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**Commodity Futures Trading Commission's
Agricultural Advisory Committee Meeting
December 15, 2023
Overview Provided by:**



OVERVIEW

Today, the Commodity Futures Trading Commission (CFTC) Agricultural Advisory Committee (AAC) held a [public meeting](#). The meeting covered topics related to the agricultural economy, including geopolitical and sustainability issues, as well as recent developments in the agricultural derivatives markets.

Below is a summary of the meeting prepared by [Delta Strategy Group](#).

OPENING REMARKS

Chairman Rostin Behnam

- We have a big responsibility as regulators to ensure the health and sustainability of our markets. As we shape and curate our agenda in the coming months, we will be looking for feedback from value chain stakeholders.

Commissioner Christy Goldsmith Romero

- My highest priority is stabilizing market prices and mitigating market volatility to ensure our derivatives markets remain robust.

Commissioner Summer K. Mersinger

- It is crucial that we continue to protect agricultural derivatives markets as they make up a large part of our work at the CFTC.

PANEL: FUTURES MARGINING AND THE AGRICULTURAL MARKETS

Suzanne Sprague, CME

- We consider market seasonality and volatility in our margin-setting process, particularly for agricultural products, to ensure a balanced approach and avoid artificial drops or spikes in margins. The procyclical effect that we can have on the

marketplace is critical for us to consider when setting margin prices. We know that our actions can impact the broader marketplace, and we are very cognizant to make sure we do not cause sudden liquidity drains on the market in times of increased volatility.

- Regardless of margin methodology, we consider historic risk, stress risk, liquidity and volatility in our Standard Portfolio Analysis of Risk (SPAN) and our SPAN 2 model. Our approach in SPAN 2 is data driven and more automated than the original model. We are very focused on transparency within the marketplace.

Jeff Reardon, White Commercial Corporation

- Our commercial hedgers need access to capital to ensure they are able to maintain secure hedging positions. Changing initial margin by large amounts leads to market volatility.

Joe Barker, CHS Hedging

- Futures Commission Merchants (FCMs) have an obligation to know their customers, to collect their margin, and post the margin at the exchange on the customers' behalf. In this way, FCMs serve as shock absorbers to the system. Market participants need their FCM and the clearinghouse to continue to refine the margining process so that the system works for everyone in the future.

Discussion:

Jason Wheeler, USA Rice Federation: Will the SPAN 2 model be a more responsive algorithm? *Sprague:* SPAN 2 is meant to be a more reactive, automated model that is more sensitive to changes on a quicker basis. We do use smoothing effects in that model too, so we do not have sudden spikes.

Gerry Corcoran, FIA: Higher margins result in higher costs to the producer. FCMs are the shock absorber between the customer and the exchange. It is a tough balance to have higher margins that will protect the exchanges but also do not harm the farmers. We think SPAN 2 is a better product and we are eager to see how it performs, but the daily changes in margins have required some adjustment for customers.

Commissioner Mersinger: Is the initial margin you presented based on CME's initial margin, or is it based on additional calculation from the FCM? *Reardon:* It is exactly based on CME's model.

PRESENTATION: IMPACT OF RUSSIAN-UKRAINIAN WAR ON WHEAT FUTURES PRICES

Calum Turvery, Professor of Ag Finance, Cornell University

- The two largest impacts of the war were in agricultural commodities and energy. Oil and natural gas from Russia to Europe and wheat from Ukraine to the rest of the world were heavily impacted. Wheat markets are globally linked through spatial trade relationships as well as local supply and demand conditions and shipping costs. These price relationships changed due to increased costs of transportation in conflict zone and volatility in export/import price inelasticities during the war. War ultimately impacts futures prices by increasing prices in trading countries, increasing domestic demand price, and decreasing domestic supply price.

Discussion:

Buddy Allen, ACSA: I applaud the Commission for its ongoing initiative to bring standards and definitions to Voluntary Carbon Markets (VCMs). VCMs provide a market-driven approach to sustainability and serve as a mechanism for the agriculture sector to actively contribute to global climate change mitigation efforts.

PRESENTATION: GLOBAL EVENTS IMPACT THE U.S. FUTURES MARKETS

Seth Meyer, Chief Economist, USDA

- Growing conditions for corn, soybeans, and wheat were less than ideal this year. U.S. crush demand has been strong in the past few years due to increased need for biofuels. The last four years have been great for agricultural exports and imports. Our trade with China has been decreasing in recent years, but Mexico and Canada have remained our top trading partners. Most categories of spending on inputs are expected to increase in 2023, but fertilizer, fuel, and oil expenses are expected to decline the most in 2023. Farm sector profit forecasts are expected to decline after a record high in 2022.

Discussion:

Chairman Behnam: Do you predict Brazilian production for soybeans will grow or lessen in the coming years? *Meyer:* It will increase. However, China is the third pillar to that as it is sixty percent of the soybean market and buys year-round. Crush demand is serving the Renewable Fuel Standards program, but we will need to look for alternatives for export demand to ensure our agricultural industry remains competitive.

Commissioner Mersinger: We will have a long-term trade deficit as China continues to buy from Brazil? *Meyer:* We need to convince other countries of the value of our ag commodities. We need to find new markets for our domestic commodities.

MEMBER DISCUSSION: 2024 AAC AGENDA

Patrick Coyle, NGFA: I would like to raise discussion on how increased capital requirements will impact the reduction of FCMs.

Joe Barker, CHS: I suggest a high-level update on how developing sustainability programs will impact our ag markets.

Ed Prosser, The Scoular Company: I suggest we touch on how technology, like Suzanne discussed earlier, can create market transparency.