



Commodity Futures Trading Commission

Office of External Affairs

Three Lafayette Centre

1155 21st Street, NW

Washington, DC 20581

202.418.5080

Statement

Opening Statement Acting Chairman Walt Lukken, Agricultural Markets Roundtable, Commodity Futures Trading Commission Headquarters

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On behalf of my colleagues, I want to welcome the roundtable participants and members of the public to today's discussion on the state of the agricultural futures markets. Specifically, I want to thank Under Secretary Mark Keenum from the U.S. Department of Agriculture and Board Member Lee Strom from the Farm Credit Administration for their participation in today's proceedings.

We gather during extraordinary times for our agricultural markets. Commodity prices across the board are at levels not experienced in many of our lifetimes. In the last three months, the agricultural staples of wheat, corn, soybeans, rice and oats have hit all-time highs. During the last year, the price of rice has increased by 118%, wheat by 95%, soybeans by 88%, corn by 66%, and cotton and oats by 47%. These price levels, combined with record energy costs, have put a strain on consumers as well as many producers and commercial participants that utilize the futures markets to manage risk and discover prices. Protecting the integrity of these markets, as well as the public that relies on the accuracy of their prices, lies at the heart of the CFTC's core mission and today we will endeavor to identify the possible causes of these conditions.

This agency has brought together a broad cross-section of the agricultural markets in an effort to learn from each other's experience and help to form a collective understanding of what is occurring. During such turbulent times, it is tempting to shoot first and ask questions later. But it is exactly at such moments that government must endeavor to be informed and proportional in its response. It is critical that we understand the problem fully so we can get it right and ensure that the cure is not worse than the disease. To do that, we must ask probing questions regarding the causes of these unprecedented market conditions.

It is imperative that the affected industry serve not only to help us identify problems in the markets, but also partner with us in finding consensus solutions should it be determined the markets are not functioning properly. I note that the CFTC's Agricultural Advisory Committee, which serves under Commissioner Dunn's leadership, is in

attendance today and may provide a vehicle for addressing issues that come to light today. Thank you for your service to the Commission.

On today's agenda, the roundtable will first hear an overview from the CFTC and USDA staff on the fundamentals and composition of some of the key agricultural markets. Do supply and demand factors justify current prices and if not, what other factors may be in play? Do contract terms and conditions need to be revisited by exchanges? What is the impact of financial players, such as speculators and index traders, on the functioning of the markets and the commercial players? It is in the interest of everyone around this table that these markets have vibrant commercial participation and I am hopeful these presentations will result in an informative and lively debate.

Second, the roundtable will hear about the work of the University of Illinois, as well as supplemental analysis by the CFTC's Chief Economist, on the lack of convergence between the futures and cash prices of commodities at certain times. Is this phenomenon increasingly occurring and what are the most likely causes of such conditions? This issue is fundamental to determining whether proper hedging can occur in these markets.

Lastly, the Kansas City Federal Reserve Bank and the Farm Credit Administration will present an overview of the credit markets in rural America and whether high commodity prices and resulting increases in margin levels are causing problems for producers and agri-businesses during this credit crunch. We will discuss the central role that margin or performance bond has played for exchanges and how higher margin levels are impacting market participants.

The Commission is considering two proposals to raise the speculative limits for certain agricultural commodities and to create a regulatory exemption from speculative limits for certain risk management purposes. While we have requested and received public comment on these proposals, given current market conditions and the uncertainty surrounding additional speculative money on these markets, I will be very cautious about moving forward with such initiatives at this time. I believe that before acting, this agency must be certain that additional speculative pressures will not exacerbate the anomalies we are experiencing in these markets. I look forward to any views that the roundtable may have on these proposals. Therefore, I would like to announce that the transcript from today's discussion, as well as any submitted written statements and subsequent public comments, will be added to the public comment file for each of these proposals.

We have a big agenda before us and we will do everything we can to try to hear the many concerns surrounding these matters. In maximizing the public's access to this proceeding, given our time and space limitations, for the first time we are providing individuals access to this roundtable over the Internet and through toll free phone lines via our website, www.cftc.gov. In addition, last week we created an email address to collect questions from the public that we plan to pose to the roundtable today. We also welcome written comments from the public for two weeks after this roundtable's conclusion; the period for submitting such comments will remain open through May 7th. Public input is essential to ensuring that this agency is properly informed about these matters.

After my colleagues on the dais have provided remarks, I will ask each of the roundtable participants to introduce themselves and their organization before turning it over to our first presenters. Don't worry—there will be plenty of time later to give more detailed views but for the sake of introductions, we want to try to keep things brief. All formal written statements of participants will be made a part of this hearing's record.

With that, I will now turn to Commissioner Dunn for his remarks.