



منظمة الأغذية
والزراعة
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

Organización
de las
Naciones
Unidas
para la
Agricultura
y la
Alimentación

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

Agricultural Commodities

- I. Strengthening Price Signals
- II. Towards a New Framework



I. Strengthening price signals of agricultural futures markets



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 self-regulation

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 spot 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



Going forward



II. Need for New Framework

- Information sharing on global crop conditions sub-optimal
- Oversight, supervisory, enforcement capacity have not kept up with tremendous futures growth
- Commodity food prices affect everyone
- Debate escalating about role of speculators
- Transparency lacking in many grain and oilseed contracts



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



Improving Transparency

- COT (US CFTC) provides good starting point – COT, however, is static “snapshot” of longs and shorts
- Electronic marketplace opaque – ended “pit” trading commentary on buyers /sellers
- Exchanges however have perfect audit trail on buyers and sellers at each price and time
- With some technical engineering, exchanges could provide dynamic information on buyers/sellers by trading category



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

