Agriculture by Don Eret

Feds okay more speculation on food

Regulators are proposing changes to expand the speculative free-for-all on the Chicago Board of Trade.

In April of this year, the Commodity Futures Trading Commission (CFTC) announced plans to raise the limits on the size of positions that can be held by parties trading in soybean and grain futures on the Chicago Board of Trade (CBT). Already, a small handful of traders dominates the exchange; in 1987, revisions were made to abet this, and the proposed 1992 revisions will usher in larger volumes of speculation, controlled by a select few. The aid to speculation comes as the unmet demand for foodstuffs is growing.

The National Farmers Union has reported, "For example, in 1990, there were approximately 8 billion bushels of corn produced with as much as one-half that amount consumed by livestock, and yet over 55 billion bushels were traded on the exchanges."

Because of opposition to the new proposals, the deadline for public comment was extended from June 12 to Aug. 3. We publish here excerpts of the comments sent to the CFTC on July 20 by this author, a Nebraska farm leader and former four-term member of the state legislature.

"These comments are submitted to document my reasons for opposition to the proposed CFTC revision of federal speculative position limits published in the April 23, 1992 issue of *Federal Register* (Vol. 57, No. 71).

"The proposal to tailor the single month and all-months speculative position limits per trader at each exchange on the basis of a percentage of open interest [the formula in use now] completely misses the objective that the annual production of each commodity is the only true reference that should be used as a basis of setting the limits.

"Having the inflated open interest resulting from the quadrupled limits established in 1987 serve as the basis for the proposed expanded limits is to compound one error into another.

"The proposed position limits specified for Section 150.2 should be returned to or set at 3 million bushels for corn, oats, soybeans, and wheat for the spot, single, and all-months categories for the Chicago Board of Trade and likewise for that at the Kansas City Board of Trade and the Minneapolis Grain Exchange.

"The CFTC should discontinue the trading of corn, oats, soybeans, and wheat at the Midamerica Commodity Exchange. The public understanding of the operation of this exchange is that it is a subsidiary of the Chicago Board of Trade, that it opens for trading one-half hour before the CBT, and that the low volume of trading on this exchange by a handful of traders polarizes the opening price trends on the CBT.

"As the Commitment of Traders report for June 30, 1992 indicates, two reporting corn traders had 26.3% of the open interest in a speculative short position, seven soybean traders held a 24.9% speculative short position, and the reportable commercial positions were either nil or minute.

"This indicates how the polarization of prices at the CBT is directed. A congressional investigation of this situation is in order to determine the economic beneficial purpose of this exchange.

"The percentages of speculative short positions at the CBT during 1991 as well as in previous years, projected against the annual trade volume, have introduced more speculative short bushels of wheat and soybeans into the market than are produced annually in the United States. This leaves the producers without a negotiating position for a single bushel of their production in the cash market. A third party has sold it all for them to willing buyers at a manipulated depressed price and this price directly references the cash market price.

"One reason that the proposed expansion of speculative position limits is improper is that it is offered on a converging schedule with GATT [General Agreement on Tariffs and Trade] negotiations being conducted by the administration to remove price subsidization and price supports of agricultural commodities. The removal of the federal price supports in concert with the expanding of speculative trading the way it is being proposed for the CBT will allow the speculative short trading monopolies such as commodity funds to drive commodity prices to rock bottom levels.

"A case of price collusion can readily be documented for this result where an administration forces an international treaty to remove price supports and subsidies at the same time the presidential-appointed commissioners of the CFTC remove regulatory prices protection from the markets.

"As stated previously, the regulatory limits should be based on annual production of a commodity. The annual volume of speculative short selling of a commodity should be limited to substantially less than one-half of the production. This can be achieved by limiting the open interest percentage of speculative short selling to 5% or to ban speculative short sales at prices below 90% of parity."