership and or operational control of the wheat futures contract's delivery facilities, what effect, if any, will the increased concentration in the control of delivery capacity resulting from these changes have on the contract's susceptibility to price manipulation, market congestion or the abnormal movement of wheat in interstate commerce?? To what extent do these changes reflect general trends in the cash market.

Consolidation in the cash grain markets will continue much like trends occurring in other industries. The efficiencies of consolidation are being maximized throughout the free-enterprise system in all industries and the positive results are clearly evidenced by the continued productivity gains of the free-enterprise system. The consumer is the ultimate beneficiary of these gains.

More efficiency will provide benefits in price and quality of service to the producers and consumers of our grains. The same is true here at Toledo with the wheat delivery facilities.

The grain industry is dealing well with this consolidation and the transparent communication of prices remains a basis for cash grain trading. There is a tremendous number of competing markets, competing for crops and more are being added every day. With more and more specialty crops and corps for specialty uses competition is growing. Those opportunities will continue to grow as competition continues to find new ways to meet customer needs.

Respectfully,

William Dodds
Merchandising Manager