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(134)

COMMENT

Webb, Jean A.

From: secretary
Sent: Monday, July 31, 2000 8:18 AM
To: Webb, Jean A.; Colbert, Edward W.
Subject: FW: IWDS Premium Charge

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-----Original Message-----
From: Andrew N. Johansen [mailto:ajohansen@alltel.net]
Sent: Saturday, July 29, 2000 10:35 AM
To: secretary@cftc.gov
Subject: IWDS Premium Charge

During the delivery months of March, May, and July, cash corn values and futures have not achieved convergence. The lack of convergence is proof that the CBOT Premium Charges are not sufficient in a large supply market. The CBOT must increase the carrying charges on the IWDS, so we can continue to utilize hedging on the CBOT as part of our risk management program.

Andrew Johansen

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Webb, Jean A.

From: secretary
Sent: Monday, July 31, 2000 8:19 AM
To: Webb, Jean A.; Colbert, Edward W.
Subject: FW: CBOT Roundtable discussion

CBOT.doc

-----Original Message-----
From: Andrew N. Johansen [mailto:ajohansen@alltel.net]
Sent: Saturday, July 29, 2000 10:59 AM
To: secretary@cftc.gov
Subject: CBOT Roundtable discussion

July 26, 2000

Dear Secretary,

Here are my responses to the questions poised during the roundtable discussion held on May 24, 2000.

1). How might increasing storage rates to former levels affect the balance between long and short position holders?

During the delivery months of March, May, and July, cash corn values and futures have not achieved convergence. The lack of convergence is proof that the CBOT Premium Charges are not sufficient in a large supply market. The CBOT must increase the carrying charges on the IWDS, so we can continue to utilize hedging on the CBOT as part of our risk management program. The balance will shift to a level playing field. The long hedger has the advantage in today's market. The long hedger is buying the grain at dirt cheap basis levels in a carry market.

2). Would you prefer a single storage rate or seasonal storage rates?
a). 15/100 cents/bushel/day at all shipping station locations at all times
or
b). 18/100 cents/bushel/day from November 1 to April 30 and 12/100 cents/bushel/day from may 1 to October 31

None of the above alternatives are acceptable.

There are many flaws in the belief that a seasonal rate would fix the current problems on the IWDS. A seasonal rate implies that space has more value during the fall and winter than during the spring and summer months. This is obviously not true. If this were true, we would have had convergence during the delivery months of March, May, and July. The CBOT needs to raise the CBOT Premium Charges to give the futures market the ability to determine the value of space over any given time period.

The 0.15 cent/day rate is not large enough to adequately reflect the true carry in the market. The carry in one of our cash markets is currently 5.25 cents/month. It is obvious to me that a Premium Charge of 4.5 cents/month is not large enough to reflect the demand for space in today's supply heavy market. The government paid producers and grain elevators 4.8 cents/month when the government was subsidizing storage. The storage rate must be higher today to allow the free market economy determine the value of storage.

3). Considering open interest exists in the December 2002 corn contract and all amendments would require approval by the Board of Directors and the CFTC, when is the earliest any change should become effective?

The CBOT Premium Charge should start with the July 2001 contract. Carryout is expected to increase for the 2000 corn and soybean crops. This will make it even more difficult to achieve convergence for the next year. Hedging effectiveness will continue to diminish until the futures market can truly reflect the value of space. When there is a problem it must be fixed, not ignored. There is a problem with the current IWDS. There are many regulatory hurdles that must be jumped to change the listed contracts. These hurdles must be cleared. If the CBOT Premium Charge is raised, hedging effectiveness will increase and volume will increase. This is a win-win situation for the CBOT and people that utilize the CBOT as a risk management tool in their day-to-day business operations. The literature that the CBOT released describing the new IWDS states: Delivery systems in the futures markets exist to ensure convergence of cash and futures prices during the delivery month. We have not seen this in the last seven months. It is safe to say in the times of excess supplies, spreads will not be able to reflect the needed carry in the market. Let's make the changes now.

Successfully yours,

Andrew N. Johansen
Marketing Advisor, Southeast Nebraska Cooperative Co.

July 26, 2000

Dear Mr. Lehman,

Here are my responses to the questions poised during the roundtable discussion held on May 24, 2000.

Question 1:

During the delivery months of March, May, and July, cash corn values and futures have not achieved convergence. The lack of convergence is proof that the CBOT Premium Charges are not sufficient in a large supply market. The CBOT must increase the carrying charges on the IWDS, so we can continue to utilize hedging on the CBOT as part of our risk management program.

Question 2:

None of the above alternatives are acceptable.

There are many flaws in the belief that a seasonal rate would fix the current problems on the IWDS. A seasonal rate implies that space has more value during the fall and winter than during the spring and summer months. This is obviously not true. If this were true, we would have had convergence during the delivery months of March, May, and July. The CBOT needs to raise the CBOT Premium Charges to give the futures market the ability to determine the value of space over any given time period.

The 0.15 cent/day rate is not large enough to adequately reflect the true carry in the market. The carry in one of our cash markets is currently 5.25 cents/month. It is obvious to me that a Premium Charge of 4.5 cents/month is not large enough to reflect the demand for space in today's supply heavy market. The government paid producers and grain elevators 4.8 cents/month when the government was subsidizing storage. The storage rate must be higher today to allow the free market economy determine the value of storage.

Question 3:

The CBOT Premium Charge should start with the July 2001 contract. Carryout is expected to increase for the 2000 corn and soybean crops. This will make it even more difficult to achieve convergence for the next year. Hedging effectiveness will continue to diminish until the futures market can truly reflect the value of space. When there is a problem it must be fixed, not ignored. There is a problem with the current IWDS. There are many regulatory hurdles that must be jumped to change the listed contracts. These hurdles must be cleared. If the CBOT Premium Charge is raised, hedging effectiveness will increase and volume will increase. This is a win-win situation for the CBOT and people that utilize the CBOT as a risk management tool in their day-to-day business operations. The literature that the CBOT released describing the new IWDS states: Delivery systems in the futures markets exist to ensure convergence of cash and futures prices during the delivery month. We have not seen this in the last seven months. It is safe to say in the times of excess supplies, spreads will not be able to reflect the needed carry in the market. Let's make the changes now.

Successfully yours,

Andrew N. Johansen
Marketing Advisor, Southeast Nebraska Cooperative Co.