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CARGILL

233 South Wacker Drive Suite 2350
Chicago, IL 60606-6308
312/831-2040 Fax: 1275

COMMODITY FUTURES TRADING COMMISSION RECEIVED FOR PUBLIC RECORD

COMMENT

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1998 DEC 31 P 12: 11

December 28, 1998

Ms. Jean A. Webb
Secretary
Commodity Futures Trading Commission
Three Lafayette Center
1155 21st Street N.W.
Washington, D.C. 20581

Re: CBOT Proposed Amendments to the Wheat Futures Contract Modifying Certain Delivery Specifications

Dear Madam Secretary,

Cargill, Incorporated is a merchant and processor of agricultural commodities and other bulk products. As such, we make significant use of Chicago Board of Trade (CBOT) futures contracts for hedging a variety of price risks. We appreciate the opportunity to comment on the CBOT's Proposed revisions to their existing wheat futures contract.

We participated in the CBOT's discussions on the wheat contract and have been pleased to be included and to have the opportunity provide input. We would commend the Chair of this taskforce as he did a good job of listening at the meetings. However, some of the detailed changes covered in this request for comment were not thoroughly discussed at those meetings - if they had been, it might have limited some confusion or concern as the industry's inputs could have been gained at that time rather than after the fact. In the future we would urge the CBOT to discuss all proposed changes with members of the industry rather than only the main points.

We support the recognition of Toledo as the primary delivery point for this contract and the proposed changes, except for two areas of concern.

We do understand that the CBOT's Wheat Taskforce is considering changing the load-out terms on the wheat contract to match the commercial practice of loading priority being granted on a first-in, first-out basis - if this change is indeed incorporated into the contract then our concerns on that issue are alleviated and our comments on that issue can be ignored.

We also want to take this opportunity to again raise our concerns with changes made last year to the CBOT's corn and soybean contracts as the way that the delivery terms are set-up will have the impact of limiting delivery of those commodities especially at times of good demand - which is when actual delivery could be the most important. The potential legal problems (discussed below), which could face Wheat warehousemen, have already been built into the corn and soybean contracts and will likely have the impact of reducing the markets ability to efficiently converge cash and futures together.

In addition, the CBOT's inconsistent approach of using both shipping certificates and warehouse receipts for delivery in the same locations (Chicago and St. Louis) will create confusion for warehousemen and again be a limiting factor for deliveries. At the very least, the delivery instrument in these limited locations; where wheat, corn and soybeans are elgible for delivery, should be standardized with load-out terms in line with commercial practice.

Our concerns with the wheat contract proposal are:
-the loadout terms do not reflect cash market realities (i.e. the term that allows delivery loadouts to take precedence over cash loadouts) which will have the impact of limiting available delivery capacity, especially at times of strong cash demand. We have been consistent in this view having made the same point when the corn and soybean delivery terms were being reviewed. Particularly in the case of vessel loadouts (Toledo and Chicago) this could be very costly for the warehouseman and thus limit delivery potential.
-the reduction of spec position limits in March (to 350 contracts) and May (to 220 contracts) versus the current 600 contracts. We don't see the need for this change as the market should be able to function properly, even with tight supplies, if it structured properly.

The CFTC's call for comments raises several questions - we respond to them as follows:
1. We agree with the recognition by the CBOT of Toledo as the primary delivery point for the wheat futures contract and the key pricing point for soft red winter wheat. There should be adequate deliverable supplies particularly if the load-out terms are made consistent with the cash market.
2. The proposed locational differentials better reflect the normal cash market situation by recognizing Toledo as the primary delivery point for this commodity. This is consistent with current grain flows and economics.
3. The proposed quality differentials are narrower than the cash market but will favor the delivery of spring wheat in times of extreme supply squeeze when we will likely have narrow quality spreads and generic crops. We agree with this proposal.
4. The proposed load-out terms, which give preference in line to delivery grain vs. cash market grain, will have the possible impact of limiting deliverable supplies.

The problem is that they are not consistent with the normal commercial practices where grain is loaded in the order that freight is constructively placed. These proposed changes will make it difficult for facilities to manage and control their own logistics, especially if the facility has cash obligations in addition to delivery obligations. As cash grain is marketed on contracts governed by National Grain and Feed Association (NGFA) or North American Export Grain Association (NAEGA) contract terms, which call for loading preference to be given on a first-in, first-out basis, there would be a legal problem for the warehouseman if he then delivered grain against CBOT contracts and was bound by different rules. This threat of a legal problem, as well as the practical considerations of having to solve problems with unhappy customers, could well limit deliverable supplies and, at a minimum, will make delivery economics difficult to define for different warehousemen with different commitments in the cash market.

We strongly favor having consistency in load-out terms between the cash market and delivery grain, as this will increase available delivery supplies and provide better convergence especially during periods of strong demand. Failure to make these changes will limit the contract's effectiveness, and in particular, the market's ability to reliably and predictably converge the futures and cash.

As we said above - we understand that the CBOT's Wheat contract task force is considering changing the terms of their contract to conform with the cash market - if they do this then this comment can be deleted.

5. While there have been, and will continue to be, changes in the makeup of the marketplace participants, the key for the delivery system is the integrity and effectiveness of the contracts rather than in the ownership of the facilities. Economics need to govern market direction and market surveillance must be geared toward assuring market participants are acting in an economic and orderly manner. The changes in differentials will make St. Louis a more viable delivery point and there are numerous market participants regular for delivery in St. Louis. Cash markets are driven by the overriding supply and demand factors rather than the ownership makeup of facilities - if the futures contract delivery terms are structured correctly the same will be true for the futures markets.

In conclusion, we support making changes to the CBOT Wheat contract but would encourage the CFTC to act on the concerns we have raised. Thank you for considering our views.

Sincerely yours,

Jim Sutter
Vice-President, World Grain Trading Group/North America
WGTG/Oilseeds Futures Manager