September 2010



منظمة الأغذي	联合国
والزراعة	粮食及
للأمم المتحدة	联合国 粮食及 农业组织

Food and Agriculture Organization of the United Nations	Organisation des Nations Unies pour l'alimentation et l'agriculture	Продовольственная и сельскохозяйственная организация Объединенных Наций
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### COMMITTEE ON COMMODITY PROBLEMS

#### EXTRAORDINARY JOINT INTERSESSIONAL MEETING OF THE INTERGOVERNMENTAL GROUP (IGG) ON GRAINS AND THE INTERGOVERNMENTAL GROUP ON RICE

Rome, Italy, 24 September 2010 Red Room





## CME & Euronext Liffe Prices reverberate globally

- CME volumes in wheat, maize, soybeans have tripled over last decade
- Euronext Liffe volumes in softs cocoa, sugar, coffee have doubled
- Euronext Liffe volumes in wheat and corn growing rapidly – giving contracts "benchmark" status
- Elsewhere exchange growth surging but pricing reflects domestic factors

## Regulatory regimes at different developmental stages

#### USA -

- Long history of commodities futures regulation (1922)
- CFTC created 1974
- Broad oversight of futures exchanges, exchange traded contracts and market participants
- Publishes COT report a snapshot of long and short positions by trader
- category

#### Europe

- Cocoa, Coffee Sugar under purview of UK's FSA
- Wheat, Corn, Rapeseed under purview of Autorité des marchés financiers (France)
- Both FSA and AMF have favored exchange selfregulation

# Position limits vary greatly across Exchanges

#### CME

- Large maximum speculative position limits (total ownership)
- Corn: 22,000 contracts (2.79 million MT)
- Soybeans:10,000
- Wheat: 6,500
- All limits must be reduced to 600 contracts during <u>spot</u> month

#### **Euronext Liffe**

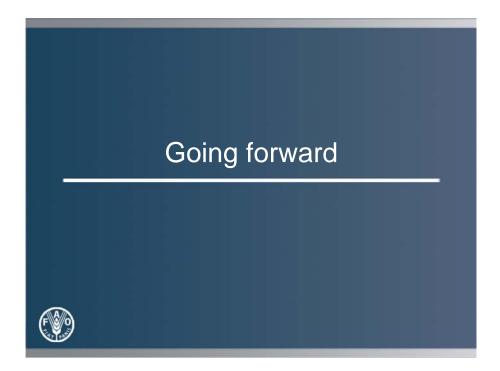
- No position limits for cocoa, coffee, sugar
- Small position in grains/oilseeds
- Wheat: 4000 (200,000MT)
- Corn: 2400
- Rapeseed: 2400
- Limits must be reduced by half during spot month

## Increased volatility & speculation

- · Markets liberalization, decline of price supports
- · Deregulation of the financial service sector
- · Declining margins in securities trading
- Rising demand for food in emerging markets
- Under-investment in agriculture
- Lack of price transmission to producers
- Sudden governmental interventions in export market
- Ease of access to electronic market place
- Exchanges restructured today as for-profit corporations

# Possible solutions on exchange level to curb speculation

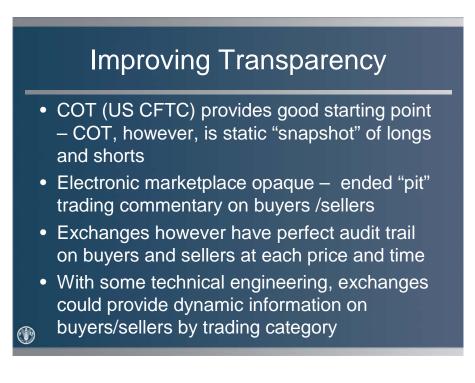
- · Restrict "at the market" order size to buy or sell
- [Today a single speculator can enter an order to buy "at the market" 22,000 maize contracts 2.79 million MT ]
- Settle contracts every month
- Would force futures to converge to real cash price every month vs. 4 or 5 times per year
- Increase margins
- Would reduce systemic leverage
- Create global cereal/oilseed contracts
- Would price "cheapest" to deliver and provide alternative price view to governments





### Strengthening Crop Information

- Large differences in crop assessment capabilities among countries
- Inadequacies in crop assessments may lead to sudden interventions – export taxes, bans, price controls – more volatility
- Need for planting surveys in major producing countries
- Information sharing and harmonized crop assessment tools important start



### New Approach to Commodity Futures

- US and Europe have widely different approaches to commodity futures markets
- Basic agreement that agricultural commodity futures suffer from inconsistent oversight and supervision
- Basic agreement that agricultural commodity futures need international approach
- Goal Improve price discovery and ensure commodity futures prices reflect underlying
- cash values

### **Towards a New Framework**

- Defined Objectives of oversight powers
- Independence and accountability
- Fairness, Efficiency, Transparency assurances
- Enforcement capabilities
- Principles for International cooperation and information sharing
- Systemic Risk Reduction
- Food Security Dimension