MISSOURI FARM BUREAU FEDERATION
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May 7, 2008

Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Dear Commissioners:

Missouri Farm Bureau (MFB), the state's largest general farm organization, represents the interests of producers of nearly all commodities in Missouri. We appreciate the opportunity to make comments to the Commodity Futures Trading Commission (CFTC) in regards to serious concerns about commodity marketing issues expressed by our members.

For almost three years farmers have experienced a widening of basis levels for most commodities. Although basis varies by commodity and location, historically the relationship between the cash and futures markets has been fairly constant with predictable seasonal deviation.

The lack of convergence between an expiring futures contract and the cash market has resulted in uncertainty about the actual value of the commodity and has significantly increased the risk faced by producers.

Basis and convergence play a major role in developing and implementing risk management strategies. Not having reasonable basis expectations and the lack of convergence have presented major challenges to producers trying to carry out marketing plans involving futures and options contracts.

Extreme volatility in agricultural markets, the impact of higher margin requirements and expansion of daily trading limits has made it difficult for the average farmer to use futures and options for price protection. Margin calls have practically become prohibitive. Many farmers, and even some local elevators, do not have adequate lines of credit to pay these higher margin calls.

As a result of some or all of the above, many grain buyers have stopped making bids to farmers for grains beyond a 60 day period. This comes at a time when many producers are being asked to make firm price commitments and in some instances pre-pay for inputs for the next crop year. This situation places the producer in the position of locking in future input costs without similar opportunities in future crop prices.

There is no doubt that trading activities of commodity and index funds have contributed to the volatility and higher prices for commodities. While farmers have welcomed the higher commodity prices due in part by this new speculative force, it has also caused major disruptions in the grain/oilseed/fiber handling sector.

Market transparency is of great importance to farmers when making marketing decisions. While we are not opposed to index funds trading in agricultural markets, we do have serious concerns with their classification as a hedger. We understand how index funds engage a "swaps manager" or "swaps dealer" to invest in an index based on the returns in exchange-traded futures contracts and that this "swaps dealer" in turn hedges his risk by establishing a portfolio of long futures positions. We strongly feel this does not constitute a traditional hedge and that index funds should not be granted hedge exemptions in agriculture commodity futures contracts.

We agree with the traditional definition of a hedge as a "futures or option transaction or position that normally represents a substitute for transactions to be made or positions to be taken at a later time in a physical marketing channel." Given the fact that index funds have no involvement in the physical commodity or marketing channel, we feel it is inappropriate for them to be granted a hedge exemption.

Some possible solutions that we would encourage the CFTC to consider include the following.

- The CFTC should require exchanges to have additional delivery points to prevent market manipulation and assure an adequate delivery system.

- End the certificate of delivery and return to the notice process originally used for delivery against the futures contract.

- Investigate the merits of a cash settlement option.

- Remove the current margin hedge exemption classification for funds related to futures contract trading.

- Require additional transparency about the funds involved in the futures market so the markets can fulfill their primary functions of price discovery and risk management.

- Work with the Federal Reserve and other regulators to develop ways for lenders to provide large enough credit lines to meet the higher margin requirements that are a result of today's markets.

The CFTC is responsible for ensuring that the commodity futures markets do not become just a speculative trading playground, rather than the price discovery/risk management/marketing tool for the agriculture industry that it was intended to be. I ask the CFTC to carefully consider the ramifications of the issues involved and restore integrity and reliability back to the marketplace.

Thank you for the opportunity to provide comments to the CFTC on this important matter.

Sincerely,

Charles E. Kruse

Charles E. Kruse
President