National Grain and Feed Association
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Mr. Fred Seamon
Executive Director
CME Group
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Dear Fred:

The National Grain and Feed Association (NGFA) appreciates the opportunity to provide input to the CME Group on potential changes to CBOT corn and soybean contracts. Proper functioning of these widely utilized contracts is of huge importance to price discovery and risk management for the grain, feed and processing industry.

Per discussions with CME in recent years, we believe there have been periods when convergence has not occurred predictably or sufficiently, especially for the soybean contract. Of the many concepts that could be utilized to enhance convergence, we believe an adjustment to storage rates is the preferable solution to achieve more predictable convergence for both corn and soybean contracts. Further, given the overlays of storage space and production areas for corn and soybeans, the storage mechanism and rates should remain identical for both contracts.

There have been many conversations in the industry and within NGFA about whether an increase to the current fixed storage rate is a better course of action or whether a variable storage rate (VSR) might be adopted for the corn and soybean contracts. Strong cases can be made for both options.

However, in our deliberations a strong majority supports increasing the fixed storage rate as a logical next step for both contracts. The fixed storage rate is a well-understood mechanism and will lend itself to continuity in the marketplace. Further, maintaining a fixed storage rate mechanism would seem to best preserve relationships between soybean, soy meal and soy oil contracts – the latter two, we assume, also will require appropriate adjustments in storage rates commensurate with a revision in the soybean contract storage rate.

As to the magnitude of an increase in fixed storage rates, our discussions have included options ranging from no change to the current 5 cents per bushel per month rate to 10-11 cents per bushel per month. As a reasonable middle ground, we believe an increase in the range of 3 cents per bushel per month – bringing storage rates to 8 cents per bushel per month – likely would gain broad acceptance among commercial hedgers utilizing grain and oilseed futures markets.

Part of the appeal of VSR is that storage rates can react to market conditions in a more timely manner; whereas, adjustments to fixed storage rates traditionally have taken many months to become effective in order to avoid disruption of contracts with open interest. To make the contracts more responsive to changing market conditions – but without going all the way to a VSR similar to those in place for CME's soft red winter wheat and hard red winter wheat contracts – the NGFA recommends that CME seriously consider an adjustable component to fixed storage rates. One concept that has been offered would put in place an annual observation period following which the fixed rate could be revised up or down. This approach could potentially adapt some of the responsiveness of VSR but also maintain the continuity of fixed rates. This feature also would provide comfort to those who believe a larger increase in the fixed storage rate is needed now, since future increases conceivably could be implemented more quickly.

Finally, the NGFA recommends that CME evaluate whether adjustments to the loadout fees for corn and soybean contracts might also contribute to improved contract performance and enhanced convergence. While we do not view such changes as urgent, higher loadout fees might better reflect delivery system economics today.

Sincerely,

MJ Anderson
Chair, Risk Management Committee

cc: David Lehman
Tim Andriesen