secretary

From: NoReply@cftc.gov
Sent: Wednesday, May 18, 2011 11:57 AM
To: secretary
Subject: CFTC Public Comment on IF 10-016

A comment has been submitted on IF 10-016
Submitter Name: Larry Callahan
Submitter Email
Submitter Organization:Demeter L.P.
Submitter Job Title:
Submitter Address:
Submitter Address 2:
Submitter City:
Submitter State:
Submitter Zip:
Submitter comment: Please do not increase the daily price limits for corn. Increasing the daily price limits is just another step in transforming the commodity markets from a market serving entities directly involved in the production and use of agricultural products, hedgers, to a market serving entities involved in the marketing of financial products, speculators. As I understand it, the markets were originally set up to help producers and end users reduce the risk of price volatility and uncertain supplies, associated with seasonal crop production. Some call this risk management and price discovery. With this proposal it appears the CME is in effect trying to increase price volatility, which should increase volume, and the profits of the exchange owners and members. This will also benefit large financial institutions, and perhaps very large commercial entities with a seemingly unlimited supply of liquidity to make margin calls. Conversely, for country elevator operators which I am an operator, this will likely lead to very negative ramifications for this segment of the industry. We represent a critical link in the food chain. In addition to aggregating grain for transportation to end users, we are the first source of risk management supplied to our farmers. While it is true that the market can go down as well as up, adding volatility to the markets will make it just that much more difficult to obtain financing. The banks we deal with have already reduced their advance ratios as a result of the increased risk attributed to the markets. Adding more volatility will exacerbate this problem. As a country elevator we need to manage our risk. With higher commodity markets and the current volatility that is getting more difficult. Our credit needs are four times what they were prior to 2008, and the volume we handle has barely changed. Increasing the daily limits will only increase our credit needs, as our farmers contract further out to manage their risks. Not only do we have to deal with our increased leverage, ourselves, our counter party risk has increased dramatically. While, monitoring the risk results in increased operating costs, the bigger problem is that our ability to prudently forward contract our farmer's bushels is being reduced. Adding our lenders lower advance rates to the increased prices and market volatility means we cannot forward contract as many bushels as we were previously able to, without dramatically increasing our financial risk. Not forward contracting our farmer's production, increases their risk of failure. Producers need to forward contract, so they can lock in prices that they and their lenders know will offset their production costs. If we cannot meet their needs they will be forced to deal with the larger operations who may not have the time or interest to meet the risk management needs of the producer, further undermining the rural economy. Increasing the daily price limits increases our chance of failure and reduces the ability of the physical users of the commodity to use the market the way it was originally intended to be used. It will help those institutions that many consider too big to fail, as it increases the interest of speculators. Interestingly, a few of the too big to fails offer over the counter swaps that allow market participants to defer daily margin calls. Unfortunately, even though we are viewed as a middle market company by financial institutions, we apparently do not do enough volume to make this a viable supplement to our conventional hedging strategy. As a hedger I cannot think of a good reason to increase the daily limits. According to the Federal Reserve the higher

commodity prices we are currently dealing with will be short lived. Thus, using our higher prices to justify the increased daily limits is another argument that lacks support. In addition, the corn market has not been locked limit up or down an extra-ordinary amount of time in this most recent market run up. Since price discovery has not been materially reduced with the current daily limits, or expanded limits, again, I see no reason to increase the daily price limits for corn. The CFTC needs to decide if the commodity markets should remain a market of risk management and price discovery for hedgers, including all producers and users of commodities. Should the CFTC consent to the CME proposal this will be another step in the commodity markets becoming just another asset class of the financial markets, a market dominated by speculators and a market accessible only to the largest organizations involved in physical commodities. Submitter IP Address: