Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581
202-418-5000
202-418-5521, fax
agforum@cftc.gov,

SEC Headquarters
100 F Street, NE
Washington, DC 20549
(202) 942-8088
e-mail: help@sec.gov
Division of Trading and Markets
202-551-5777
tradingandmarkets@sec.gov
Corporation Finance
202-551-3500
cfletters@sec.gov;
marketreg@sec.gov

Office of Inspector General/SEC
Phone: (202) 551-6061
E-Mail: oig@sec.gov

RE Commodity Futures Trading Commission: Agricultural Forum, April 22, 2008: comment

To All Appropriate Parties:

Appreciating the access and the avenue to comment about matters discussed at the **Commodity Futures Trading Commission: Agricultural Forum, April 22, 2008,** please find my comments for consideration.

Introduction

Aside from any national concern about energy supply security, where we're seeing tax-payer expenditures towards 2 hot wars in the middle east as wells increasing fuel prices at the pump, not directly related to exchange traded investment structures, we should see effective oversight to avoid, abstain or now derail a moral hazard of spiking commodities prices produced by, and that has erupted resulting from the SEC approving equity exchange tradability of structured investment vehicles which track the commodities indexes, while outside of the oversight and constraints of the CFTC of what would and how should contracts and instruments trade commodities and related items over those associated exchanges.

Moral hazard exists not only where the SEC and exemptions in laws and regulations permit access to 'alternative asset classes' to a few vested interests while the every day American over the past couple years has faced not just gas price increases but now increases in all agricultural commodities.

I do not represent the opinions of my peers and colleagues at QED International. In that I work for a consulting firm considered expert on developing and advising on indexes and Exchange Traded Funds, I target my remarks not about the mutual funds that may track the commodities indexes, but rather regarding the recent spate of equity exchange tradable funds that enabled anyone that can open a stock market account, except for minimum account size constraints. I reference where equity market players can trade from their equity market positions into equity market trade-able Exchange Traded Funds ("ETFs"), Exchange Traded Notes ("ETNs") and Exchange Traded Commodities ("ETCs").

According to Barron's Gene Epstein, "index funds now account for 40% of all bullish bets on commodities" (Epstein, Gene. Barron's, "Commodities: Who's Behind the Boom?" March 31, 2008) enabled by SEC approved instruments approved over the last perhaps 3 years.

When I thought about the analogy, it occurred to me that maggots exist to feed their bellies. In that part of their life cycle, that is all they'll do and on garbage, because anything alive and healthy wouldn't permit a fly to lay or breed maggots. Granted in the last 12 years, we have had 2 waves of the excess; I call it the "pus" economy with all Fed's cheap money sluicing through the system giving us extremes and excess. Also increasing materialisticness – I suggest 'weakness' - in our society that has produced some mania about the *money* and the worry of it. Although not the forum to address my concerns on that matter, where excess has been permitted and occurred, this gave rise to yet greater maggotry, as it were.

Where the SEC permitted, and an aggressive group of Asset Management players controlling more that $10 Trillions now may access equity market tradability of commodities and commodities contracts. It puts the maggots into our food. So we're seeing the equity market maggotization of our commodities, including our food. With the system compromised where the SEC and even I didn't think about the repercussions, now I'm awake to the matter.

Given where this huge volume of long only money is disrupting price convergence between the spot and futures contracts, when it is convergence and futures trading which provide stable and fair commodities prices for all participants, not only would I suggest more than a moratorium on all new securities products such as ETFs, ETNs, and ETCs recently permitted that buy commodities options and futures contracts, even buying spot as their underlying asset rather than buying General Mills or something like that as a commodities play in the equities markets, but I further suggest repealing or canceling the approvals of all ETFs and ETNs that ever have been made on commodities contracts that allow trading in the stock markets of the commodities, formerly controlled and supervised on the commodities markets - the people can be given back their money.

Regardless if it sounds radical, it is better than another 'subprime' debt blowout or dotcom bubble, and we're facing that with the potential for more sidelined money to further disrupt the normal dynamic of what is found in the commodities market. It would not be the first time I have called for something radical. So trenchant warnings from experts such as Michael "Mack" Frankfurter alerted me to yet more serious problems about which I was ignorant and needed to hear the contrarian insights that he has brought to the public and the CFTC's attention.

Just as a caution, I also would examine what the commodities markets looked like, not just over the last 20 years but include also 1983 through 1987, when the stock market deflated in October of that year. The 1986 Tax Act sort of made the stock market the only game in town. Although I don't know that the commodities markets enjoyed the overflow, experts should study this. Understanding what also happened in commodities from 1983 through 1987 will shed light, and that didn't have anything to do with tax affects of investing in and trading commodities.

That the equities-markets-zation of commodities contracts of any sort is vogue, then arguably of late what we're seeing drive up commodities prices you could draw conclusions about the equity market trade-able structures. Think about when those ETFs came to the market and at what point the sideline money from the equities markets had equity market tradable alternatives in which to play such as the ETFs and ETNs tracking.

Speaking to the moral hazard of where large amounts of long-only money from pension fund and other institutional as well as average market participants can flow over the equities exchanges into the commodities markets, via the equities exchanges, we need to avoid some sort of regulator-sanctioned, stylized version of "Soilent Green" with the equity market players behind the curtain driving up commodities, and in turn, food prices in the US and vulnerable foreign regions. Moreover, I am avoiding conspiracy theories about what some, who support the policy of 'sustainability', would suggest that starvation elsewhere would have been the unintended consequence of commodity equities markets trade-able instruments, portrayed as an unintended consequence, but actually a part of the population control strategy achieved through more insidious means.

By no means do I support where without fundamentals typical to the nature of the supply/demand commodity market mechanism that moderate commodity prices, should we see SEC approved exchange trade-able instruments to enable, what Barron's after the dotcom bubble had characterized as, the maggots of Wall Street. Nor am I interested to permit white shoe welfare which we often see as the gravy train after the 'unintended consequences, such as in this case waiting for the markets to return to normal suggested in "IMHO, Senator Carl Levin's "Close the Enron Loophole Act" as a good first step where theoretically, long-only money currently flooding into commodities will reach equilibrium within the "aggregate wealth portfolio of all agents in the economy" (Jagganathan and Wang)".

Improbably will the markets return normal under some rubric our elected public servants suggest. Although not scorning Senator McCain, one of the "Keating 5", I have yet to hear any public servant really understand our commercial environment and actually endeavor to uphold his or her oath of office in which they pledge to uphold the Constitution.

Meanwhile, the higher returns resulting from the structures tracking the commodities don't answer to the damage done by these equity market tradable instruments to the commodities markets. It's all about the big players' conceit to control resources, assets, markets and attention. In the case of equity market trade-able commodities or structured vehicles that track the commodities investments, it is a red herring and disingenuous to say it is for the 'little' guy, while the commodity tracking stock market traded instruments still are making it prohibitive for him to drive his car, feed his family, and put away some savings.

Experts' trading abilities and strategy will still exist in commodities and commodity futures prior to ETF/ETN/ETC structures making equity market tradability in the event SEC approvals for these items are repealed and the investors are given back their money. Commodities experts set up hedges before on your accounts, and will do in the absence of these structures. But your fuel, food, and precious and base materials costs certainly will respond more accordingly to regular supply and demand dynamics rather than huge amounts of long only money disrupting the CFTC monitored commodities markets. Where experts themselves risk for being a part of the moral hazard rather than where they'd had strategies before ETFs, et al, at an earlier time and now we may have to return to those so that what are natural resources and that which we acknowledge is subject to nature, be left subject to the paradigm excluding the negative impact of the equities markets access to important elements.

Although not directly germane to my exhortation to the SEC to repeal all approvals for ETNs, ETFs and ETCs that track commodities and associated indexes, and perhaps also their futures, likewise consider where moral hazard has to include where under the 'Free' Trade agreements such as NAFTA, CAFTA and Permanent Normalized Trade Relations with the PRC, part of the those agreements barter away where those countries which typically had grown and produced sufficient grain crops to feed themselves, then give up these activities to satisfy the terms of the 'free' trade agreement. ADM would then supply corn or some big US corporate grain group would provide the grain. Meanwhile people and agri-commerce in those NAFTA, or CAFTA, or FTAA or PNTR impacted regions that had been among their farming class and sometimes those lands too leave that part of what had been their self-supporting mechanism - no question all this adds to the pressure on the food supply and associated prices while Americans are left to believe the spin and propaganda out of the media pumping financial and related news.

Experts' comments and associated public support for my concerns

Kirsten Bischoff of Opalesque on April 2, published Michael "Mack" Frankfurter's comments, **Commodities: The next perfect storm?** Mack Frankfurter, Managing Director, Operations Cervino Capital Management LLC and Chief Investment Strategist for Managed Account Research, Inc.

Mack sincerely believes solving the commodities markets and associated price problems with possible market and instrument solutions (I generally characterize here), closing regulatory and/or legal loopholes and centering more product and activities oversight under the CFTC, he also indicates he is stating the obvious when he says "the securitization of commodities is the elephant in the room" driving up commodities prices."

The focus on commodities and the concerns regarding the final outcome of surging prices were echoed a number of times recently including the Barron's cover story (March 28, 2008) by Gene Epstein, "Guess Who's Behind the Commodities Boom?", as well as in a research report by Jeffrey Korzenik, Chief Investment Officer of VC&C Capital Advisers. Opalesque spoke with both Frankfurter and Korzenik about the commodities markets.

End game signals

In his presentation at the IQPC Base Metals March 31, April 1 conference Frankfurter acknowledges that positive drivers of base metal commodities have included the weak dollar, infrastructure projects from abroad, and a two decade period of benign commodity prices which led to low levels of reinvestment and little increase in supply. However, he cites several contributors to what he see as the coming correction in commodities prices including: the current global market conditions, and the dollar peg of countries that are seeing the cost of their raw materials increase as the value of the US dollar decreases. <u>But the cornerstone of the thesis he presents is the belief that securitized commodities (ETFs, structured notes, and index funds) have allowed for "the madness of crowds" to take over and investors being advised to diversify their portfolios into commodities have created a speculative surge that may leave the commodity markets dysfunctional.</u> Likewise, in his research paper, Korzenik points to not only securitized commodities, but even more so to the larger

institutional investors entering via the swap market and dwarfing the underlying markets. For example he cites the Feb 19th CalPERS meeting where the board agreed to place between 0.5% and 3% of its $240bln assets into commodities.

Commodities 101
“The commodities futures markets provide a variety of economic functions,” Frankfurter explained to Opalesque. “They provide a means for price discovery, and a means for hedging.” …commodities markets hedging does not apply to hedge funds but to commercial producers such as miners or farmers who need to lock in a price in advance of actually buying or selling their materials, in order to continue business and produce the products we eat, live in, etc. “Speculators have always provided an important function within these markets because they are part of a process that requires balance. For every seller, there needs to be a buyer, and vice versa; speculators provide that equilibrium by both buying and selling futures contracts.”

The problem that Frankfurter (in his presentation) and Korzenik (in his report) both put forth is the fact that for the most part, investors recently introduced to the commodities markets (whether they be institutional investors through swaps, or smaller investors through ETFs, ETNs, ETCs) tend to only take long positions, creating an imbalance (in the favor of price increases) to the buying and selling process that the commodities markets are based on.

Outcome?
Because the commodities markets were created to benefit those who produce and use the underlying assets Korzenik points out “There is a point where you have to draw the line. We are breaking down a commodity production and distribution system that has served very well for over a hundred years. We are ultimately hurting people on a very broad front by raising the prices of commodities, building inefficiencies into the system and doing this during a time when the Fed needs flexibility. This sort of inflationary activity decreases the Fed’s maneuvering room.”

The question remains when and how this commodity “bubble” will be deflated. Will regulators step in and set contract limits on securitized vehicles creating a way to allow for slow stepping down? Will prices continue to rise until eventually they break the back of the economies they are meant to supply? Or could both of these things happen, as they often do, in the reverse order?

Frankfurter notes, “I wouldn’t be surprised if commodities doubled or tripled from here. There is enough cash on the sidelines, and now there are these vehicles that would allow that to happen.” Korzenik is slightly more cautious as to where commodities prices may go. “I certainly believe that some significant component of current prices is due to this new speculative demand and that we are in some kind of bubble. A parallel would be the late '90s tech boom; in '97, these stock prices started to become divorced from reality -- so to continue the analogy, I don't know whether we're in '99 with lots more upside left, or in 2000 with a bubble about to burst. Either way, when it ends, it ends ugly.” However, both Frankfurter and Korzenik agree that if the markets become too dysfunctional the government will likely step in and intervene.

Korzenik said “The [positive market drivers] have masked the issue, and kept people from looking more closely at the underlying problems, which may become a very real public policy concern.” The US Commodities Futures Trading Commission (CFTC) may have realized this as well as their calendar reflects an April 22, 2008 Open Commission meeting to consider and “discuss recent events affecting the agricultural commodity markets.”

Opalesque also references a related article: **Lehman: speculative demand enhancing commodities prices** From Dow Jones: Supply and demand factors remain price supportive for commodities even as "new fundamentals" add to gains seen in agricultural products, oil and base metals, Lehman Brothers commodities experts said Thursday. Even though traditional fundamentals for metals remain relatively price healthy, questions have arisen about the extent to which speculative money is affecting prices, Michael Widmer, vice president and metals research analyst with Lehman, said during a press briefing…

Opalesque also adds **Asia scrambles for rice stocks** from The FT and from Reuters Alertnet: **CFTC says oils price not driven by speculation** The U.S. futures market regulator on Thursday told skeptical members of Congress that speculators were not responsible for pushing crude oil prices to record highs, but one lawmaker warned that commodity markets had become casinos.

Market fundamentals such as strong oil demand in China and India, a weak U.S. dollar and geopolitical tensions in big oil producing countries "provide the best explanation for crude oil price increases," Commodity Futures Trading Commission

(CFTC) Chief Economist Jeffrey Harris told a Senate panel's hearing. Harris said his agency, which regulates futures markets, has seen "little evidence that changes in speculative positions are systematically driving up crude oil prices."

In addition, **Dow Jones-AIG Commodity Index: Commodities stumble through volatile March f**rom HedgeWorld.com: What goes up does often come down, as commodities markets proved in March. Economic woes and general market malaise contributed to widespread declines across grains, metals and soft commodities, according to the Dow Jones-AIG Commodity Index. While the index's drop in March was substantial—6.5%—the massive gains seen over the two previous months did not disappear, as the index remains positive 9% year-to-date. In February, the DJ-AIG Commodity Index rose 12.1%...

Danger lurks in `safe` metals By Reuters/HedgeWorld.com: When it comes to metals, risky is the new safe. At least it seems to be for the fund managers that have invested millions in these volatile markets. Only two years ago, analysts warned that, after a meteoric rise to historic highs, buying metals such as copper and nickel could be too dangerous. But since the start of this year, the term "safe haven," which describes an asset that can weather bad times in the broader economy, has been used more and more often to explain why money has poured into metals.

So why, if two years ago metals were only for those with a strong stomach for risk, have they become a first choice for investors seeking safe assets? With copper and tin close to record peaks, metals may now be riskier than ever. Analysts say they may only have been rebranded "safe" because they have risen this year, in contrast to other assets"

New commodities based "stock" market products

There are a number of US traded stocks based on, or tracking commodities although also US traded ETFs and ETNs as of April: 19 ETFs with assets of more than $11.262B that they have interaction in the commodities markets. The top 3 ETFs sum to more than $8.912B: **iPath DJ-AIG Commodity ("DJP")** $3.345B, **PowerShares DB Agri ("DBA")** $2.7B, and **DB Commodity Index ("DBC")** $2.145B. Keep in mind, these trade over US exchanges, excluding the 66 new ETF Securities ETCs trading over the London Exchange.

Merrill Lynch benchmarked, AB Svensk Ekportkredit Biofuel ETNs started trading over the AMEX as of April conceived for tapping into the commodities used for some source for 'renewable energy' which are noted to have been trading around the world at record levels. These biofuels index tie to sugar, corn, soybeans, canola, and soya oil, although supposedly designed to implement a more efficient way to of rolling agricultural and other futures contracts with differing expiration dates, while spreading the process of moving in and out of commodities across a two week time frame (Exchange Traded Funds Report "ETFR", April08, pg.4).

Claymore on February 19, 2008 liquidated 11 of its ETFs and on Feb 28 distributed those funds' investors their moneys. Although Claymore closed these funds resulting from insufficient investor interest, in preventing and mindful to prevent another moral hazard similar to ones government lead in the past, for the SEC to repeal approvals for this small class of ETFs and ETNs and for those Investment Houses and Families to return those funds' investors their moneys comes closer to responding to mitigating moral hazard we are seeing happen (ETFR, April08, pg 3).

Deutsche Bank recently launched NYSE Arca tradable ETNs linked to the DB Liquid Commodity Index, offering leverage and short exposure to gold futures. ETFR notes that the index is tied to the value of an investment in gold futures, not bullion, also noting that "the two prices do not always track perfectly", while gaining the 'treasuries' income which futures investors typically enjoy (ETFR, April08, pg 4).

The **PowerShares DB Commodity Index Tracking Fund ("DBC")** is based on the Deutsche Bank Liquid Commodity Index - Optimum Yield Excess Return™ (Index) and managed by DB Commodity Services LLC. The index is a rules-based index composed of futures contract on six of the most heavily-traded and important physical commodities in the world - crude oil, heating oil, gold, aluminum, corn and wheat. Ordinary brokerage commissions apply.

› Closing Price

		NAV	38.58
Date	5/5/2008	**Bid/Ask Prem/Disc**	0.12
Price	38.78	**Bid/Ask Prem/Disc**	0.32%
Bid/Ask Midpoint	38.71		

Performance

As of 3/31/2008

Index History (%)	Since Inception[a]	1 Year	3 Year	5 Year	10 Year
DB Commodity Index	25.42	45.84	25.28	31.95	20.85
S&P GSCI Total Return CME	9.73	38.62	8.42	16.05	11.37
DJ-AIG	12.30	21.80	12.10	15.71	10.39
S&P 500 Index	4.11	-5.08	5.85	11.32	3.50
Fund History (%)	**Since Inception[a]**	**1 Year**	**3 Year**	**5 Year**	**10 Year**
NAV	23.12	44.81			
Share Price Return	20.49	44.97			

[a]Fund history and all inception performance are based on the Fund inception date: 2/3/2006. All other Index history is based on the available historical performance of the Index.

Total Returns are based on the Closing Market Price. Performance data quoted represents past performance, which is not a guarantee of future results. Investment returns and principal value will fluctuate, and shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than performance data quoted. (From the **PowerSharesDB** website)

PowerShares DB Funds

PowerShares continues to lead the intelligent ETF revolution by providing institutional caliber products that seek to replicate enhanced indexes. **PowerShares DB Commodity and Currency funds** provide investors cost-effective and convenient access to the global commodity and currency markets through some of the more sophisticated rules-based commodity and currency indexes ever created.

The **PowerShares DB Commodity Funds** provide systematic access to some of the world's most important commodities by seeking to replicate rules-based indexes composed of futures contracts that trade on some of the most liquid and deep commodity markets in the world. Furthermore, the commodity indexes on which the funds are based employ "Optimum Yield™", which is a sophisticated rules-based methodology that seeks to minimize the negative effects of rolling futures when a market is in "contango" (that is, when the next-to-expire contract is trading at a lower price than contracts expiring in later months) and maximize the positive effects of rolling futures when a market is "backwardated" (that is, when the next-to-expire contract is trading at a higher price than contracts expiring in later months).

The **PowerShares DB G10 Currency Harvest Fund** utilizes the G10 currency universe and is designed to exploit the tendency for currencies associated with higher interest rates to yield greater returns than currencies associated with lower interest rates. PowerShares DB US Dollar Bullish and Bearish Funds are based on indexes composed of USDX® futures contracts designed to replicate the performance of being long or short, respectively, the U.S. Dollar against the Euro, Japanese Yen, British Pound, Canadian Dollar, Swedish Krona and Swiss Franc.

For more information on PowerShares DB Funds, visit http://dbfunds.db.com.

"Canada Gets Commodity Funds With Kick", writes we find in March's ETFR. The new funds including funds tied to natural gas, crude oil, gold bullion, and global mining. ProShares also crafted these short ETFs similar to leveraged ETFs to give shareholders two to one exposure to the underlying index or commodities. Granted, all of the new 'BetaProd Commodities ETFs will deal with so-called nearby futures contracts, mentioned as the most liquid of commodities

contracts (March 08, p.4). Meanwhile "Europe To Get Leveraged Inverse Commodity ETFs" indicating that ETF Securities expects to launch a total of 33 short exchange traded commodities (ETCs) and 33 leveraged ETCs on the London Stock Exchange. Note that these trade over an equity exchange.

Worse, equity market maggots will have access to the 66 new ETCs which will track variations of the New Jones - AIC Commodities Index. A specific ETC will be available to short each of the following markets: aluminum, cocoa, coffee, copper, corn, cotton, crude oil, gasoline, gold, hearing oil, lead, lean hogs, live cattle, natural gas, nickel, platinum, silver, soybean oil, soy beans, sugar, tin, wheat and zinc. An ETC will launch for each of the same commodities likewise on the leveraged. While the short ETCs will provide -100% expose, the leveraged ones will offer 200% exposure. In addition, there will be leveraged ETCs ties to the following categories: agriculture, energy, grains, industrial metals, livestock, petroleum, and precious metals. Separately, ETF Securities is launching four new commodities funds that will provide traditional, long-only exposure to cocoa, lead, tin and platinum (ETFR, March08, p4).

Further, not like ETFR should crow; "The Best ETFs Available Abroad", describes ETF Securities' most complete and sophisticated "slate of commodity ETFs anywhere. You want leverage (200%) exposure to commodities? Matt Hogan further adds, "They've got that for everything from broad-based indexes to copper, oil, gasoline, and more. Want to go short? They can do that too. In fact, ETF Securities offers more than 100 commodity focused ETFs, including many commodities you just can't access in the US; commodities denominated in pounds sterling, and commodities that more out the roll-curve to track, say, oil futures dated one, two, or three years out." He prefers the ETFS Physical Platinum ETF, which buys physical platinum. Priced at more than $2000oz, unfortunately platinum is the only metal appropriate for certain aspects in chemical washes used on Auto Catalytic converters, those fangled things in a car's muffler used to reduce polluting auto emissions. Platinum miners have protested against a similar ETF formed in the US because this year mine production is down, and the industry is resisting outside, non-fundamental, equity market pressures on their situation (Hogan, Matt. ETFR, April 08, pps1,8).

GreenHaven Commodity Services has launched broad-based commodity exchange trade fund, the **"GreenHaven Continuous Commodity Index ("GCC")** reported by Julian Murdoch of HardAssetInvestor.com (ETFR, March 08, p.11). Based on the 1957 established Commodity Research Bureau) index, the oldest (28 commodities spot mixed with futures prices - equally weighted, broad-based, long-only) commodity index existing, GreenHaven developed on a redesign in 2005 by **Reuters/Jeffries CRB Index ("CRB')**. The new CRB changed if from an equal-weighted index to one based on the implied economic worth of the commodities in the portfolio weighting something like oil more than orange juice. Also tweaking the former index now known as the **Reuters-CRB Continuous Commodity Index, or CCI,** which indexes the futures of 17 commodities: crude oil, heating oil, natural gas, lean hogs, live cattle, corn, soybeans, what, cotton, coffee, cocoa, orange juice, sugar, platinum, silver, gold, and copper.

GreenHaven based its new ETF on this index, distinguishing itself from other indexes. Its structure looks to minimize the cantango effect, like forward month indexes. Also compared to the energy heavy S&P GSCI and DBC indexes and related ETFs, while the agri commodities sum at least 29% of the index, with 23% in metals and 11% in livestock. Index consultants and ETF sponsors generally believe that the 'investor' needs the right to for the right tool for the right job.

Many equity market 'investors' drawn to commodities for the first time, hoped to avail themselves of energy price gains. Regardless, this is equity market tradeable money into the commodities and beyond oversight by the CFTC, because all of these ETFs, ETNs and ETCs received SEC approval without associated CFTC approval and monitoring.

For example, **Van Eck's Market Vectors Agribusiness ETF ("MOO")** tracks public companies such as:

POTASH CORP. POC	8.64%
THE MOSAIC CO. FBO	8.13%
MONSANTO CO MON	7.55%
SYNGENTA AG SVJA	7.54%
DEERE CO. DCO	7.27%
WILMAR INTL LTD. RTHA	5.52%
YARA INTERNATIONAL IU2	5.33%

KOMATSU LTD KOM1	5.00%
BUNGE LTD. BU3	4.61%
AGRIUM INC AGU	4.31%
IOI CORP. BHD IOI	4.30%
ARCHER-DANIELS-MIDLAND CO ADM	4.08%

More than adequately one can capture economic sector growth from natural factors that would cause boom where agri-commodities are what also would enjoy abundant, successful yield. Even where one may encounter market impact that affects stocks, still where owning a number of these companies or even this sort of ETF enables one to enjoy the gains from even these typically defensive names.

One finds steel companies as well as mining companies in the case of 'base metals' ETFs such as **Van Eck's Market Vectors' Steel Sector ETF (below)**, tracking the American Stock Exchange's Steel Index "STEEL" and about which I am a co-author on a white paper observing the robust impact of steel and related companies when included in basic materials indexes. Commodity contracts on steel, however, are quite limited. Only recently has the London Metals Exchange "LME" developed some sort of exchange trade-able commoditized steel contract. With more than 3000 steel products, where sufficient will and interest to develop and define tradable contracts of commoditized steel products that also can have futures written on them (I assume) have we steel commodity products.

Rio Tinto PLC RTP	14.12%
CIA VALE DO RIO DOCE-ADR RIO	13.45%

Brad Zigler also mentions some of the Commodity products I describe, however, with industry observations he provides on the HardAssetInvestor.com which he writes in this week's email:

A Bumper Crop Of Agricultural Products Written by Brad Zigler of HardAssetInvestor.com May 07, 2008 8:21 AM EST

I should have seen this coming. Feedback from the "Making Sense of Commodity Products" article skewed heavily in favor of more side-by-side comparisons. Most particularly, folks are interested in the burgeoning array of agricultural products hitting the Street.

It's no wonder, really. There have been nine broadly based exchange-traded agriculture index products launched in the United States since the beginning of 2007. How's one supposed to tell one from the other?
Not to worry. That's why we're here at Hard Assets Investors.

All but the oldest agricultural products are exchange-traded notes. That shouldn't come as a surprise. By their nature, ETNs are easier to get through securities registration. Because ETNs come down the regulatory chute quicker, they can appear on the scene in a much more timely manner.

Certainly, the timing of Deutsche Bank's recent agriculture bonanza, including leveraged and inverse exposures, was well-timed. The party atmosphere in the grain pits has recently given way to more sodden thinking, so bearish products have found purchase.

Deutsche Bank staked out its ownership of the exchange-traded ag index space earlier when the **PowerShares DB Agriculture Fund (AMEX: DBA)** was launched in 2007. DBA tracks the Deutsche Bank Liquid Commodity Index-Optimum Yield Agriculture by investing in an equally weighted portfolio of corn, wheat, soybean and sugar futures collateralized by U.S. Treasury securities.

Four newly minted Deutsche Bank ETNs offer long and short takes on the ag index:

DB Agriculture Long ETN (NYSE Arca: AGF)
DB Agriculture Double Long ETN (NYSE Arca: DAG)
DB Agriculture Short ETN (NYSE Arca: ADZ)
DB Agriculture Double Short ETN (NYSE Arca: AGA)

The **ELEMENTS Rogers International Commodity Agriculture ETN (AMEX: RJA)** represents a basket of 20 agricultural commodity futures contracts and tracks a subindex of the Rogers International Commodity Index. Components are weighted by global consumption and liquidity. About 54% of RJA's underlying index weight is attributed to wheat, corn, cotton and soybeans.

A Barclays Bank-issued note, the **iPath Dow Jones-AIG Agriculture Total Return Sub-Index ETN (NYSE Arca: JJA),** provides exposure to a seven-commodity index comprised of wheat, corn, soybeans, soybean oil, coffee and cotton. Wheat, corn and soybeans alone make up two-thirds of the underlying index's weight.

The Opta Lehman Brothers Commodity Index Pure Beta Agriculture Total Return Index is tracked by the **Opta LBCI Agriculture Pure Beta Total Return ETN (AMEX: EOH)**. The index is based upon eight commodities skewed heavily (39% presently) toward soybean exposure. The other components include corn, soybean meal, soybean oil, wheat, coffee, cotton and sugar.

The **UBS E-TRACS CMCI Agriculture Total Return ETN (NYSE Arca: UAG)** follows the performance of the UBS Bloomberg CMCI Agriculture Index-Total Return, a basket of a dozen futures contracts including two grades of wheat, corn, soybeans, soybean oil, soybean meal, two grades of sugar, cocoa, coffee and orange juice. Futures contracts are further diversified across three maturities based on relative liquidity.

	Ticker	Assets/ Mkt. Cap. ($mm)	Inception	Expense/ Fee (%)	Avg. Volume (Daily)	Avg. Spread (%)	Downside Variance (%)	Ann. Volatility (%)	Return[1] (%)
DB Agriculture ETF	DBA	2,556.4	Jan-07	0.75	3,093,080	0.03	19.1	26.9	-7.9
DB Agriculture Double Short ETN	AGA[2]	573.2	Apr-08	0.75	59,469	0.19	18.5	47.4	17.5
DB Agriculture Short ETN	ADZ[2]	531.2	Apr-08	0.75	7,846	0.30	7.8	21.2	7.5
DB Agriculture Long ETN	AGF	473.2	Apr-08	0.75	4,571	0.17	15.5	17.8	-6.8
DB Agriculture Double Long ETN	DAG	430.6	Apr-08	0.75	29,357	0.37	38.1	56.9	-16.0
RICI Agriculture ETN	RJA	304.2	Oct-07	0.75	605,811	0.18	15.4	22.0	-6.9
DJ-AIG Agriculture ETN	JJA	138.1	Oct-07	0.75	98,286	0.24	17.0	26.0	-8.5
LBCI Agriculture Pure Beta ETN	EOH	4.6	Feb-08	0.85	3,853	0.11	18.6	27.5	-6.6
UBS CMCI Agriculture ETN	UAG	4.0	Feb-08	0.65	1,662	0.40	13.2	17.7	-7.6

[1] **April 15-May 5, 2008**
[2] **Inverse product**

The volume figures speak, well, *volumes* about investors' current thinking. The recent bearish tone in the agriculture sector has attracted investor interest in the short, and most particularly, the double short, notes.

There's yet another ETF in the agriculture space but, because it's based upon a stock index rather than a commodity index, it's not directly comparable to the securities we've just examined. That might not be such a bad thing, however, After all, seven of the nine products listed have yielded an average negative return of 8.6% over the past three weeks.

The **Market Vectors Agribusiness ETF (AMEX: MOO)** replicates the 44-stock DAXglobal Agribusiness Index, a benchmark of companies engaged in the production of foodstuffs, agricultural chemicals, farming equipment and biofuels. Buoyed by a resurgent equity market, MOO's share price has only dipped a half percent in the past three weeks.

Even counting the Market Vectors portfolio, the product tally for the agriculture sector remains heavily skewed toward exchange-traded notes.

That's entirely consistent with S. J. Perlman's rather acerbic description of agriculture's primary venue: "A farm is an irregular patch of nettles bounded by short-term notes."
I searched the CFTC website for ETFs listed that track the agri-commodities and copied that search included below:

Search Trading Organization Products using the following criteria:

http://services.cftc.gov/sirt/sirt.aspx?Topic=TradingOrganizationProducts&Implicit=true&Category=Security+Futures+Product&CustomColumnDisplay=TTTTTTTTT

Organization:	ALL
Type:	ALL
Status:	ALL
Date From:	To:
Category:	Agriculture
Subcategory:	ETF - Exchange Traded Fund

Reset

Your query is: [Organization: ALL] AND [Type: ALL] AND [Status: ALL] AND [Date From: To:] AND [Category: Agriculture] AND [Subcategory: ETF - Exchange Traded Fund]

The results for the query dated : 5/6/2008 9:13:30 PM are:

Show All No data matches your search criteria.

There are no CFTC registered ETFs, however, that track agricultural commodities. There are even CFTC registered products that provide 'insurance' on crops and associated prices when producers and suppliers have to engage in their particular commerce, but none tracking the agri-commodities.

Perhaps some would argue before researching the impact of PowerShares DB's fund structures and whether these are responsibly structured so as to minimize impact on commodities spot prices, regardless, these are equity market tradeable funds that permit billions of dollars to impact the commodities. Commodities recall cannot be fabricated in the same way the SEC can give approval to their existence in the same way that it can to an equity market tradable ETF that can track matter fixed by nature.

Meanwhile, although PowerShares DB may be expert, other funds perhaps have less expertise, proliferating the moral hazard we are witnessing. NO question the PowerShare's DB Commodity Index tracking fund's performance seems so great, however we're seeing more than double the price in the underlying commodities. Few people can afford the $10,000 minimum amount in which to invest, however, nearly everyone who buys food and fuel will notice the palpable increase in prices associated to these materials.

Strokes of a pen cannot fabricate another ounce of Platinum, while management can exercise dilutive options or issue stock rther than cash dividends.

And expert Mack Frankfurter (May 6, 2008) mentioned points when I asked him about the PowerShares DB Commodities products that include tracking futures. He said, "My problem with <<something like>> the (PowerShares) series of commodity ETFs including DBE is that they are by all definition "commodity pools" as defined by the CEA/CFTC. However,

despite the fact that PowerShares products are sold to the retail public, they are "excluded" under CFTC Rule 4.5. If they were not excluded or exempted under CFTC regulations, they would be subject to more stringent sales oversight.

I do not have a problem per se with securitizing commodity pools into publicly traded commodity funds (either of the mutual fund or ETF variety). I have concerns that they are excluded or exempted from direct CFTC oversight, as well as that they are being sold by securities professionals (series 7s) rather than by commodity professionals (series 3s).

Commodity professionals are subject to much more stringent marketing rules (NFA Rule 2-29) than what securities professionals are getting away with when selling these products. And they're getting paid when in my opinion (and this is something I'm investigating to better understand the legal arguments) series 7s receiving compensation for selling these products is illegal under CEA/CFTC.

This may seem like turf war but it goes to the heart of accurately describing the "nature" of the product which is being sold, and the core rules that bind commodity professionals together under the CEA-mandated self-regulatory organization, which is the National Futures Association. If I were to sell a commodity pool I would have to disclose that commodity investments are considered speculative: THE RISK OF LOSS IN TRADING COMMODITIES CAN BE SUBSTANTIAL. YOU SHOULD THEREFORE CAREFULLY CONSIDER WHETHER SUCH TRADING IS SUITABLE FOR YOU IN LIGHT OF YOUR FINANCIAL CONDITION. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

That is just a start of my concerns. The short answer is that DBE has same issues as DBA as describe in the third part of my article (see http://www.safehaven.com/archive-3 43.htm and http://www.safehaven.com/archive-3 05.htm)

What is an interesting comparison is the extent that "single stock futures" (SSFs) are regulated with respect to marketing such products. SSFs came out after the CFMA which for the first time allowed these instruments. The SEC/CFTC negotiated and imposed such stringent oversight on these products to the extent that these products are not as successful as what was originally anticipated! However, "exempt" and "excluded" commodity pools are marketed to the retail product in a way that completely bypasses CEA law, CFTC regulations and NFA rules.

I guess life *ain't* fair... and the SEC is the bigger dog in this fight (and Goldman Sachs is even bigger?).

In the final analysis it comes to proper investor education regarding these products. I don't advocate stopping innovation. Publicly offered commodity pools have been around for a long time, but they cost a lot of money to launch successfully at the retail level.

However, from an investor education/marketing perspective, retail investors are now being sold commodities as an "investment" when in fact the trading of futures (even if with only a long-only biases) is speculative by its very nature. Further, speculating only in one direction (e.g., long only) is still speculation, and may be detrimental to an investor's portfolio (not to mention the economy as a whole).

The interesting thing is to look at what Goldman Sachs and Morgan Stanley is doing at the arbitrage level while at the same time being major proponents of "commodity investment" and selling commodity-linked index products. See WSJ article by Ann Davis: http://www.energyinvestmentstrateg ies.com/infoFiles/articlePDFs/100607SpeculatorsOilPrices.pdf
In a way, substantial money flows into long-only commodity funds help facilitate what Ann Davis describes in her article. This arbitrage is a "natural" function, but it is interesting that "financial institutions" are in that game in the big way now

Conclusions
I recommend the SEC to repeal approval for equity market tradable ETFs and ETNs that track commodity indexes. While some of my commodities colleagues may think there are ways to improve the large influx of equity markets long-only money hitting the commodities markets.

I am including Mack Frankfurter's April 18, 2008 **Questions Submitted to CFTC for April 22 Agricultural Roundtable** by MA-Research.com provided *an open letter sent to the Commodity Futures Trading Commission (CFTC), in response to their request for questions from the public to be considered for use during the April 22, 2008 agriculture roundtable. This roundtable was called due to*

convergence issues between futures and the spot price in the cash grain markets.

"Recently there have been financial innovations involving the commodity markets which for various reasons have developed outside the direct oversight of the CFTC. This has been disconcerting because we believe such developments have served to undermine the integrity and authority of the CFTC to oversee the commodity markets.

Below is a list of questions that we would like to raise to the CFTC as we believe they relate directly to the matter at hand:

1) Our research reveals that commodity-linked ETFs are materially different from futures contracts. Most significantly, they do not serve an economic purpose in providing a means for bona fide hedgers to hedge. Specifically, shorting a commodity-linked ETF does not result in the ETF reducing its underlying commodity exposure, therefore its bias to the long-side is systemic. If such instruments undermine the economic purpose of the futures market, why have they been allowed to be marketed by the securities industry?

2) Acknowledging that securities are specifically excluded from the jurisdiction of the Commodity Exchange Act (CEA), but also noting recent rules imposed on the innovation of the single stock futures hybrid, why is it that Series 7 securities representatives can now sell commodity-linked products without a Series 3 license and without registration as associated persons? Is this not a violation of the CEA and CFTC regulations?

3) "Why are commodity-linked exchange traded funds (ETFs) allowed to be registered as exempt commodity pool operators despite the fact that these institutions market their securitized commodity-linked vehicles to the retail public?" Similarly, how can it be that so many hedge funds have now exploited loopholes in the CEA as to participate directly in the commodity markets vis-a-vis over-the-counter (OTC) derivatives without having to become registrants? It seem clear now that "exemptions" under the Commodity Futures Modernization Act of 2000 have served to undermine the authority of the CFTC, and put the industry as well as the economy at risk.

4) Why are securities firms allowed to market commodity-related securities products without the same constraints which are imposed on futures industry registrants? For example, many promoters of commodity-linked index funds and ETFs state *as fact* the theory of the 'roll return' or 'roll yield,' when *in fact* such structural risk premium is hotly debated by academics and practitioners, and is based on past performance. In other words, it is a hypothetical concept, but securities professionals have been allowed to market this idea without providing required hypothetical disclosure which would be required by futures professionals.

5) Why are securities professionals allowed to hold themselves out as commodity professionals? The debasing of this core rule has led to confusion in the public's mind and threatens the futures industry profession, thereby undermining the CFTC's authority as granted by the CEA.

We believe the concerns they raise are directly related to the matter at hand. We believe that the "securitization of commodities," a difficult topic in itself to analyze given the proliferation of different types of securitized commodity instruments, has led to an undermining of the *prime* economic purpose of the commodity futures market.

The primary benefit provided by these markets is that it allows commercial producers, distributors and consumers of an underlying cash commodity to hedge. Hedging is indispensable to our financial system. Securitized commodity products are not structured to serve that purpose however. Rather, this innovation has allowed money flows to distort price discovery, while at the same time undermine the all-important hedging utility. Further, they are sold as investments, when in fact these products are speculative.

A major point of confusion which has led to exploitation by promoters of securitized commodity products, as well as the OTC derivatives market as represented by the ISDA, is the Commitment of Traders (COT) reports. We urge the CFTC to take action as recommended by the majority of commentators to the 2006 "Comprehensive Review of the Commitments of Traders Reporting Program." This recommendation was that the Commission continue to publish the COT reports, and that such reports be revised to include additional categories of data, such as positions held by swap dealers, so that a clearer understanding of which participants are benefiting from price moves can be monitored. This is of national economic concern, which in turn has international dimension and implications, as noted by the United States Senate Permanent Subcommittee on Investigations. " (Closing Mack Frankfurter's remarks)

And remember the number of new instruments and the dollar volumes hitting the food. Does that sound extraordinary or disturbing? Think about the volume of stock market trade-able structures impacting the prices of your food, fuel, and basic materials that go into every day commerce, while a stock is a legal fabrication via the stroke of a pen. Notwithstanding one's desire for their stock prices to increase, and so that long only money has its rightful home, but for the dissatisfied equity market maggots looking to feed their bellies on the food supply hunting for 'alpha' or greater yield in alternative asset classes, we've created a moral hazard we can reverse by repealing approval for these structures' tradability over the equity exchanges.

Meanwhile too, global sentiment and playing on the necessary global mindedness supposedly keeping us neighborly to our fellow man, London and other similarly regulatory bodies and associated major exchanges similarly will prohibit these structures from equity market tradability.

The investment banks may have only bought mortgages from mortgage banks that would originate conforming mortgages or perhaps B paper while many Americans actually financially unable to afford to borrow for a mortgage regardless of how cheap it was. Had the investment banks hired or themselves engaged in due diligence on the non bank and non thrift mortgages they'd bought with all the cheap money to which they'd accessed and in turn provided cheap lending conduits to the mortgage brokers who actually had some decent "refi" business of credit worthy borrowers, but the vast majority again were already significantly burdened with consumer and related debt. Years of off-shoring and other deleterious impacts to the commercial framework and quality employment had not seen reversal with the Bush Administration's Fed driving down interest rates to make liquidity cheaper for member banks.

So where we abided in an oncoming moral hazard, I suggest more than a moratorium on all new securities products such as ETFs, ETNs, and ETCs recently permitted that buy commodities options and futures contracts, even buying spot as their underlying asset rather than buying General Mills or something like that as a commodities play in the equities markets, but repealing or canceling the approvals of all ETFs and ETNs that ever have been made on commodities contracts that allow trading in the stock markets of the commodities, formerly controlled and supervised on the commodities markets - the people can be given back their money.

I urge the SEC to act to repeal these ETFs and ETNs that track the commodities indexes. I also would suggest the SEC include the ETFs and ETNs that track the petroleum and natural gas commodities contracts that likewise have raced to unimaginable prices per their unit of measure. Sophisticated investors and usually high net worth investors in times past via their banks and investment banks that have CFTC registered traders, accessed the commodities markets for alternative investments. There are other things fouling with the commercial environment; expecting the stock market to serve as the roulette wheel or even the source of all return should not be the argument. Pension fund managers have encountered pressure to find more 'return' while their plan sponsors have had little ability to better price at the Top line in the income statement and likewise, enjoy more funds flowing through the income statement to more adequately fund their pensions. Meanwhile in turn management uses Pension fund gains to smooth income statement earnings.

In The Wall Street Journal ("Where Has All the Oil Gone", 10/6/07) Ann Davies reports, "The financial players who have piled en masse into commodities trading in recent years have made oil markets more unpredictable. Some are simply betting that oil prices will rise over the long term. Others are pouncing on pricing anomalies as short-term trading opportunities. Many of them move in herds." Intermediate and finished goods users of these commodities do not need capricious stock market players of any size, but at $120/barrel, we see that volume hit the oil prices hunting for higher return in what is characterized as an 'alternative asset class'. Do you like that at the pump when you want to fill 'er up?

I suggest the International Swaps and Derivatives Association "ISDA" repeal the permissibility for swaps dealers "from laying-off their risk on the commodities markets, while serving as market makers for the index funds. In using ISDA as a

conduit, the index funds get an exemption from position limits that are normally imposed on any other speculator, including the $1 in every $10 of index fund money that does not go through the swaps dealers" (Epstein, Gene. "Commodities: Who's Behind the Boom", Barron's, March 28, 2008)

Epstein suggests, "The CFTC could also prick the bubble by enforcing its own rules. If the agency were to rescind the exemption on position limits given to the index funds, (say, on a phased basis, so that that the funds could make an orderly retreat), prices would probably fall back to reflect their true supply-demand fundamentals." He has a short memory: even if the commodities prices are "cut in half before they stabilize", price levels are 3 times above what they were several years ago.

The April 22, 2008 Roundtable at the CFTC included participants of all sorts in the commodities markets. Grain elevator operators cannot get fair prices for their grain. Farmers cannot get their grain to the grain elevator operators and similarly few are enjoying higher prices for their commodities because they are encountering higher costs in which to do business. Nothing about the ETFs, ETNs, and ETCs has advantaged the people for whom the commodities and associated futures trading markets were established.

Not thinking about my own belly as one employed with and by experts on indexes and instruments which when tracking commodities in the way in which some of these vehicles have been structured, we would enjoy strong profits from such strong demand, I exhort the SEC to repeal the permission and approvals for the commodities ETFs, ETNs and ETCs with their sponsors closing these funds and giving back to the investors their investments with any proceeds. For economic reasons, Claymore did this with its funds. For sound commerce and perhaps from a higher ground, moral responsibility framework, the SEC and the CFTC take seriously what I suggest.

Thank you for considering my comments. I respect the efforts you make on the behalf of not only investors and other market participants, but towards the public good.

Respectfully,
Andrea Psoras
Senior Vice President
QED International Associates
708 Third Avenue, 23rd Fl
New York, NY 10017
(212) 953 4058
(212) 953 5145fx