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One message was clear from the recent CFTC Agforum: Something is broken in the cotton futures market.

It would be irresponsible to meet this realization with no response. The futures markets cannot survive the changed environment they now find themselves in without proper regulation to keep the non-commercial interests from dominating market prices simply from the depth of their financing. Commodity futures should not be financial instruments first, commodity futures second, but rather the other way around.

If the Commission cannot find a way to regulate activity in the futures markets so non-fundamental price distortions do not so easily occur, the cotton industry will be unable to sustain its livelihood, and will go away.

Producers are unable to get bids on forward contracts, preventing them from making appropriate market-based planting preparations and decisions. Merchants are unable to give bids on deferred contracts or take sizeable positions because of the newly recognized margin risk associated with non-fundamental activity in the futures market. Foreign traders can no longer consider ICE futures as a viable hedge vehicle for positions, forcing them into flat price trading of smaller volumes. Without confidence in the futures market to represent the underlying commodity, trading will be stifled, reduced, or eliminated altogether as participants look for less risky markets to trade.

Futures markets must be regulated in a manner that allows them to represent the underlying commodity and its fundamentals, not the supply/demand of money flowing into the markets for investment purposes.

Clearly both speculative and trade interests need to be accommodated in the futures markets for long term survival. Regulations cannot be allowed to favor the holder of money over the holder of the underlying commodity. There is no reason to grant hedge exemptions to market participants who do not trade the physical commodity. The playing field must be leveled so the supply/demand of money cannot regulate price activity, allowing the supply/demand of the commodity to dictate such movements. When speculative and/or investment positions are allowed to be taken in size, the corresponding distortion in convergence between cash and futures destroys the viability of the futures market as an industry tool for 100% of the industry players.

The primary purpose of futures markets was to provide a price discovery mechanism and a risk management tool for producers, buyers and sellers of the underlying commodity.

Allowing special investment interests access to futures positions of size without physical trading or commercial justification (via hedge exemptions, unregulated swaps/OTC trades, relatively cheap margin) resulted in a complete divorce of futures from cash in the cotton market. If the underlying cash market is not represented at all in a coinciding move of the futures, the futures market no longer provides its primary purpose. In essence, its utility shifts purely to a monetary investment vehicle, the longer term ramifications of which will be the ultimate demise of the industry. Current conditions have made the futures market a higher risk tool, not a lower risk tool, exactly contrary to its purpose.

Market rules and regulations need to be updated more frequently to keep pace with the changing environment.

The structure of the agricultural marketplace has changed considerably over the years. The composition of the participants in the futures markets has changed significantly as well. Yet, rules and regulations have done relatively little in the face of these substantial changes. Allowing big financial traders easy access to the much smaller cotton market results in small "financial" investments becoming dominant in the cotton arena. This is not reflective of any part of the original design for commodity futures markets, and does nothing to enhance the efficiency of price discovery or risk management.