Statement
of the
National Corn Growers Association

Commodity Futures Trading Commission
Agricultural Markets Roundtable

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Good morning, I am Garry Niemeyer and I'm here today representing the National Corn Growers Association (NCGA), as a member of NCGA's Board of Directors. NCGA represents the interests of over 32,000 corn farmers throughout the U.S.

For over 100 years the commodity exchanges have played the valuable roles of price discovery and risk management. Currently, we are witnessing a lack of convergence as contracts in the delivery months close out. This loss of convergence has many asking if the futures market still provide price discovery. And, are there still market fundamentals underpinning the current grain prices? This lack of price discovery is rippling into the farm credit system causing banks to restrict lending to elevators and farmers alike.

More recently, we have been asked shouldn't farmers be happy with $6 corn? Absolutely, we just wish they could sell some. Over the past several years we have seen a major change in U.S. agriculture markets, specifically grain crops. In the 2005-06 marketing year, the average farm gate price for corn was $2.00 per bushel. I can speak for everyone in agriculture when I tell you this price was too low. The latest crop year estimate now has the average corn price at $4.00 - $4.60. So what has changed? Most people point to ethanol and say we've increased the demand for corn driving up the price. During the last three years, corn for ethanol has increased from 1.6 billion bushels to a projected 3.1 billion. What frequently gets lost is that production has jumped to record levels as well from 11.1 billion to 13.1 billion bushels over this time. I am not sure that a 2 billion bushel increase in usage offset by a 2 billion bushel increase in production provides the necessary fundamental underpinning for a more than doubling of corn price.

All of that aside, the price of corn is what it is. But the recent run up in price has not carried equally into the cash markets. Farmers are increasingly experiencing a widening basis. For example, on Thursday, April 17th, my local corn price was 25 cents under the Board of Trade for nearby contracts, but on December 08 contracts, that basis spread to approximately 50 cents. That's 25 cents under at a unit train loader, not a country elevator. The recent run on corn prices has many far reaching impacts beyond my current marketing plan.

We frequently hear stories of elevators facing serious financial problems and have even heard of a few elevators failing. Other elevators are straining their credit limits; are offsetting their hedge positions, frequently at a loss; or as I mentioned earlier, are spreading the basis. The most troubling development is the restrictions on grain contracts. Each of the large grain companies have instituted limits on taking new grain contracts from farmers. Which of the big players is taking new contracts more than 12 months out? So, as a farmer, how am I supposed to manage price risk, if my elevator will not contract grain? I am not discussing locking in 2010 or 2011 prices, but currently many elevators will not take contracts on any new crop corn, and many others will not take sales beyond May 2009. That is the crop I'm planting right now. As a side note, fertilizer dealers are asking farmers to lock in prices for this fall, yet I cannot contract the grain that fertilizer will produce in 2010. There is one tool still available, which I'll get to below.

NCGA is not blaming the elevator industry for this recent phenomenon. The elevators are a business like any other. They have to recoup losses and manage price risk. So, they spread basis to cover losses and build in additional risk principles; they initiate fees on Hedge to Arrive contracts (HTA) or book the basis contracts; or they just forego future risk by not offering forward contracts.

Given the grain companies' unwillingness to offer contracts beyond 12 months, the only price risk management options remaining for most growers are the futures and options markets. While these have always been valuable tools for growers, they have not been widely used. By one estimate, probably less than 10 percent of farmers are directly using the futures markets for risk management. Perhaps the recent developments in the cash market will drive more growers to use these tools. However, farmers will now have to carry the margin risks, or Options premiums, that were previously carried by the grain elevators.

I would like to commend the CME Group, the Minneapolis Grain Exchange, Kansas City Board of Trade, and the Commodity Markets Council for hosting a two-day meeting on market convergence in early April. This Task Force provided NCGA an opportunity to address convergence issues. During our scheduled time, NCGA presented the following points for consideration to address only convergence.

Simply to fix convergence in the market, we must fix delivery. For this problem, there are no easy solutions. Here are a few recommendations we put forward to the CME Group.

1) Provide a mechanism for farmers or small elevators that have taken a short position to actually deliver against that futures contract. Currently, farmers cannot make delivery against these positions. Farmers can only sell futures and deliver against shipping certificates, provided the owner of that certificate plans to make delivery and go to load out. If the delivery stations realized that a farmer or an elevator could call a clearinghouse and set up delivery, it would cause the commercials to drive the futures down at contract expiration to the cash price. I understand this is no easy feat, and could be disruptive to an orderly close out of contracts, but the possibility of a significant number of farmers making delivery would certainly cause the commercials to re-establish convergence, lest they suddenly find themselves in possession of overpriced grain. A possible hybrid would be to restrict farmer delivery to only a few points with a 1 or 2 day delivery option.

2) Implementing a Forced Load Out plan, whereby some set portion of contracts has to go to delivery would also restore convergence. However, it remains unclear on how these load outs would be distributed. Likewise, it would seem this would drive the non-commercials out of the market prior to contract expiration, severely impacting liquidity.

3) Increase the number of shipping stations. By our count, there are currently 28 shipping stations approved as "regular" for corn delivery through June 30, 2008. These stations can be further reduced to 9 firms. Of these 9 firms, I would contend that only 2

are truly sellers. In other words, they can write a shipping certificate, but since they cannot use the grain internally (processing or through their own export facilities) they must sell the grain, and therefore, may be more inclined to make delivery against a diverged market. I believe balancing or at least increasing the number of sellers that can write shipping certificates may help to re-establish convergence. There are a number of large ethanol plants operating or being built in proximity to the Illinois River. Some of these will have docks that can load out if necessary. A similar approach would be to look at adding shipping stations that are not located on the Illinois River, but are in the same homogenous market. Specifically, there are a number of unit train rail loaders which are all within 50 to 100 miles of the Illinois River which could deliver a train destined for New Orleans which is similar to a loaded barge on the river.

4) Lower Regularity. If the Working Capital rate was lowered from $2 million to $500,000, and the volume down reduced from 55,000 bushels, some larger country elevators with existing agreements with docks or maybe railroads connections might be encouraged to write shipping certificates. As mentioned above, additional players able to write shipping certificates would help in delivery.

5) Storage Rates. NCGA is not opposed to periodic adjustments in storage rates. These rates should be a closer reflection of actual storage costs.

6) Basis Contracts. Recently, NCGA received a brief from Dr. Eugene Kunda at the University of Illinois regarding a proposed basis contract. While it appears to be beneficial in managing basis risk, it really has limited impact on convergence. Although we have only given this proposal a cursory look, this new contract's real value would only be realized if the exchanges did not re-establish convergence.

Although directly impacted by the lack of convergence, we are troubled that this development may only be a symptom of a larger problem. Specifically, we are concerned that there may be a "commodity bubble" developing. If this is in fact the situation, several steps should be considered to temper unsupported futures market inflation. Among these are:

Speculative Limits
Although NCGA has not taken a formal position on the proposed increase in Speculative Limits, we believe the proposed increases would be ill-advised and would only increase the disparity between cash and futures markets.

Daily Trading Limits
NCGA formal policy states "NCGA will oppose an increase in daily trade limits on all commodity exchanges" (Policy IV-C, 14). It is our position that the proposed increase in daily limits will not aid price discovery as proposed. Instead, this change only increased market volatility. Current CBOT rules a 3 day bear run could only take the corn price down $1.05, or roughly 17.5% of the current value (assuming $6.00 corn).

Hedgers vs. Speculators
NCGA recognizes the valuable role all parties play in providing liquidity in a market. Many of our growers have witnessed first hand non-liquid markets. I, personally, have been to a trading session of the Bolsa in Buenos Aires. While it attempts to have the same look and feel of the Board of Trade, this market lacks liquidity, and hence, really doesn't provide price discovery.

It is NCGA's opinion that the large funds are having an overwhelming influence on the futures markets and are "non-commercial" traders. Frequently, we see dramatic shifts in the futures market that have no substantiated fundamental drivers. While we do not want to drive the index and hedge funds from the market, they should be treated for what they are, "speculators". I realize this flies in the face of some CFTC decisions, but I believe to truly be classified as a hedger, an entity must have a cash commodity position. NCGA realizes that the large Index Funds are selling a commodity index and then going long in each of their market basket commodities which could be construed as a hedge. But, they are selling a market basket of futures prices, not a market basket of physical commodities.

NCGA proposes that the Index Funds no longer be afforded the same margin requirements as traditional commercial hedgers. Specifically, to be classified as a hedger the entity must have a cash position. We are not suggesting that they have an equal or proportional cash position, but somewhere within that company they must be buying or selling cash grain to retain the "hedger" classification.

We believe this will have a very limited impact on market liquidity. The large funds are still welcome to take there net long positions in each commodity market, but they will have higher margin requirements just the same as any other "speculators".

We have seen a run up in most commodity prices, most with the most dramatic rise beginning around September 2007. There is no doubt that this recent run up coincides with the downturn in the stock market. Commodities have always offered sensible investment during periods of inflation or economic uncertainty. We are concerned, though, that the volume of money and the market influence of non-traditional players may be developing a "Commodity Bubble".

If in fact a "Commodity Bubble" is developing and ultimately pops, the entire grain sector would be devastated. Similar to the increase in grain prices, other input costs have risen dramatically, particularly for seed, fertilizer, fuel, and land rents. Farmers are now carrying significantly higher financial risk to plant their crops. Where I would normally hedge my crops through an elevator that carries the risk, I find that I now have to carry the margin risks because elevators will no longer contract grain. A rapid deflation in grain prices would result in tremendous financial losses to farmers, especially given our recent inability for growers to contract grain at the current prices. If a disconnect exists between futures prices and cash (fundamentals) as I alluded to earlier, the impact of the bubble bursting would be all the more dire. For this reason, it is imperative that the CFTC review recent decisions concerning the market power some of the major players

wield and to consider the potential impact of pending decisions from the perspective of inflating a commodity bubble.

On behalf of NCGA, I would like to thank the CFTC for holding this important and timely forum on the impacts of the futures market on the grain trade.