My name is Patrick Hillegass. I have been a member/trader of the CBOT\CME for about 25 years. Prior to this, I worked for several years as a cash grain trader with Continental Grain Company. During this period I was very involved with the delivery process and the workings of delivery elevators.

I trade all agricultural products, though recently primarily soybeans. Today as I write this letter, I have no outstanding wheat positions.

While I have no wheat positions, I have a serious interest in the performance of the wheat contract. I have always believed a balanced contract, i.e., one that neither favors the short nor long, is the best design for a contract. I am also aware that balance in design is an ideal, and cash market conditions are fluid; thus getting an exactly balanced contract in a fluid environment is a theoretical goal.

For many of the past 25 years I have been on numerous CBOT ag-advisory committees and ad-hoc advisory committees as changes to contract design have been necessary.

Today we are faced with another moment to review where we are, and what we should do to enhance the performance of the wheat contract.

I am a proponent of additional delivery locations, seasonal storage rates, and serial futures contracts, as changes, I believe will enhance the wheat contract.

I am a strong opponent of the concept of forced load out.

Please allow me a few minutes to review my preferences.

To see where we are, requires a look at where we came from. Today basis levels are significantly weaker than what one would describe as traditional. Also, it is argued that the Wheat basis never converges. To review and evaluate these components, we must take a macro look at not just wheat, but global commodity issues.

As I write this letter, it is difficult to imagine a time when the concept of traditional is more challenged. But, I do not want to focus on today's financial crisis, rather I mention this to place in context how all our long held ideas are being threatened.

For many years. the rising power of other countries, primarily India and China, has been the driving force behind the "macro-commodity price move." With populations ten times the size of the United States and dramatically rising incomes, and thus changing diets and housing needs and transportation needs, it is fair to say, this is not a one-time event, but rather a sea change.

Factor in the possibility of Africa with commodity-oil wealth and a massive population; we are probably at the beginning of a sea change, not the end.

Consistent with this, there has been an explosive growth in the investment community interest in commodities. This is a very logical investment strategy, as massive money flows, population income shifts and such will dramatically change demand for raw materials.

The CBOT\CME is a major participant in this movement. But as all of you know, these changes are not limited to exchange traded commodities. Prices for almost all raw materials have surged.

Because of these changes in costs, we have seen huge shifts in transportation costs, which are also a big component of changes to traditional basis levels.

I apologize for digressing above, but I believe the macro changes have caused much of the movement away from traditional basis levels we have recently seen. I believe cash market participants are only now adjusting to these changes.

Any attempt to force things back to "as they used to be" will prove detrimental and useless.

Another major criticism has been the role of the long-only permanent long players. These players believe their financial situations are enhanced by being long exchange-traded commodities, for many reasons that traditional users may not understand.

As an investment community and as exchanges, we should develop contracts and retool existing contracts to enable these users to have access to our markets. The retool process should recognize that the needs of these users are as important as the needs of traditional users. Further, we want market prices to signal to world producers how much to plant of individual commodities.

Thus macro changes have caused a tremendous increase in the "demand for wheat futures" and for futures in general. To respond to this demand for "wheat futures," exchanges have different paths to follow; As an exchange, we could work to reduce the demand for our futures products by chasing away users who have different strategic approaches than traditional users. I believe this would be a poor choice for the CBOT/CME and the investment world. Or exchanges could work creatively to increase the supply of futures contracts.

As an aside, there has also been an increase in demand for corn, soybean and others futures contracts; this demand has not resulted in constant burdensome delivery supplies and weak basis levels; so it is unfair to say the problem of the long-only futures holders cannot be managed with our current basic contract design.

Recently the traditional short wheat hedger has faced significantly lower than usual basis levels, and periods of financial stress caused by prompt margin calls when futures have spiked up. Often when this occurs, especially after extended price spikes, the hedger looks to cash markets to dump inventories and avoid margin calls. Concurrent with upward price spikes, the cash basis is often depressed, so the short hedger loses on both ends.

I believe the new CBOT/CME recommendations will work to reduce this risk without harming the long. Under the new proposals, the additional delivery locations provide the short hedger a reasonable cash basis bid not available under the current system. With the possible addition of serial futures, i.e., delivery periods listed monthly but not listed for the entire contract cycle as with primary months, the short hedger has access to the delivery process sooner. The long is not disenfranchised because the differentials are not burdensome and deliveries will only occur during periods of very weak basis. Additionally, with the ability to participate directly in the delivery process, many additional short hedgers can make their own decisions whether to add storage to enhance their elevator operating options.

Further, it is always good to have more participants in the delivery process than fewer. The consolidation of cash market participants in the past 20 odd years has significantly reduced the number of delivery players.

The use of seasonal storage rates better reflects storage cost differences between harvest and end of crop year periods.

Others have spoken about implementation of forced load out. Please be sure to understand what this means. The previously mentioned CBOT\CME proposals help all participants. This proposal, forced load out, will bring better convergence, but by bludgeoning the long with unreasonable carrying charges.

The market always prices the worst bushel. This proposal would extend the carry for the long to undefinable levels. Will carry be 10 cents a month or $1.20 a month? This is akin to cash settlement, but importantly in an undefined world. With few participants in the cash delivery process, and fewer in the barge freight business, the long will settle in a market that could have a bid-ask spread of 30 cents at times.

Cash settled contracts only work well in situations with well-defined tight bids and offers. When this is the case, prices are fair. Occasionally, even deep, well defined, liquid markets sometimes struggle with cash settlement, for example the Libor contracts. Wheat has no cash definition, no tight bid-ask spreads, and few players, and illiquid transportation.

What forced load out proponents are suggesting is having inactive, undefined, opaque cash markets with few users determine how the contract will price. Long hedgers will face enormous uncertainty as to the costs of rolling their positions. Further, only a few players will truly know the cash values and these can be easily manipulated, especially in markets with no depth.

There has always been a difference between the cash and futures markets. Trying to tie cash and futures exactly to undefined cash markets each delivery cycle will tremendously favor the short at the detriment of the long.

The current CBOT\CME proposal enhances the short, without unduly harming the long.

The forced load out proposal tremendously skews the balance of the contract not just to the shorts, but to the very few who have informational access, and also to those who can easily manipulate undefined cash market values.

Please do not let the long-term macro-commodity cycle and the numerous effects caused by such force shortsighted changes that could clearly harm many for the gain of a limited few.

There is another segment of the market place severely disenfranchised by a forced load out proposal, the liquidity providers. Currently, the liquidity providers make markets in all contract months. The core pricing mechanism for these individuals is the carry relationship. With forced load out, the carrying charge relationship as the market knows it is dead. Without a carry structure, the ability of liquidity providers to make deep markets is harmed. This is important for obvious reasons. These are the traders who are there each day. But if the rules are so skewed toward a few commercial traders, this liquidity will disappear.

One of the few lessons of this financial crises we can all agree on, is that an open market with well defined prices that serve the many is better than an opaque process controlled by a few.

If you allow or encourage forced load out; you are moving down a dark undefined path controlled by few to the possible detriment of many.

Allow the cash markets to adapt to macro changes; allow many to participate; allow the current CBOT\CME proposals to be implemented.

Regards,

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