

Federal Speculative Position Limits

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Different Kinds of Speculative Position Limits

- ◆ Spot month limits
- ◆ Non-spot month individual limits
- ◆ All-months-combined limits
- ◆ Accountability limits

Purposes of Speculative Position Limits

- ◆ To reduce the potential threat of market manipulation or congestion.
- ◆ To reduce the potential of price distortions.
- ◆ To mitigate clearinghouse credit risk.

History of Federal Speculative Position Limits

- ◆ First enumerated by the Commodity Exchange Commission (CEC) in 1938.
 - Wheat, corn, oats, barley, flaxseed, grain sorghams, and rye (1938).
 - Cotton added in 1940.
 - Soybeans added 1951.
 - Fats and oils added in 1953; revoked in 1968.
 - Lard, onions, eggs, and potatoes at various times.
 - Soybean oil and soybean meal added in 1987

History of Federal Speculative Position Limits

- ◆ The CEC never established speculative position limits for many agricultural commodities subject to its jurisdiction:
 - Butter, wool tops, livestock, livestock products not included.
 - Exchanges under their own authority established speculative position limits (e.g., CME pork bellies (1961) and live hogs (1966)).

History of Federal Speculative Position limits

- ◆ Since the CFTC's founding in 1974, it has retained Federal speculative position limits on those commodities where such limits had previously been established (CFTC regulation 150.2).
- ◆ For each enumerated commodity, CFTC Regulation 150.2 establishes a spot month limit, non-spot individual month limit, and an all-months-combined speculative position limit.

History of Federal Speculative Positions Limits

- ◆ In 1981 the CFTC required exchanges to establish speculative position limits for all commodities not subject to Federal limits (CFTC regulation 150.5).

Summary of Position Limit History Through 2000

- ◆ Federal Speculative Position Limits were retained for enumerated commodities where such limits were established prior to the creation of the CFTC in 1974.
- ◆ For other commodities, speculative position limits or position accountability limits were set by the exchanges subject to CFTC oversight and enforcement.

Current Single Month Limits (Contracts)

CBOT Corn.....	5,500
CBOT Oats.....	1,000
CBOT Soybeans	3,500
CBOT Wheat	3,000
CBOT Soybean Oil	3,000
CBOT Soybean Meal ..	3,000
MGE Red Wheat..... ..	3,000
MGE White Wheat	1,200
NYBOT Cotton #2.....	2,500
KCBT Winter Wheat.. ..	3,000

Current All-Months-Combined Limits (Contracts)

CBOT Corn.....	9,000
CBOT Oats.....	1,500
CBOT Soybeans	5,500
CBOT Wheat	4,000
CBOT Soybean Oil	4,000
CBOT Soybean Meal ..	4,000
MGE Red Wheat.....	4,000
MGE White Wheat	4,000
NYBOT Cotton #2.....	3,500
KCBT Winter Wheat.. ..	4,000

Current Spot Month Limits (Contracts)

CBOT Corn..... 600

CBOT Oats..... 600

CBOT Soybeans 600

CBOT Wheat600

CBOT Soybean Oil 540

CBOT Soybean Meal .. 720

MGE Red Wheat..... 600

MGE White Wheat 600

NYBOT Cotton #2..... 300

KCBT Winter Wheat.. .. 600

The Commodity Futures Modernization Act of 2000

- ◆ Established designation criteria and core principles with which a designated contract market must comply in order to maintain its designation.

Core Principle 5

- ◆ “Position Limitations or Accountability—To reduce the potential threat of market manipulation or congestion, especially during trading in the delivery month, the board of trade shall adopt position limitations or position accountability for speculators, where necessary and appropriate.”

CFTC Guidance on Core Principle 5

- ◆ Spot-month limits should be adopted for markets based on commodities having more limited deliverable supplies or where otherwise necessary to minimize the susceptibility of the market to manipulation or price distortions.

CFTC Guidance on Core Principle 5

- ◆ Markets may elect not to provide all-months-combined and non-spot individual month limits.

CBOT, KCBT, and MGE Petitions

- ◆ Repeal or amend CFTC Regulation 150.2
- ◆ If Regulation 150.2 is retained, the KCBT and the MGE request continuing parity in Federal speculative position limits for wheat contracts traded on different exchanges.

CFTC's Request for Comments

- ◆ Should the Commission continue to impose Federal speculative position limits for those agricultural commodities enumerated in Regulation 150.2?
- ◆ Should these commodities be treated differently from other agricultural and non-agricultural commodities where the Commission does not impose federal speculative position limits?

CFTC's Request for Comments

- ◆ Should CFTC Regulation 150.2 be modified to eliminate limits for the non-spot month, individual-months, or all-months combined?
- ◆ If CFTC Regulation 150.2 is modified, what criteria should be used in determining acceptable position limits?

CFTC's Request for Comments

- ◆ If Federal speculative position limits are retained, should the increases requested by the CBOT be granted? Should request by the KCBT and the MGE for parity in setting limits be granted?
- ◆ Should the acceptable practices for Core Principle 5 be revised?