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**Commodity Futures Trading Commission  
Agricultural Advisory Committee Meeting  
December 7, 2022**

**Provided by:**



Today, the Commodity Futures Trading Commission (CFTC) Agricultural Advisory Committee (AAC) held its first [public meeting](#) with CFTC Chairman as the sponsor. The meeting agenda featured a discussion of the state of the agricultural economy; a view of how the agricultural supply chain works on sustainability issues; evolving price limits in agricultural markets; and domestic and international shipping impacts on the grain trade.

**Opening Statements**

Advisory Committee Sponsor Behnam [said](#) that, since the AAC last convened, significant volatility has remained a fixture in agriculture markets due to extreme weather events and geopolitical events. He noted that droughts and the pandemic continue to have an impact on agricultural production, highlighting the outsized impact they have had on cotton in particular. Behnam said that regions could take years to recover, severely impacting rural communities that depend on cotton. Behnam also noted the supply chain issues due to low water levels in the Mississippi River basin.

Behnam said that the goal of the CFTC should not be limited solely to derivatives markets; instead, he said, the CFTC should examine and explore ways that we can build even greater resilience, usability, access, and availability into agricultural markets.

Commissioner Kristin Johnson [said](#) that the priorities of the CFTC must be to reduce market volatility and mitigate risk by ensuring that derivative markets are fair and transparent, promoting responsible innovation, and protecting end-users through enforcement. She said that the CFTC works with exchanges, other regulators, and industry stakeholders to ensure that it is living up to these obligations.

Commissioner Christy Goldsmith Romero [said](#) that agricultural margins have been razor thin, and continuing price fluctuations make the future uncertain. She also noted that this uncertainty has been compounded by climate events and historic lows in the Mississippi River. She said that the CFTC's core

obligation is to promote the proper functioning of derivatives markets through resiliency, transparency, and market integrity.

Commissioner Caroline Pham [said](#) that today's market struggles highlight the importance of agricultural derivatives to market participants grappling with varied and dynamic uncertainties. She said that the chief responsibility of the CFTC must always be to facilitate hedging risks in deep and liquid derivatives markets.

Commissioner Summer Mersinger [said](#) that a primary charge of the CFTC is to ensure that agriculture futures markets sufficiently serve as price discovery and risk mitigation tools for those involved in this sector. She said that this responsibility becomes even more significant as industry participants deal with volatile times.

### **Section I: State of the Agricultural Economy, Geopolitical and Weather-Related Impacts**

This section of the agenda was led by Dr. Cynthia Nickerson, Deputy Chief Economist of USDA.

Nickerson highlighted the impact that Russia's invasion of Ukraine has had on corn, wheat, and grain supplies around the world. She noted that winter wheat acres were down last year. She also discussed that soy, corn, and rice production were down last year as well.

She detailed the impact of the drought on the Mississippi watershed, highlighting record lows along the Lower Mississippi, setting back export shipments as well as fertilizer barges. She noted that inland fertilizer prices are selling at a widening premium relative to Gulf sales due to the high costs of inland transportation.

Nickerson noted that the top geopolitical risks to the agricultural economy remain Russia's invasion of Ukraine and continued Covid shutdowns in China. She highlighted the volatile prices of Ukrainian wheat and corn based on supply chain issues and the continued problems exporting through Black Sea ports. She discussed the increasing share of U.S. ag exports headed to China, particularly soybeans, cotton, and, to a lesser extent, corn. She said that cotton is particularly susceptible to Chinese lockdown policies due to the closure of textile factories.

She also noted that farm sector profit forecasts remain at record highs in 2022 despite high input and shipping costs. She said that not all farms benefited equally from these high prices.

### **Section II: Climate-Related Market Risk**

This section featured a presentation from Scott Herndon, President of Field to Market.

He discussed the ways in which regenerative agriculture can be grounded in science and focused on outcomes. He said that the goal of Field to Market is to provide concrete data to producers on how they

can best maintain the carbon levels of their soil to be most effective. He highlighted the effectiveness of no-till and cover cropping.

Herndon highlighted the work of many top agricultural firms in utilizing regenerative agricultural practices to create more sustainable agriculture. He highlighted USDA's work on climate-smart commodities and the impact it can have on lowering greenhouse gas emissions.

### **Section III: Evolving Price Limits in Agricultural Markets**

This section featured a presentation from Tim Andriesen, Managing Director of Agricultural Products at CME.

Andriesen said that CME has worked to develop the variable price limit system for agricultural and grain markets, as well as some livestock markets. He said that it is unclear how exactly markets should function during times of extreme stress but trying to keep price limit moves to one out of every hundred days seems logical. He said that volatility needs to be viewed in relation to the price.

He pointed to the date of Russia's invasion of the Ukraine and the price limit moves in wheat markets that resulted. He noted that CME monitors this volatility to determine the significance of market impact in real time.

He discussed the new price limit structure implemented for wheat whereby the initial and expanded price limits are increased if there are any settlements at the expanded price limit for two consecutive business days.

Liam Smith, representing FIA PTG, asked whether the CME will continue to rely on extraordinary action to deal with extreme market events. He also asked whether CME has considered making agriculture contract markets more like energy markets to prevent trading stops. Andriesen said that CME does not like to make market participants guess at the actions CME will take in response to market volatility.

### **Section IV: Domestic and International Shipping, Freight, and Storage Impacts on the Grain Trade**

This section of the agenda featured presentations from:

- Tom Erickson, Erickson Law & Consulting
- Jessica Stephan, Director of Logistics, Bungee North America, NGFA

The panel discussed the Mississippi River and its significance for American internal and global trade. Stephan highlighted the impact of droughts, not just on agricultural production, but also for American trade. The chief causes to supply chain delays highlighted in the panel were underinvestment

in water transport systems, the Russia/Ukraine war, supply chain imbalances, drought conditions, and rail and truck shortages.

Erickson highlighted that the Mississippi River, because of its vibrancy and commercial activity, serves as the prime delivery mechanism for futures markets in commodities such as corn and soybeans. He said that, when we are dealing with record low levels on the river as well as other supply chain constraints such as barge availability, it has a large impact on the performance of futures. This led to a significant increase in commodity prices for international customers.

#### **Section V: Agenda for the 2023 AAC Meeting**

Buddy Allen, of the American Cotton Shippers Association, discussed the importance of the Federal Maritime Commission's work in reducing non-market supply chain obstacles. He also said that the Committee should consider the disparity between the EPA's Renewable Fuel Standard proposal and the administration's ambitious goals to encourage the use and production of renewable fuels, particularly sustainable aviation fuel.

Ed Prosser, of Scoular, raised the issue of volatility caused by geopolitical conflicts. He noted that access to FCMs was compromised in different ways during the period of volatility in wheat markets following Russia's invasion of Ukraine. He noted that the CFTC should examine the availability of FCM market participants and their commitments to markets.