National Grain and Feed Association

1250 Eye St., N.W., Suite 1003, Washington, D.C. 20005-3922, Phone: (202) 289-0873, FAX: (202) 289-5388, Web Site: www.ngfa.org

October 2, 2008

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

Dear Mr. Secretary:

RE: NGFA comments concerning potential changes to the CBOT wheat contract to enhance convergence of cash and futures, as submitted by the CME Group.

The NGFA's member firms are traditional users of CBOT contracts to help manage their price and inventory risk. Recently, a broad range of users have called into question the wheat contract's utility as a pricing and risk management tool due to problems with convergence. The NGFA believes that changes are needed on an expedited basis to help restore performance and confidence in the CBOT wheat contract.

As such, the CME Group proposal is a good first step. We believe the proposal, if approved, could help enhance convergence somewhat. However, these changes should be viewed only as interim improvements to the contract. We are convinced that additional changes will be needed to re-establish the relationship between cash and futures and achieve convergence.

Specific to the CME Group proposal, the NGFA has no objection to implementation of a seasonal storage rate for the wheat contract, with rates moving to approximately 8 cents per bushel per month during the July through November period, and snapping back to the current rate of approximately 5 cents per bushel per month for the balance of the year. Following evaluation of the wheat contract's performance with seasonal storage rates, it may be appropriate to analyze whether similar seasonal rates would enhance performance of the other CBOT grain and oilseed contracts, but the NGFA is not recommending such action at this time.

Further, the NGFA has no objection to adding delivery capacity at market-based differentials, as proposed by the CME Group (northwest Ohio shuttle-loading locations at a 20 cent discount; Ohio River locations from Cincinnati to the Mississippi River at par;

and Mississippi River locations from below St. Louis to Memphis at a 20 cent premium). Finally, the NGFA has no objection to tightening vomitoxin specifications for the contract to 2 parts per million, with 3 ppm still deliverable at a discount.

However, we do not believe these changes alone will be sufficient to achieve convergence. The NGFA believes strongly that the lack of convergence the wheat contract has experienced is due largely to the growing participation and growing share of open interest held by investment capital. With spread trades excluded, which we believe is the appropriate way to evaluate participation, "Index" participants now hold more than 60% of net open interest in the wheat contract according to the latest Commitments of Traders report, about 1.5 times the size of the entire U.S. soft wheat crop. The share of open interest held by commercial participants continues to shrink.

Some may doubt the impact of investment capital. We would respond by pointing out that the Kansas City and Minneapolis wheat contracts, where participation by investment capital is much smaller relative to traditional users, both function well. The CBOT corn and soybean contracts also continue to function reasonably well with the exception of a few issues in some months. Why does the CBOT wheat contract not work? The clear answer is that disproportionate participation of investment capital relative to total participation has been the primary factor leading to deterioration in performance. We have concluded that the integrity and functionality of the CBOT wheat contract is declining, and the contract itself may be at risk of failing if current trends continue. Commercial participation in the contract has declined, a fact that should be a major concern to both our industry and to the CME Group.

In the shorter term, demand certificates (i.e., compelled loadout) may be part of the solution to enhancing convergence in the wheat contract. To be clear, we are not recommending adoption of demand certificates today. Certainly, some period of time to analyze the structure of such a change and how to implement compelled loadout would be needed. Given the urgency of the situation and the need for solutions, we have urged CME to expedite evaluation of whether compelled loadout is the right course.

To that end, the NGFA has formed a task force to analyze options and make recommendations on potential implementation of compelled loadout. Key among the task force's goals is developing modifications to the compelled loadout concept that could help maintain contract balance and functionality so that long hedgers would not be inadvertently driven out of the contract due to unacceptable levels of risk. Once task force consideration is complete – planned within the next 30 days – the NGFA will make a decision whether to recommend implementation of demand certificates with appropriate modifications.

Notwithstanding the discussion above, the NGFA still has serious concerns about whether adjustments to the current contract structure can achieve consistent convergence as long as investment capital continues to hold a dominant and ever-increasing share of open interest. Currently, the wheat contract is trying to meet the needs of separate and distinct groups of participants – the traditional grain hedgers and the more recent non-traditional investor participants, which have very different needs – within one contract structure and one regulatory scheme. The NGFA submits that this structure is not working.

The NGFA has strongly urged the CME Group to expedite research and design of new alternatives to the current wheat contract. Some options might include a world wheat index contract; an all-classes U.S. wheat contract; or some other index product. Potentially, a new contract could be designed to operate side-by-side with the current contract, with the goal of restoring performance and cash/futures convergence in the traditional contract, and with new products designed to satisfy the investment community's desire to own wheat as part of an investment portfolio.

We appreciate the opportunity to provide input to the CFTC on the CME Group's proposals to amend the wheat contract, and we look forward to collaborating closely with the CFTC and the CME Group as future improvements are developed.

Sincerely,

Rod Clark

Rod Clark
Chair, Risk Management Committee