CME Group
A CME/Chicago Board of Trade Company

CFTC Agricultural Advisory Committee

December 6, 2007

David Lehman, Director
Commodity Research & Product Development

Agenda

- CBOT White Paper
- Agricultural Swaps
- Is Ethanol an Agricultural Commodity

Summary of University of Illinois Study on Futures Market Performance

In 2005, the CBOT and the CFTC approved increases in the Single-Month and All-Months-Combined speculative position limits.

	Single Month Limit			All Months Limit			First Futures Month	
Contract	Old	Phase I	Phase II	Old	Phase I	Phase II	Phase I	Phase II
Corn	5,500	9,500	13,500	9,000	15,500	22,000	July 2005	Mar. 2006
Soybeans	3,500	5,000	6,500	5,500	7,750	10,000	July 2005	Jan. 2006
Wheat	3,000	4,000	5,000	4,000	5,250	6,500	July 2005	Mar 2006

Some market participants began to observe changes in convergence patterns in Corn, Soybean, and Wheat futures after the speculative position increases.

The CBOT contracted the University of Illinois to conduct a study on market performance.

CME Group
A CME/Chicago Board of Trade Company

Summary of University of Illinois Study on Futures Market Performance

Primary Focus of Study: Liquidity, Volatility, and Convergence Before and After the Increase in Speculative Limits.

Five Components of Study

- Volume and Structure of Open Interest
- Volatility Analysis
- In-Position Convergence
- Out-Of-Position Convergence
- Recommendations for Additional Study

Summary of University of Illinois Study on Futures Market Performance (Liquidity)

Market Activity Increased Significantly in 2006 Likely Led by Non-Traditional Market Participants

Increased Speculative Position Limits Likely Accommodated This Increased Interest by Non-Traditional Participants, however, Hedge Exemptions Granted to New Participants also Likely Contributed

Growth in Index Fund Participation May Result in Markets Less Price Sensitive than Traditional Market Participants

Increased Limits of 2005 are also Associated With Increased Activity in Deferred Contracts.

Summary of University of Illinois Study on Futures Market Performance (Volatility)

The average daily return of futures calculated for periods prior to increased speculative limits and after resulted in:

- In corn, the range of daily returns was higher in the post-change period.
- In soybeans and wheat, no significant change in average daily returns was observed.

Monthly standard deviations of daily nearby futures were calculated by calendar month.

- The pattern of volatility was similar pre- and post-change.
- Average standard deviation was slightly higher for corn and slightly lower for soybean and wheat post-change.

Overall, little evidence was uncovered to suggest changes in speculative limits have had a significant impact on price volatility.

Summary of University of Illinois Study on Futures Market Performance (Convergence)

Corn

- The researchers note a period of basis weakness in 2006, but do not attribute this weakness as an overall failure of convergence.

Soybeans

- Similar to corn, the researchers note a general weakness in basis, but not a failure of convergence at all locations for every contract.

Wheat

- Lack of convergence was observed from the July 2005 contract through the September 2006 contract.

Summary of University of Illinois Study on Futures Market Performance (Convergence)

For Corn and Soybeans, three factors were given as possibly related to the weak basis:

- Higher barge freight rates
- Higher futures values
- Large carry in the futures markets

Factors affecting the weak Wheat basis:

- Futures prices of SRW above fundamental value for that class caused by CBOT Wheat futures acting a world benchmark
- Large Carry in the futures market
- Limited Expiration Arbitrage (deliveries insufficient to achieve convergence)

Agricultural Swaps

A CME/Chicago Board of Trade Company

Summary of University of Illinois Study on Futures Market Performance (Conclusions)

Sharp increases in open interest partly the result of increased speculative limits, but not entirely.

No large change in measures of volatility due to increased speculative limits.

Analysis of convergence revealed differences in the degree of convergence before and after the increase in speculative limits, but the researchers determined that the generally weaker basis is likely only partially related to the change in speculative limits. Other factors have played a bigger role.

Researchers recommended the delivery process in wheat be examined and recommended investigations into the need for a new "world" contract.

Researchers recommended CFTC begin reporting trading activity of non-traditional funds.

CME Group
A CME/Chicago Board of Trade Company

CME Group Proposal

- Petition for Exemption to Permit **Clearing of OTC Agricultural Swaps**

1. In order for a designated contract market to clear standardized agricultural swaps that are executed in OTC markets, it must seek an exemption under Section 4(c)(1) of the Act, including an exemption from Sections (b) and (c) of Commission Regulation 35.2

   (b) The Swap is not a fungible agreement with standardized terms

   (c) Creditworthiness is a consideration

2. The ag swaps that CME Group proposes to offer for clearing would meet the requirements of Regulation 35.2 (a) and (d) in that they would be executed over-the-counter solely between eligible swap participants

   (a) Counterparties must be Eligible Swap Participants

   (d) Swap is not entered into and traded on a multilateral execution facility

CME Group
A CME/Chicago Board of Trade Company

Regulatory Benefits of Cleared Ag Swaps

1. **Bridge unregulated OTC markets with regulated Exchange-traded markets**

   - Increased transparency through public reporting of volume, open interest and settlement prices
   - Valuation and pay/collect for counterparties provided by Clearing House
   - Enhanced market surveillance

2. **Backed by capital of Clearing House (over $4 billion financial safeguard package for CME Group CH)**

3. **Enhanced Financial Integrity of transactions as counterparty risk is eliminated.**

CME Group
A CME/Chicago Board of Trade Company

Meeting Customer Demand

1. Builds on Success of Ethanol Swap Complex

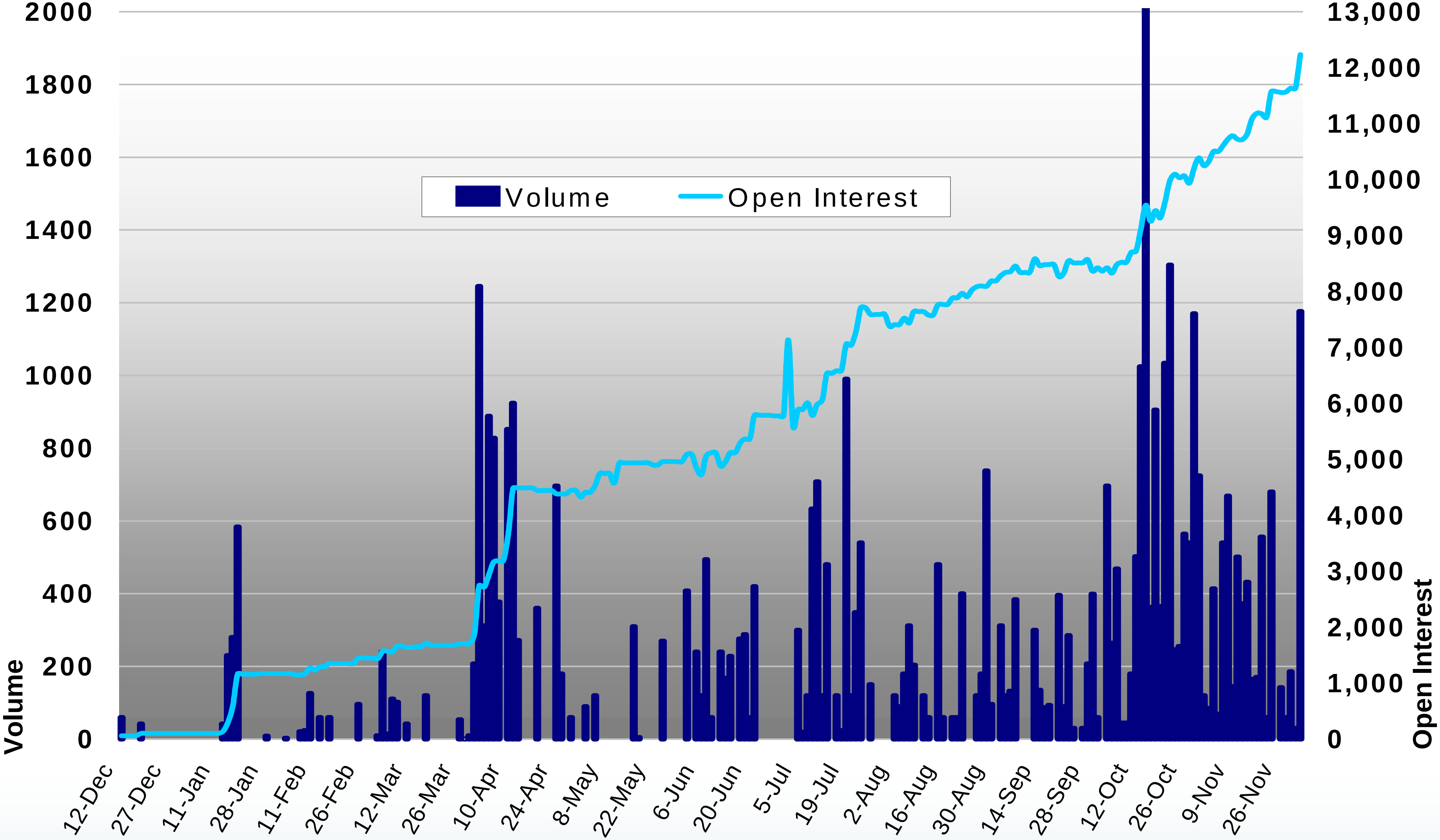
- Launched calendar swaps in December 2006, with over 45,000 contracts cleared and open interest over 12,000 on November 30, 2007

- Launched options on calendar swaps in October 2007, with over 4,900 contracts cleared and open interest over 4,000 on November 30, 2007

- Also launched New York Harbor, Gulf Coast and Los Angeles ethanol basis swaps in October 2007

Daily CBOT Ethanol Swaps, Volume and Open Interest

December 13, 2006 - Present



CME Group

A CME/Chicago Board of Trade Company

Meeting Customer Demand (cont.)

2. Additional Products Requested by Customers (unsolicited)

1. Approximately 30 Dairy Swaps

   a) (Class III & Class IV milk; whey protein concentrate, lactose, etc; butter, skim milk; whey; non-fat dry milk; ….)

2. Beef Products

   b) Beef Cutout (Choice and Select); Primal Beef Cuts (Round, Chuck, etc.; Subprimal beef cuts (112A Ribeye, 116 Chuck Roll, 180 Strip Loin, etc.)

3. Feed Ratios (corn and/or meal, meat and/or milk)

Market Benefits of Cleared Ag Basis Swaps With Margins Held in Customer Segregated Accounts

1. Enhanced risk management for agricultural commodities
   - Manage basis risk in addition to flat price risk
   - Increased transportation costs and higher flat price levels = greater basis risk
2. Improved capital efficiency through daily mark to market margin process
3. Allow small and mid-size commercial firms to better compete
4. Provides benefits of centralized clearing for products that are too small to support efficient exchange-traded futures

CME Group
A CME/Chicago Board of Trade Company

Corn Basis Swap Contract Specs (Northeastern Iowa)

Clearing Unit: 5,000 bushels

Months Cleared: Sep, Dec, Mar, May, Jul

Price Basis: cents and ¼ cents per bushel

Last Day of Clearing - The last day of clearing in Northeastern Iowa Corn Basis Swaps deliverable in the current delivery month shall be two business days prior to the first calendar day of the delivery month.

Final Settlement Price – The final settlement price shall be determined on the last clearing day. Final settlement shall be the average of the daily Northeastern Iowa corn cash price index minus the settlement price of the corresponding CBOT Corn futures contract over the last five clearing days.

Corn Basis Swap Contract Specs (Northeastern Iowa)

Daily Settlement – Daily settlement other than settlement on the final settlement day (as described in Regulation XX42.03) or during the last five days of clearing shall be the preliminary Northeastern Iowa corn cash price index minus the settlement value of the corresponding CBOT Corn futures contract on that day.

Is Ethanol an Agricultural Commodity?

Denatured Ethanol: Energy or Agricultural Product?

Historic price correlations

In levels

(from March 2005 through August 2007)

Corn:	**0.014**
Wheat:	**-0.003**
Sugar #11:	**0.716**
Unleaded Gasoline:	**0.675** ***(from March 2005 through December 2007)***
RBOB:	**0.440** ***(from January 2006 through August 2007)***
Natural Gas:	**-0.028**
Crude Oil:	**0.621**

CME Group
A CME/Chicago Board of Trade Company

Denatured Ethanol: Energy or Agricultural Product?

Historic price correlations

In 1st Differences

(from March 2005 through August 2007)

Corn:	**-0.050**
Wheat:	**0.044**
Sugar #11:	**0.038**
Unleaded Gasoline:	**0.055** ***(from March 2005 through December 2007)***
RBOB:	**0.059** ***(from January 2006 through August 2007)***
Natural Gas:	**0.035**
Crude Oil:	**0.080**

CME Group
A CME/Chicago Board of Trade Company

Denatured Ethanol: Energy or Agricultural Product?

"The Energy Policy Act of 2005 implements a Renewable Fuel Standards Program, which requires that gasoline sold in the U.S. must contain an increasing minimum volume of renewable fuels such as ethanol over the next five years"

"Denatured Fuel Ethanol is not an 'agricultural commodity' under section 2(g) of the Commodity Exchange Act"

"The largest single use of ethanol is as a motor fuel and fuel additive"

"Ethanol is produced both as a petrochemical, through the hydration of ethylene, and biologically, by fermenting sugars with yeast"

"Denatured alcohol is ethanol which has been rendered toxic or otherwise undrinkable, and in some cases dyed. It is used for purposes such as fuel for spirit burners and camping stoves, and as a solvent"

Discussion of Forward-Looking Statements

Statements in this presentation that are not historical facts are forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or implied in any forward-looking statements. Among the factors that might affect our performance are: our ability to successfully integrate the businesses of CME Holdings and CBOT Holdings, including the fact that such integration may be more difficult, time consuming or costly than expected; revenues following the merger may be lower than expected; increasing competition by foreign and domestic competitors, including new entrants into our markets; our ability to keep pace with rapid technological developments, including our ability to complete the development and implementation of the enhanced functionality required by our customers; our ability to continue introducing competitive new products and services on a timely, cost-effective basis, including through our electronic trading capabilities, and our ability to maintain the competitiveness of our existing products and services; our ability to adjust our fixed costs and expenses if our revenues decline; our ability to continue to realize the benefits of our transaction processing services provided to third parties; our ability to maintain existing customers and attract new ones; our ability to expand and offer our products in foreign jurisdictions; changes in domestic and foreign regulations; changes in government policy, including policies relating to common or directed clearing; the costs associated with protecting our intellectual property rights and our ability to operate our business without violating the intellectual property rights of others; our ability to generate revenue from our market data that may be reduced or eliminated by the growth of electronic trading and the redundancies in the market data offerings of Chicago Mercantile Exchange Inc. and Board of Trade of the City of Chicago, Inc.; changes in the rate per contract due to shifts in the mix of the products traded, the trading venue and the mix of customers (whether the customer receives member or non-member fees or participates in one of our various incentive programs) and the impact of tiered pricing; the ability of our financial safeguards package to adequately protect us from the credit risk of clearing firms; changes in price levels and volatility in the derivatives markets and in underlying fixed income, equity, foreign exchange and commodities markets; economic, political and market conditions; our ability to accommodate increases in trading volume without failure or degradation of performance of our systems; our ability to execute our growth strategy and maintain our growth effectively; our ability to manage the risks and control the costs associated with our acquisition, investment and alliance strategy; industry and customer consolidation; decreases in trading and clearing activity; the imposition of a transaction tax on futures and options on futures transactions; and seasonality of the derivatives business. More detailed information about factors that may affect our performance may be found in our filings with the Securities and Exchange Commission, including our most recent Quarterly Report on Form 10-Q, which is available in the Investor Relations section of the CME Group Web site. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

NOTE: Unless otherwise noted, all references to CME Group volume, open interest and rate per contract information in the text of this document exclude CME Group's non-traditional TRAKRS℠ products, for which CME Group receives significantly lower clearing fees of less than one cent per contract on average, as well as CME Group Auction Markets™ products and Swapstream® products. Unless otherwise noted, all year, quarter and month to date volume is through 10/10/07.

CME Group
A CME/Chicago Board of Trade Company