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Statement of the
American Soybean Association

Commodity Futures Trading Commission
May 7, 2008

The American Soybean Association (ASA) appreciates the opportunity to provide comments on the issues discussed at the CFTC's Agricultural Roundtable on April 22, 2008. ASA is the policy advocate and collective voice of soybean producers on domestic and international issues of importance to all U.S. soybean farmers.

Soybean producers, like producers of other commodities, are concerned about changes in the way futures markets are operating and their impact on risk management needs. Increased price volatility, lack of cash and futures price convergence, and the influence of billions of dollars of index fund investments have greatly altered traditional farmer hedge strategies. For example, many lenders and elevators no longer offer forward contracts more than 60 days out. When the ability to forward contract soybeans for fall delivery – as well as to lock in prices for spring delivery or for the 2009 crop – was lost, it became clear that traditional risk management strategies are no longer available.

We have supported and believed that futures markets existed for the dual purposes of price discovery and risk management. However, the traditional hedges that farmers have used to reduce price risk now seem to actually increase their risk exposure. The purpose of this submission is to request assistance in discerning the best way that farmers can reacquire risk management benefits via the market mechanisms under the Commission's jurisdiction.

For the last 40 years, markets have operated in generally predictable ways: Chief among these was that futures and cash market prices would more or less converge at the end of a contract. The assumption that cash and futures prices for the same commodity tend to move in the same direction, during the same time period, and to approximately the same extent, has stood the test of time. Now, we see this assumption is not necessarily true. Lack of convergence, combined with high prices and, for some commodities, the absence of a cash market, have led to lack of confidence that accurate price discovery is taking place. Lenders look at the lack of convergence and say they no longer know what the underlying collateral is worth.

The unpredictability of convergence between the futures and cash markets makes selling futures an unreliable pricing tool. As Dr. Kunda from the University of Illinois pointed out at the roundtable, the inconsistent nature of convergence since 2006 makes a solution hard to identify. As growers, we can

work around a certain lack of convergence; it is predictability that we need. All of these factors create a marketplace that severely limits farmers' abilities to manage price risk.

Of course, there have been changes in the market that we support. Higher prices and more participants in the market work to the farmer's advantage. As we look toward 2009, we know we will continue to see increases in input costs that make the need to have effective and predictable risk management tools even more important. The challenge for both producers and the CFTC is to ensure that markets offer a way for all participants to share risk. It is not acceptable to expect individual producers to take futures positions in a market environment where the risk and capital requirements are so high that even large multinational grain companies don't want to participate.

ASA expects the CFTC to continue open discussion of these issues with all interested parties and to take judicious action to restore confidence in the futures market. It is the CFTC's responsibility to ensure the markets provide accurate price discovery and hedging opportunities for farmers.

ASA offers the following short-term recommendations to the CFTC:

- We agree with the CFTC's decision to delay revision of speculative position limits. As we stated in our December 2007 comments on this subject, "If the changes could exacerbate lack of convergence, ASA would be opposed to increasing the limits." We reiterate our request that the CFTC analyze whether increasing speculative position limits would negatively affect convergence of cash and futures markets, and not proceed with the increase if it is determined that such increases would have negative effects.
- We second the many calls for a moratorium on new hedge exemptions, as well as a moratorium on expansion of the hedge exemptions already approved. While markets are in such flux, and while questions persist about whether index funds are legitimate hedgers, placing a moratorium on further hedge exemptions is the only reasonable course.
- We support the request of the National Grain and Feed Association (NGFA) for more detailed reporting in the Commitments of Traders report.
- The catastrophe that took place in the cotton market is of great concern to producers of all commodities, and we strongly support an investigation into activities in the cotton market in early March 2008.
- We agree that food producers and other market participants need to work together, rather than relying on more regulation. We encourage the CFTC's leadership in facilitating that dialogue, and recommend the Agricultural Advisory Committee as the forum where that dialogue can continue.
- We support analysis of whether the addition of more delivery points would aid futures and cash price convergence, as well as analysis of other changes in delivery terms that would positively impact convergence.

- We encourage the CFTC to analyze and then educate market users about the potential impacts of clearing of ag swaps by the CME, as well as cash settlement contracts. Producers have little information about these tools and their potential impacts. Through analysis and education, market users will be better able to assess whether either of these changes would improve market performance and decisions as to whether or not to adopt them will be clear.
- Above all, we strongly encourage CFTC to work expeditiously with producers, the exchanges, and other market participants to develop solutions and tools that allow traditional hedgers to have greater confidence in futures markets.

ASA looks forward to the CFTC's consideration of these recommendations. We see it as the CFTC's role and responsibility to work with producers to restore the ability of futures markets to provide the price discovery and risk management functions needed by producers. We look forward to continuing a productive relationship with other market stakeholders that leads to renewed confidence in the market and marketing opportunities for all farmers.