



INTERNATIONAL COTTON ADVISORY COMMITTEE

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From the Secretariat

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New Policy Initiatives in the U.S. Futures Markets

On June 3, 2008 the Commodity Futures Trading Commission (CFTC) announced several policy initiatives to address the concerns raised at its April 22nd roundtable in Washington, DC, about the agricultural futures markets.

In order to address the lack of convergence between the futures and cash prices, the CFTC has asked the Agricultural Advisory Committee (whose members include “representatives of national farm organizations, major commodity groups, agribusiness concerns, and agricultural bankers”), (1) to collect further industry input regarding the role and size of over-the-counter agricultural swaps,¹ and the practices of exchanges on determining margins, daily price limits and methodologies of setting settlement prices; and (2) to develop proposals for improving convergence between futures and cash prices.

The CFTC staff is working with agricultural lenders to facilitate an understanding of financing and credit issues faced by market participants due to the increase in margins in the futures market when commodities prices rise.

In order to improve oversight of the futures market and bring greater transparency and scrutiny to the types of traders in the marketplace, the CFTC will (1) require more detailed information from index traders and swap dealers in the futures markets, and review whether classification of these types of traders can be improved for regulatory and reporting purposes; (2) withdraw the proposed rulemakings that would have increased the Federal speculative position limits on certain agricultural futures contracts, including cotton, and created a risk management hedge exemption to positions held by (a) intermediaries who pass price risks on to their customers (such as index funds), and (b) pension funds and other institutional investors seeking to diversify risks in portfolios by including an allocation to commodity exposure; (3) develop a new CFTC monthly publication on trader data for agricultural and other markets to provide greater transparency (beginning in July 2008); (4) develop a proposal for allowing the clearing of agricultural swaps; (5) review and propose revisions to improve the effectiveness of the current agricultural trade options programs, which may provide producers with an alternative for hedging price risk with the added benefit of a fixed premium.

Due to current unprecedented market conditions and concerns expressed by market participants at the CFTC’s agriculture roundtable,² the CFTC’s Division of Enforcement has been conducting an ongoing investigation of the February/March 2008 price run-up in the cotton futures markets. However, the specifics of the ongoing investigation remain confidential.

Press releases are available via e-mail. For further information, please contact us at Publications@icac.org. (The press release is also available in PDF format at www.icac.org)

The Secretariat of the Committee publishes information related to world cotton production, supply, demand and prices, and provides technical information on cotton production technology. Detailed statistics are found bimonthly in COTTON: Review of the World Situation, \$180 per year. A monthly outlook is available on the Internet for \$285 per year. Access to the weekly estimates of world cotton supply and use by the Secretariat is also available on the Internet for \$450 per year.

¹ A cotton price swap is a derivative designed to reduce commodity price risk. It is a forward price agreement between two counterparties who agree to settle the difference between a fixed price, established on trade date by mutual consent, and a floating price index published by an independent third party (such as the A Index), whose value will be examined at the end of the transaction on ‘fixing date’.

² America’s Cotton Marketing Cooperatives (AMCOT) used the results of the ICAC’s study “Speculation and Cotton Prices” to support its recommendations to the CFTC. The study is available at http://www.icac.org/cotton_info/speeches/plastina/2008/review_april_2008_speculation_cotton_prices.pdf