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NORTH AMERICAN MILLERS' ASSOCIATION

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1998 SEP 17 A 10 11

September 14, 1998

OFFICE OF THE SECRETARIAT

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Commodity Futures Trading Commission
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COMMENT

COMMODITY FUTURES
TRADING COMMISSION
RECEIVED FOR
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RE: Federal Register: August 20, 1998; Volume 63, Number 161
Chicago Board of Trade: Proposed Amendments to the Wheat Futures
Contract Regarding Vomitoxin in Deliverable Wheat

Dear Ms. Webb:

This letter is in response to the Chicago Board of Trade (CBT) proposal to amend its wheat futures contract to permit receivers of wheat futures deliveries to require that wheat loaded out from delivery warehouses have a vomitoxin (deoxynevalenol, or DON) content of no more than 5.0 parts per million (ppm). We strongly oppose this proposal and recommend the CBT wheat contract be amended to include a DON limit of 2.0 ppm.

The North American Millers' Association (NAMA) is the trade association representing the dry milling of wheat, corn and rye, as well as the manufacturing of blended grain products for government purchase. NAMA's 45 member companies operate 173 wheat and corn mills in 34 states. Their aggregate production capacity is more than 150 million pounds of product daily, which is about 90% of the total U.S. capacity.

NAMA's wheat milling members buy and process more than 900 million bushels of wheat each year, making U.S. millers the single largest buyer of U.S. wheat in the world. With that wheat they produce more than 130 million pounds of flour each day. Obviously this industry has developed some expertise on how to accomplish that feat in ways that ensure the quality and wholesomeness of the finished products.

Through that extensive experience we know that to produce flour that meets the Food and Drug Administration's (FDA) DON advisory level of 1.0 ppm, the raw wheat being milled should contain no more than 2.0 ppm DON. If the end product contains a high percentage of bran, the raw wheat must be much less than 2.0 ppm.

Since there has been no DON specification in the CBT wheat contract, the marketplace has reacted, as it always does with great efficiency, by implementing one for the cash market. As evidence we include copies of market data from *Milling & Baking News*, a weekly trade publication. Since July of 1995, the magazine has included in its weekly reporting of cash wheat prices the industry requirement for wheat containing less than 2.0 ppm DON.

Jean A. Webb
Commodity Futures Trading Commission
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If the futures market does not parallel the cash market in important quality/delivery terms such as DON levels, the result will be the loss of the underlying price discovery mechanism. Ultimately, there will be increased volatility in the basis, inverse markets and irregular supply and demand patterns. Traditional hedgers will be forced to seek alternative means of hedging to ensure supply, quality and delivery of wheat purchases to meet flour sales contracts.

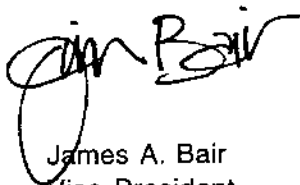
It must be noted that the CBT appointed a task force of its own membership to review these issues, and that task force recommended the CBT adopt a DON level of 3.0 ppm in the contract. Amazingly, the CBT has ignored the counsel of its own task force in advancing this proposal.

The proposal offers as supporting evidence of its correctness the fact that USDA accepts wheat with up to 5.0 ppm DON in wheat forfeited for nonrecourse loans. This is ironic given that when USDA's Farm Service Agency (FSA) purchases flour and other wheat-based foods for government programs like school lunches, overseas famine relief and prison meals, FSA's contract requires that USDA's Federal Grain Inspection Service inspectors test those foods for the presence of DON, and, when those inspectors find DON in excess of 1.0 ppm, the lot is rejected at the manufacturer's expense. Apparently not all agencies of USDA share the same clear understanding of the importance of FDA's guidance on this topic. Defense Department procurement contracts also stipulate a 1.0 ppm maximum for military foods.

The U.S. milling industry takes very seriously the job of manufacturing grain-based foods that are safe and wholesome. We do so because the government requires it, of course, but more importantly because consumers expect it. Amending the wheat futures contract to allow 5.0 ppm vomitoxin would hurt, not help, our ability to do that.

The North American Millers' Association appreciates this opportunity to offer these comments.

Sincerely,



James A. Bair
Vice President

INGREDIENT WEEK

74% done in North Dakota, 96% in South Dakota, 91% in Minnesota, 74% in Montana and 53% in Idaho. Scattered rain showers interrupted combining in North Dakota at times last week, but weather was expected to clear over the weekend, providing growers excellent conditions for winding up the harvest.

SOFT RED. Mill bids on soft red winter wheat were steady to 5c a bu higher last week. Individual mills reported increased farm selling, but movement was far from a rush. Gulf bids also were mostly unchanged, with sales abroad still in a slump.

In **Kansas City**, No. 1 soft red for nearby declined 2c, at 40@20c under Kansas City September. **Gulf** bids for nearby advanced 1c. In **St. Louis**, the best nearby mill bid was up 5c, at Chicago September price for wheat guaranteed No. 2 with less than 2 p.p.m. vomitoxin.

Chicago mill bids were 7c under September on new crop wheat with less than 2 p.p.m. vomitoxin. Mill bids in **Toledo** for nearby were 25c under September. Elevator bids were 25c under September. In **Cincinnati**, the mill basis was 30c under September. Elevator bids for nearby were 30c under September. **Michigan** white wheat bids were September price.

In **Portland**, bids on No. 1 soft white for nearby dropped 7c, at \$2.63.

DURUM. Prices of choice milling hard amber durum were 10@20c a bu lower last week. Weakness resulted from an increase in offers near the week's end. The September durum future lost 3 1/2c, at \$3.94.

The durum harvest in North Dakota was 39% completed as of Aug. 23, compared with 24% the previous week and the recent five-year average for the date of 13%. Combining was proceeding about two weeks ahead of the normal pace. At the week's end, it was estimated that harvesting was 50% done.

Recent rain raised concerns about crop quality.

Pasta makers didn't press for material, so durum millers were not chasing offers. It was uncertain how much new crop durum growers will sell and how much they will store.

Statistics Canada last week estimated the Canadian durum crop at a record high 212,400,000 bus. up 33% from 1997. □

WHEAT FLOUR COMPLEX Millfeed

Moderate to sharp declines carried some markets close to historical lows, while others were the lowest in one or two decades. The widest losses on spot were at Buffalo and nearby and in the Pacific Northwest. Midwest prices ended unchanged to a shade down. Deferred quotes scored much smaller losses than the nearby, except in the Pacific Northwest.

Wheat germ ended unchanged. Heavy flour mill grind again was a bearish factor. Grind virtually coast to coast was six to 6 1/2 days.

Buyers were briefly active in the Kansas City market at midweek, but interest generally again proved to be disappointing. Even where formula business showed improvement, feed manufacturers showed marked reluctance.

Mills frequently were pressed to move spot material.

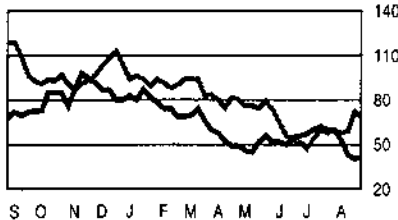
Individual markets showed marked weakness on the nearby. Pressure was particularly notable at Buffalo, reflecting both Canadian competition and a disappointing response from many outlets in the mid-Atlantic and Southeast. In the Pacific Northwest, some regional markets broke, reflecting burdensome offers.

Deferred millfeed business largely was at a standstill. A persistent downward trend in corn and other ingredients made for caution.

Feed manufacturers pointed to some limited improvement in their business. Pipelines in some areas gradually emptied, suggesting an appreciable pickup was near at hand. Demand for dairy rations was particularly brisk because of the underlying strong milk market. On the other hand, late summer cattle creep lines largely failed to materialize, reflecting disappointing returns in this sector.

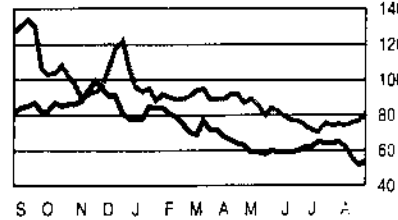
Persistent declines in major ingredients made for general bearishness, even with near record lows for millfeed. Corn futures broke \$2 a bu for the first time in 10 years and then continued to move lower. Other competitive ingredients, including corn gluten feed, also broke significantly. Bulk middlings at \$42 a ton in Kansas City and \$39 a ton in Minneapolis compared favorably with yellow corn at \$63 and sorghum at \$58, both at Kansas City. Corn gluten feed eased to \$48, f.o.b. plant. Sunflowerseed meal of 28% protein was nominally at \$90, Minnesota points. Dehydrated alfalfa finished at \$106, Kansas City. □

Bulk Middlings
30-day shipment, Kansas City, \$ per ton



Week's change (\$ per ton) +2

Bulk Middlings
30-day shipment, Chicago West, \$ per ton



Week's change (\$ per ton) +2

Bulk Middlings
Aug. 28 close, \$ per ton, for following shipping periods

	September	October	Oct-Dec	Jan-Mar
Kansas City	42 @ 44	47 @ 49	55 @ 57	55 @ 58
Chicago West	54 @ 59	59 @ 67	62 @ 69	61 @ 68
Buffalo	24 @ 29	28 @ 32	38 @ 45	36 @ 43
South. California	67 @ 73	70 @ 76	75 @ 80	75 @ 84
North. California	67 @ 73	70 @ 76	75 @ 80	75 @ 84
Pacific Northwest	48 @ 52	...	55 @ 63	55 @ 63

California and Pacific Northwest prices, delivered rail

Nationally Advertised Family Flour

Dollars	Aug. 28	Year ago
8-5s	10.53	10.53 @ 11.73

Semolina
f.o.b. Minneapolis, \$ per cwt

	Aug. 28	Week's change	Year ago
	11.35 @ 11.45	-.50	18.20 @ 18.30

WHEAT FLOUR COMPLEX Semolina

Bookings of semolina, granulars and durum flour again were light last week. Prices were lower.

Most pasta manufacturers held back to see what pressure might be brought to bear on prices as the 1998 durum harvest passed the half way point. Much depends on what the farmer decides to do with his durum. If he opts to sell new crop in volume, pricing could become more attractive in coming weeks. But if the grower stores much of his crop in the hope of higher prices later, semolina prices could remain flat or even find some support.

Some buyers with depleting backlogs stepped in to extend contract balances by 30 days or so. Otherwise, the market was mostly quiet. □

WHEAT FLOUR COMPLEX Family Flour

Sales of national and regional brands of family flour expanded last

INGREDIENT WEEK

Through July 6, harvesting in Illinois was 36% done (compared with 1992-96 average of 55%); Missouri, 54% (55% average); Indiana, 15% (33%); Ohio, zero per cent (10%).

In **Kansas City**, No. 1 soft red was 23c a bu under to 15c over Kansas City September, up 7@15c a bu. **Gulf** bids for July advanced 7c in active trading. Bids were boosted by speculation that Egypt would tender on 450,000 tonnes of wheat per month for August, September and October shipment. In **St. Louis**, mill bids declined 8c, at 5c under Chicago September for soft red guaranteed to grade at least No. 2 with vomitoxin content less than 2 parts per million. With the soft red harvest winding down in the St. Louis area, mills backed away, having fully covered their nearby needs.

Mill bids in **Chicago** for nearby were 5c over September for July and August for wheat with 2 p.p.m. vomitoxin or less. **Toledo** mill bids for spot were 5c over September: -8c, for July 15-Aug. 31. Elevator bids for nearby through July were 10c under. Harvest tributary to Toledo was set to begin. In **Cincinnati**, mill bids were 20c under September for nearby through July and 30c under September for August. Elevator bids were 17c under September. In **Michigan**, white wheat bids for July spanned a wide range, between September price and 20c over, the latter for vomitoxin free. **Portland** bids on No. 1 soft white for nearby fell 2c, at \$3.76.

DURUM. Prices were steady to 10c a bu higher last week. Trading was very limited, but bids advanced in reaction

to the continued poor condition of the 1997 durum crop in North Dakota. The crop there was rated 39% poor or very poor as of July 6, unchanged from the week before. The crop was 25% headed, progress that was in line with recent averages.

Prices tumbled at the end of the week after the U.S. Department of Agriculture issued a depressed forecast for 1997 durum production. While noting that conditions of recently headed wheat were not likely to improve much, one miller who had toured western North Dakota said that the later-maturing durum seemed to be responding well to recent rainfall. □



Millfeed

Price changes in millfeed were erratic last week. Southwest values surged after several weeks of losses. Strength there was mirrored in local markets in the Southeast and Central states. Buffalo was fairly flat. In contrast, prices in the Upper Midwest were slightly lower, though ideas were that they might begin to follow the uptrend established farther south. On the West coast, California prices were firm. The Pacific Northwest fell.

Deferred pricing generally followed the 30-day markets. In the Pacific Northwest, though, deferred prices were erratic, with wide shifts from day to day, indicating a lack of trading and general uncertainty of values beyond the summer months.

Wheat germ prices eased \$5 a ton. Ideas were that business in wheat germ would remain sluggish during the rest

of July and at least the first half of August and pick up in September.

Advances in corn and soybean prices provided an upward pull on millfeed prices. Corn prices seemed to have found a floor after a protracted period of weakening, according to one merchandiser. This eased pressure on midds, whose price had declined to the point that millfeed successfully had worked into Southwestern feedlots. Additionally, mixers, alarmed at the uptick in prices, actively sought to replenish inventories they had allowed to dwindle during the extended downslide. Depth of demand was not thought to be too deep, however, as area pastures remained lush and green.

Millfeed in the Upper Midwest was a shade weaker. Relatively high prices there had allowed material to be drawn into markets usually served by Minnesota mills from the Southwest and even the Southeast. With prices now advancing in the latter markets, it was thought that Northwest prices could strengthen. Demand in the Upper Midwest remained good, with creep feeding slowly expanding.

Indications were that Canadian material was working into the Pacific Northwest, weighing on prices there.

Despite significant advances in key markets, millfeed remained competitively priced. Bulk middlings at \$53 a ton in Kansas City and \$57 at Minneapolis compared with yellow corn at \$85 and sorghum at \$78, both at Kansas City. Corn gluten feed ended at \$70 f.o.b. plant. Sunflowerseed meal of 28% protein was at \$80 Minnesota points, and wet brewer's grain finished at \$135, St. Louis. Dehydrated alfalfa ended at \$132, Kansas City. □



Semolina

Prices were sharply higher last week in semolina, granulars and durum flour. Bookings expanded slightly.

Strength in semolina prices reflected continued deterioration in the condition of the 1997 durum crop. Through July 6, the North Dakota crop was rated an abysmal 39% poor or very poor. While the condition of the 1997 crop was worrisome, pasta makers were still reluctant to extend contract balances much while wheat futures were weakening. A few buyers, facing dwindling contract balances, added two weeks' or 30 days' coverage. Durum mill grind was heavy, averaging six-plus days. □

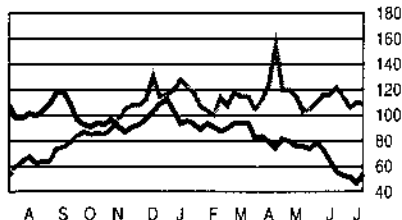


Family Flour

Sales of national and regional brands of family flour were light last week. Early data indicated a 4.3%

Bulk Middlings

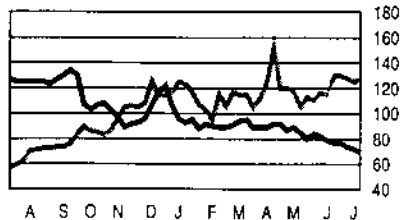
30-day shipment, Kansas City, \$ per ton



Week's change (\$ per ton) +7

Bulk Middlings

30-day shipment, Chicago West, \$ per ton



Week's change (\$ per ton) -2

Bulk Middlings

July 11 close, \$ per ton, for following shipping periods

	Jul	Aug-Sep	Oct-Dec	Jan-Mar
Kansas City	54 @ 57	57 @ 60	70 @ 72	70 @ 72
Chicago West	70 @ 76	72 @ 79	75 @ 81	75 @ 81
Buffalo	40 @ 45	42 @ 47	50 @ 55	48 @ 52
South, California	92 @ 100	92 @ 100	92 @ 100	94 @ 104
North, California	92 @ 100	92 @ 100	92 @ 100	94 @ 104
Pacific Northwest	72 @ 80	78 @ 82	80 @ 87	80 @ 87

California and Pacific Northwest prices, delivered rail

Nationally Advertised Family Flour

Dollars	July 11	Year ago
8-5s	10.53 @ 11.73	15.66

Semolina

f.o.b. Minneapolis, \$ per cwt	Week's change	Year ago
July 11	15.80 @ 15.90	+1.05 15.95 @ 16.05

mills held their bids steady. Exporter bids also were flat, as soft red sales abroad during the week were lacking.

Farmer selling of soft red wheat in the Central states was nearly lacking, as had been expected for New Year's week. But growers have been reluctant sellers for the past several weeks. They have been disappointed with declining flat prices for their wheat and reluctant to liquidate more of the stocks remaining in their hands before new crop prospects are more certain.

In **Kansas City**, No. 1 soft red held unchanged, at 42¢/2c under Kansas City March. Gulf bids for nearby were unchanged. In **St. Louis**, mill bids were unchanged, at 12c over Chicago March for soft red guaranteed to grade at least No. 2 with vomitoxin content less than 2 parts per million.

Chicago mill bids were posted at 15c over March for January for wheat with 2 p.p.m. vomitoxin or less. The **Toledo** mill basis for spot was steady, at 10c under March; January bids, 6c under; February, 3c under; March, March price. Elevator bids in Toledo were 12c under March for January; February, 7c under; new crop, 8c under July. **Cincinnati** mill bids were steady, at March price for nearby. Elevator bids were 10c under for nearby; last-half January, March price; new crop, 15c under July. In **Michigan**, white wheat bids for nearby were 15c over March, with offers lacking.

In **Portland**, bids on No. 1 soft white for nearby dropped 7c, at \$3.62

DURUM. Choice milling hard amber durum was unquoted last week as of-

fers on the spot market dried up.

Durum growers remained confident that with the heavy pace of exports and a prospective 1997-98 carryover of only 25 million bus, prices would advance in the months before the Arizona harvest becomes available in May. One merchandiser said that durum growers already had liquidated a large portion of their small 1997 crop and seemed prepared to "gamble" with the rest of it.

Durum mill running times averaged about four days. □

WHEAT FLOUR COMPLEX

Millfeed

Prices in primary markets were unchanged to firmer in lackluster trading. January shipment in Kansas City and Buffalo climbed \$3 a ton, while the Pacific Northwest advanced \$2. California markets were up \$1, and Upper Midwest markets were steady. Central and Southeast spot truck markets advanced.

Wheat germ was steady.

Flour mill grind remained depressed during the New Year's holiday week.

Trading remained nearly non-existent, with activity limited to a small amount of midds for February-March at Kansas City and a handful of spot truck trades in the Central states. Overall, inquiry was largely lacking. "Only a few people are even sticking their heads up, and then only to check out the market for next week," one merchandiser said.

The sharp holiday cutback in flour mill grind left supplies of midds tight in most markets, which tended to sup-

port prices. The supply situation further encouraged buyers to stay on the sidelines until the expected post-holiday expansion in mill operations boosts availability. Weakness in corn prices and relatively mild weather in most parts of the country also tempered demand.

Bulk middlings at \$83 a ton in Kansas City and \$69 at Minneapolis compared with yellow corn at \$91 and sorghum at \$83, both at Kansas City. Corn gluten feed ended at \$70, f.o.b. plant. Sunflowerseed meal of 28% protein was at \$105, Minnesota points, and wet brewer's grain finished at \$110, St. Louis. Dehydrated alfalfa ended at \$138, Kansas City. □

WHEAT FLOUR COMPLEX

Semolina

Bookings of semolina, granulars and durum flour were light last week. Prices were steady.

Most buyers and sellers were out of their offices during the holiday-shortened week. In many instances, pasta plants were closed for the week, which suppressed both additional buying interest and shipments against contracts.

An expansion in contracting was expected with the beginning of the new year. Several pasta makers were working off contract balances extending only through January.

Pricing provided little incentive, however. In the absence of farmer selling, spot prices of durum have held firm in recent weeks.

Durum mills operated about four to five days. □

WHEAT FLOUR COMPLEX

Family Flour

Sales of national and regional brands of family flour were light last week, though more impressive than those during Christmas week. Prices were unchanged, but there were indications adjustments were being contemplated by some manufacturers.

One regional manufacturer observed that promotions leading up to and during the winter holidays had been much less aggressive than in most previous years.

Volume typically will begin to decline seasonally after New Year's until an uptick in activity occurs in the weeks preceding Easter. □

Bakery Shortening

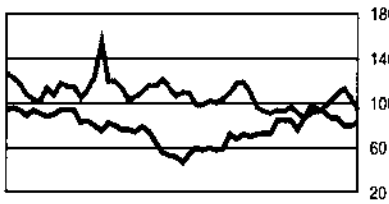
Bookings of bakery shortening were very light last week. Most price changes were narrow.

Nearly all buyers were out of their offices for the week because of the New Year's holiday. And most food plants generally were either closed for the



Bulk Middlings

30-day shipment, Kansas City, \$ per ton



Week's change (\$ per ton) +3

Bulk Middlings

30-day shipment, Chicago West, \$ per ton



Week's change (\$ per ton) 0

Bulk Middlings

Jan. 2 close, \$ per ton, for following shipping periods

	January	Feb-Mar	Apr-Jun	Jul-Sep
Kansas City	83 @ 85	72 @ 77	64 @ 68	64 @ 68
Chicago West	78 @ 87	76 @ 83	73 @ 77	73 @ 77
Buffalo	73 @ 80	66 @ 71	57 @ 64	50 @ 57
South. California	115 @ 120	109 @ 114	100 @ 110	100 @ 110
North. California	115 @ 120	109 @ 114	100 @ 110	100 @ 110
Pacific Northwest	98 @ 105	95 @ 102	86 @ 92	86 @ 92

California and Pacific Northwest prices, delivered rail

Nationally Advertised Family Flour

Dollars	Jan. 2	Year ago
8-5s	10.53	10.53 @ 11.73

Semolina

f.o.b. Minneapolis, \$ per cwt

	Jan. 2	Week's change	Year ago
	16.85 @ 16.95	—	14.05 @ 14.15