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## Call Goes Out to Rein In Grain Speculators

By ANN DAVIS  
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Food's surging cost has coincided with unprecedented levels of financial speculation in grain-futures markets.

Now consumers and Farm Belt market participants hurt by more-volatile prices are asking Washington to rein in increasingly powerful commodity investors.

A hearing Tuesday in Washington before the Commodity Futures Trading Commission starts a new round of scrutiny into the popularity of agricultural futures, a once a quieter arena that for years was dominated largely by big producers and consumers of crops and their banks trying to manage price risks.

The commission's official stance and that of many of the exchanges, however, is likely to disappoint many consumer groups. The CFTC's economist plans to state at the hearing that the agency doesn't believe financial investors are driving up grain prices -- tightening supply and rising demand are. The agency has made the same case with rising oil prices.

Grain buyers and others involved in the market are complaining of sporadic irregularities in wheat and other agriculture futures markets, in which cash prices for crops didn't match the price of futures contracts at key delivery times. This helped prompt a closed-door sit-down in Chicago this month. Several grain exchanges, including **CME Group** Inc., parent of the Chicago Board of Trade; the Minneapolis Grain Exchange; and the Kansas City Board of Trade, invited grain-market participants to express their concerns.

Some grain buyers say speculators' big bets on relatively small grain exchanges, especially recently, are pushing up prices for ordinary consumers.

"When you get a huge influx of speculative money, as happened in December and January, the price inflates beyond what the fundamentals would dictate and creates a sort of balloon," Daren Coppock, chief executive of the National Association of Wheat

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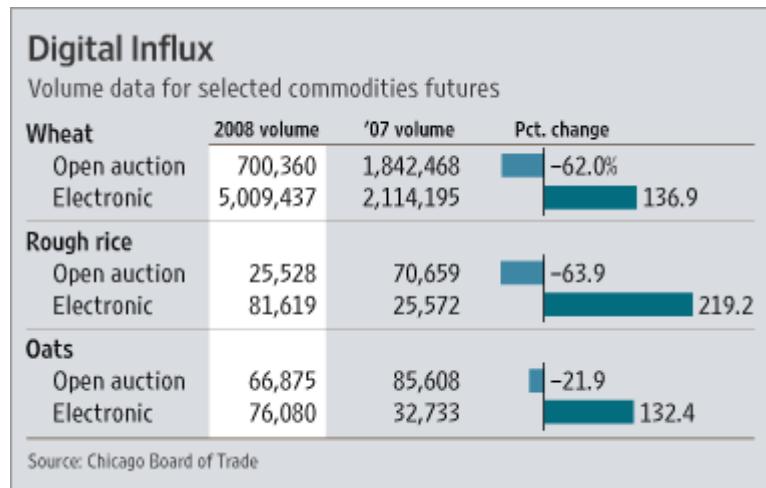
Growers, said in an interview. "The rules of the game need to be changed to make the market function better."

Higher grain prices and increased volatility have also made it difficult for some farmers to sell their future crops more than a few months in advance, as grain elevators refuse to buy a farmer's crop unless the farmer can deliver the physical grains within as few as 30 days. That has crimped their ability to lock in gains and manage other price risks such as the escalating costs of land and fertilizer.

"Farmers were saying, 'I've got great marketing opportunities, but I can no longer lock in my sale.' That's a wakeup call for everybody," said Tom Coyle, chairman of the National Grain and Feed Association and vice president and general manager of the Chicago grain-handling and trading unit of Nidera Holdings BV, a Dutch grain merchant.

The CFTC scheduled its own roundtable with academics, traders and grain exchanges, to assist in "critical fact-finding and dialogue so we may better understand and evaluate the inter-related factors impacting the futures markets," according to a statement released Monday by CFTC Acting Chairman Walt Lukken.

As with energy markets a few years ago, pension funds and hedge funds have flocked to grain investments as the supply of farm acreage and crop output shrinks relative to the growing global population and new demands for crops for biofuels and food. Many such investors make predominantly bullish bets. Pension funds, endowments and other large institutions allocate small percentages of their total assets to commodities as a long-term diversification tool and hedge against inflation, because commodities prices tend to go up when the rest of the economy is hurt by rising costs.



The most popular way to make such allocations is to invest in baskets of commodity futures, or index-linked funds. Ben Dell, an analyst at Sanford C. Bernstein & Co., estimates that investors have poured roughly \$175 billion to \$200 billion into commodity-linked index funds since 2001. Dan Basse, president of AgResource Co., an agriculture market-research company in Chicago, said that in some grain futures markets the

influx of cash by index investors is enough to buy two years' worth of the total U.S. harvest in some given crops.

In 2007 and early 2008, prices of wheat, corn, rice and soybeans, among other crops, have escalated along with energy and other natural resources. Since the start of 2007, wheat futures are up 69%, soybeans have risen 92%, corn is up 49% and rice is up 131% on the Chicago Board of Trade.

Many markets have been more volatile than they used to be. On the Minneapolis Grain

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Exchange, the high-protein wheat used to make bread hit an intraday high of \$25 a bushel on Feb. 25, up 29% from the day before. Some say speculators caused the run-up because they bet wrongly that prices would fall; when prices began rising instead, the traders had to buy wheat contracts hurriedly to fulfill trading obligations.

"There's heartburn in the heartland," CFTC Commissioner Bart Chilton said. He said he recognizes that financial investors add "necessary liquidity" to commodities markets, providing more robust buying and selling. But he said the commission should study more carefully the effects of these investments because of "concern about how these risk management markets are working."

Another issue likely to dominate the hearing is the notion of "convergence" and whether financial investors have distorted it. A futures contract is an agreement by one side to buy, and the other side to sell, a commodity at a set price on a set date. Often traders make offsetting trades to get out of their bets, but if they don't, futures contracts often result in physical delivery of a commodity. As a futures contract gets closer to its expiration date, the price is supposed to converge with the price that actual wheat or corn, for example, is trading at on the open "cash" market. The commission will be looking some instances of discrepancies in those prices.

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