



American Bakers Association

The Voice of the Baking Industry Since 1897

November 13, 2009

David A. Stawick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

RE: CBOT Variable Storage Rate for Wheat

Secretary Stawick:

The American Bakers Association (ABA) appreciates the opportunity to offer comments to the Commodity Futures Trading Commission regarding the Chicago Board of Trade proposal to implement a variable storage rate for wheat. ABA is hesitant to support the creation of the variable storage rate (VSR). If the VSR does not address convergence or deter index funds participation in the markets, it may only increase the costs of purchasing forward contracts – a cost born by end users. ABA firmly believes the problems with convergence and the underlying issue of extreme market volatility will not be addressed until definitive action is taken to limit index fund participation in the wheat market.

ABA is the Washington D.C.-based voice of the wholesale baking industry. Since 1897, ABA has represented the interests of bakers before the U.S. Congress, federal agencies, state legislatures & international regulatory authorities. ABA advocates on behalf of over 200 companies – both baking companies and their suppliers. The baking industry generates more than \$70 billion in economic activity annually and employs close to half a million highly skilled people.

The lack of convergence continues to be a major issue in the futures market. In an effectively operating commodity market, cash and futures prices tend to come together during the delivery month. However, particularly in the Chicago wheat market, wheat futures prices are increasingly disconnected from wheat cash prices. As published in the recently-released report from the Senate Permanent Subcommittee on Investigations, from 2000 to 2005, the average daily difference between cash and the futures price for soft red winter wheat traded on the Chicago exchange was approximately 25 cents. During the second half of 2008, this price differential jumped to between \$1.50 and \$2.00 per bushel higher than the average cash price, “an unprecedented price gap,” according to the report. Most recently, the July and September Chicago Wheat contract continued to lack convergence, with a 50 to 80 cent gap between cash and futures prices. While an improvement over a \$2.00 per bushel gap, it is still well above the historic average.

If the VSR is to be implemented, ABA firmly believes it should be implemented starting with the September 2010 contract. Should the VSR be implemented beginning with the December 2009 wheat contract, calendar spreads will be greatly impacted, changing the terms of many contracts previously purchased. Bakers have been forced to absorb the impact of an extremely volatile market

and recent substantive changes to a contract that has worked for over 150 years – waiting until July 2010 will honor the legal contracts purchased for the December 2009, March 2010, May 2010 and July 2010 contract periods as well as allow the market to prepare for new changes to the contract.

In addition, should the VSR fail to achieve the desired level of convergence, the VSR will then only act as a tool to further increase the costs for end users when purchasing forward contracts. ABA asks that CFTC approve the VSR starting with the September 2010 contract with the pre-requisite that should it fail to meet a necessary level of convergence, that the VSR be removed from the Chicago wheat contract.

ABA greatly appreciates the efforts of the Chicago Mercantile Exchange to address convergence issues with the wheat contract through previous contract changes. While these changes have had an impact, convergence continues to be an issue. ABA believes the creation of the variable storage rate beginning with the 2010 September contract may improve convergence in the wheat market, but is hesitant to firmly support such action since it might not improve convergence but simply increase the costs of purchasing forward contracts.

While ABA understands the reasoning behind the implementation of a variable rate contract for wheat starting in September 2010, both the previous contract change and this proposal are directed toward a symptom rather than the root problem. Commodity prices fluctuate for a number of reasons, including increasing/decreasing demand, adverse weather, supply problems (including crop disease), and other natural market factors. While these traditional market factors play a part in commodity market volatility and the attendant lack of convergence, the impact of the index fund cannot be understated. ABA strongly believes that the lack of convergence exhibited in the Chicago wheat contract is a symptom of the problem caused by the accumulation of long-only positions by index funds, rather than the problem itself. Volatility, whether it drastically increases or decreases market prices, greatly impacts the baking industry. Today's volatility represents millions of dollars in undue financial risk to the industry on a daily basis. ABA firmly believes index funds have greatly exacerbated market volatility, and as such, recommends that the CFTC eliminate exemptions on contract limits for these market participants.

Thank you for the opportunity to submit these comments regarding the implementation of the variable storage rate for the CBOT wheat contract on the September 2010 contract. If you have any questions regarding ABA's position or would like additional information, please contact Cory Martin, ABA senior manager of government relations, at (202) 789-0300 or cmartin@americanbakers.org.

Sincerely,



Robb MacKie
President & CEO