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September 30, 2008

Walt Lukken
Acting Chairman
Commodity Futures Trading Commission
1155 21st Ave NW
Washington, DC

Dear Chairman Lukken:

This letter is in response to the Commissions request for comments on changes to the wheat contract proposed by the Chicago Board of Trade (CBT).

There have clearly been issues with the CBT wheat contract over the past several months, with the divergence between the contract settlement prices and the cash markets showing record large gaps. One of the core benefits farmers have in the United States is the ability to manage their production and revenue risks. One of the cornerstones in that effort is the ability to have price discovery mechanisms that perform with some predictability at least in so far as the relationships between the futures and the cash markets are concerned.

To a large extent American Farm Bureau (AFBF) views this as the primary function of the futures markets. When they fail to serve this role of legitimate price discovery and as a risk management tool, then these same futures markets turn into little more than large gambling houses. It is with these core principles in mind that AFBF has considered the proposed changes that are now on the table.

The organization has looked at the issue of non-convergence between cash and futures markets for some months. Adding delivery points and increasing the cost of storage have frequently come up in these discussions. These changes may – repeat may – help close some portion of the gaps that have occurred, or at least help to make things more predictable, but it is not clear that on their own, such actions will solve the fundamental convergence problem.

Going back almost as far as the disasters generated by Hurricanes Katrina and Rita, the relationship between the futures and cash markets can at best be described as erratic. This has been particularly true of the markets from St. Louis and points south on the Mississippi River. Consequently, adding additional delivery points, particularly points on the river as far south as Memphis should help deal with some of the wide basis fluctuation problems that have plagued that area and AFBF would be supportive of the concept. The 20-cent premium that will be offered for those load-out facilities may engender other comments, but simply having the delivery points is a step in the right direction. Establishing additional points in northwest Ohio and along the Ohio River will also help to provide a broader area and additional information as a basis for the settlement price and Farm Bureau would be supportive of providing these additional delivery options as well. But again, there is little in bringing on these added delivery points that will force cash and futures together at the end of the contract.

The case made by proponents of increasing storage costs as a way to enhance convergence is that such action will limit the extent to which contracts will be held to maturity. This should primarily leave only those interested in taking actual delivery of the product. That is the theory. Whether such action will in fact result in convergence or not remains to be demonstrated. In essence, the organization will be interested in examining the results of the experiment.

Lastly, you requested comments on Vamitoxin. Vomitoxin limits may need to be reduced to 2ppm to improve the contract as a legitimate source of cash wheat when economics make the delivery market a source for such physical commodities. This level is essentially the industry standard for wheat for milling purposes and as such may serve the market better than the current 3ppm level now allowed in the contract. At the very least, the industry in general and producers in particular should be allowed time to adjust to these higher standards, consequently the notion of not bringing this requirement on line until 2011 contracts is certainly warranted.

As stated at the outset, Farm Bureau recognizes the significant role CBT in particular has played in helping the market discover the price of traded commodities and thus serves as a vital risk management tool. Clearly, that role has come under considerable stress in the last few years, almost to the point of no longer providing that function. These actions, particularly the expanded delivery points and possibly the increased storage costs may help mitigate the issue to some extent. Farm Bureau is not opposed to such contract changes, but by the same token, the question remains on how to deal with the fundamental, underlying problem.

Sincerely,

Bob Stallman
President