



September 29, 2008

The Honorable Walter Lukken, Chairman
The Honorable Michael Dunn, Member
The Honorable Jill Sommers, Member
The Honorable Bart Chilton, Member
Commodity Futures Trading Commission
1155 21st Street, N.W.
Washington, DC 20581

Dear Chairman Lukken and Commissioners:

The National Association of Wheat Growers (NAWG) and U.S. Wheat Associates (USW) appreciate the efforts of the grain exchanges and CFTC to achieve better convergence and more transparency. We understand that the CME Group has forwarded a set of proposals for consideration and approval by the Commodity Futures Trading Commission (CFTC) to improve wheat market convergence. These proposals include seasonally adjusting storage rates, tighter specs on vomitoxin for delivered wheat, and additional delivery points for Chicago wheat.

On these three points, we offer the following brief comments:

- *Seasonal storage rates:* We have no firm position on this issue. Any concerns we have would center on what impact these changes will have on basis and the resulting bids to producers in the country, how transparent the changes will be, and whether they have any real impact on convergence.
- *Tighter specs on vomitoxin:* the specifications for delivery wheat in regard to vomitoxin should mirror the cash market specifications, and we therefore support an adjustment to 2 ppm on delivery wheat.
- *Additional delivery points:* our state affiliate in Ohio has recommended additional delivery points to smooth out basis differentials, and we support their recommendation.

We are disappointed to see no proposal from CME on what we consider to be the most straightforward option to improve convergence: appropriate classification of investors as hedgers or speculators. As testimony before the Senate Agriculture Committee has indicated, large amounts of institutional money flowed into the Chicago wheat market in the first quarter of 2008, coinciding with the run-up in wheat prices. This money was not invested for the purpose of hedging commercial risk related to wheat production or use; it was invested by entities who believed – speculated – that the price of wheat would rise and bet on that outcome.

Let us be clear that our members have no objection to higher wheat prices – with runaway prices of fuel and fertilizer, USDA is now estimating the production cost for wheat at over \$8 per

bushel. Our concern is when this speculative bubble pops and the institutional investors unwind their large long positions, resulting in rapid price declines. The increased volatility in the futures and options markets has also made them all but unusable for wheat growers trying to hedge their commercial market risk; even grain elevators and millers are having trouble raising capital to meet margin requirements, and grain buyers have changed their lineup of risk management products for producers as a result of the new market dynamics.

We fully understand that speculators serve an essential role in futures markets and that those markets would fail without them. This is why NAWG has opposed legislative language to exclude entire classes of investors from the commodity markets. A better solution is to close the swaps loophole and apply the appropriate speculative position limits to these entities. Diversifying risk in an investment portfolio should not pass the test for a hedge exemption; these exemptions should be reserved for parties who commercially produce, own or use wheat. Application of lower limits to speculative positions should be phased in over an appropriate time period to avoid forced exits and precipitous price declines.

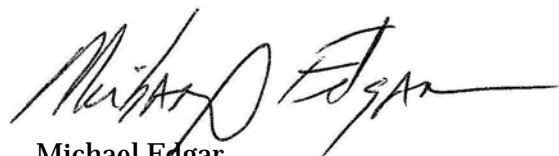
We have not come to a conclusion on the issue of compelled load-Out, but we understand that several other participants in the commercial market have suggested it as a way to force convergence. For the purposes of our members, the most important characteristic of the futures contract is that it represents the underlying physical market. We encourage the Commission to consider ways that will bring cash and futures markets together at expiration so that these contracts may once again serve as hedging tools for our members.

Thank you for your consideration of our views. We would be happy to visit with you further at your convenience.

Sincerely yours,



David Cleavinger
President
National Association of Wheat Growers



Michael Edgar
Chairman
U.S. Wheat Associates

C: CME Group
House Agriculture Committee
Senate Agriculture Committee