COMMODITY FUTURES TRADING COMMISSION
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DIVISION OF
ECONOMIC ANALYSIS

91-1

July 17, 1991

Paul J. Draths
Vice President and Secretary
Chicago Board of Trade
LaSalle at Jackson
Chicago, Illinois 60604

Dear Mr. Draths:

By letter dated June 25, 1991, the Chicago Board of Trade ("CBT") requested that the Commodity Futures Trading Commission ("Commission") consider a request to review its continued enforcement of the single-month speculative position limit in soybean oil for positions which are part of an inter-crop year spread. Subsequently, the CBT provided additional information by letter dated July 2, 1991 and in telephone conversations with Commission staff.

In particular, the CBT letter of June 25, 1991, requests that the Commission

> not take any disciplinary or enforcement action against either the CBOT, under Sections 5a(8), 6(a), 6b, and 6c of the Commodity Exchange Act . . . and CFTC Rule 1.53, or any of its members, member firms or public customers, under Sections 6(b), 6(c) and 6c of the CEA, for the period commencing upon receipt of this letter by the Commission through August 31, 1991, regarding trading in the CBOT Soybean Oil futures contract in excess of current inter-crop speculative spread position limits provided such trading is in compliance with intra-crop spread position limits . . . .

Commission Rule 150.2 provides for speculative position limits in the CBT soybean oil contract in the amount of 540 units of 60,000 pounds in the spot month or in any single month and 1,620 units in all-months combined. 17 C.F.R. §150.2. In addition, Commission Rule 150.3 provides that

> [t]he position limits set forth in §150.2 of this part may be exceeded to the extent such positions are:
>
> (1) . . .
>
> (3) Spread or arbitrage positions between single months of a futures contract traded on the same board of trade outside of the spot month, in the same crop year; <u>Provided however,</u> That such spread or arbitrage positions, when combined with any outright positions in the single month, do not exceed twice the single-month position limit for the futures contract set forth in §150.2 of this part. . . .

17 C.F.R. §150.3 (1991). CBT Rule 425.01 mirrors Commission Rules 150.2 and 150.3.

The CBT letter of June 25, 1991, represents that such relief

> is intended to enhance liquidity in Soybean Oil futures while reducing the anticompetitive effects of current position limit regulations through the end of the current crop year. Moreover, the CBOT's request is consistent with recent amendments to the speculative position limits in agricultural futures and options which were approved by the CBOT membership and are currently pending before the Commission. . . . This no-action request is precipitated by the fact that approval of the proposed regulation amendments may not be finalized until . . . long after current inter-crop spread trading has ceased in Soybean Oil futures. Therefore, this matter requires immediate attention.
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> . . . . Insofar as the deleterious effects of inter-crop year spread limits will disappear in August 1991 as the September 1991 Soybean Oil futures contract becomes the spot month, no-action relief is ought only through August 31, 1991. It must be emphasized that neither this no-action request or the Exchange's pending rule submission seek to modify current CBOT and CFTC regulations for futures/futures spreads involving the spot month.

> Current speculative spread position limits in Soybean Oil futures place severe restrictions on trading in the key months of July, August and September 1991 versus the October 1991 contract (the first listed month of the new crop year) and additional deferred months. Unlike other commodities, soybean oil is storable well beyond one year and does not fall into an old crop/new crop category.... [T]his no-action request simply will make inter-crop year spread limits consistent with current intra-crop year spreads.

The exemption from the individual month speculative position limits was promulgated by the Commission in response to a petition for rulemaking of the New York Cotton Exchange. 53 Fed. Reg. 41563, 41566 (October 24, 1988). In adopting an inter-month spread exemption, the Commission was sensitive to the possibility that unusually large inter-month spread positions had the potential to disrupt the market when the individual legs of the spread involve separate crop years. See Id. at 41565. This potential arises where the pricing characteristics of the commodity differ between crop years sufficiently so that the spread position acts more as two unrelated outright positions rather than as an offsetting position. Accordingly, the inter-month spread exemption was limited to months in the same crop year.

The CBT has represented that current conditions in the soybean oil market are contrary to the above conditions. In particular, the unusually high stocks of soybean oil being carried over from the old crop year into the new has removed any pricing differential between old and new crop years other than customary carrying charges, so that the crop years are, in fact, indistinguishable. Moreover, the CBT Soybean Oil contract provides for delivery of warehouse receipts, which are also currently at high levels.

The limitation of the inter-month spread exemption to months in the same crop-year was premised on the observed probability that the relationship between old and new crop years is one of scarcity versus abundance. The actual conditions of the soybean oil market at this time are not consistent with the assumption underlying the limitation on the inter-month spread exemption to months in the same crop year. Accordingly, this limitation does not address a problem which exists in this particular market at this time.

For the above reasons, and based upon the CBT's representations, the Division of Economic Analysis will not recommend to the Commission any enforcement action against the CBT under Sections 4a, 5a(8), 6(a), 6b and 6c of the Commodity Exchange Act, (7 U.S.C. §§6a, 7a(8), 8(a), 13a, and 13a-1), or its rules thereunder, or against any trader under Sections 4a, 6(b) 6(c) and 6c of the Commodity Exchange Act, (7 U.S.C. §§6a, 8(a), 13a and

13a-1) or any of its rules thereunder, for exceeding the individual month speculative position limit in the CBT Soybean Oil contract to the extent that such positions are spread or arbitrage positions between single months of the CBT Soybean Oil futures contract outside of the spot month; provided however, that such spread or arbitrage positions, when combined with any outright positions in the single month, do not exceed 1,080 contracts. This no-action position is limited in its effect to the period from its date of issuance until August 31, 1991.

The above position is based upon the CBT's representations in its letters of June 25, and July 2, 1991, and in telephone conversations with the staff. Any different, omitted, or changed facts or conditions might require a different conclusion. This position does not excuse compliance by the CBT or any individual trader with any other provision of the Commodity Exchange Act or Commission regulations, nor does it address trading requirements, particularly under Part 150 of the Commission's rules, in any other contract market, or in the CBT Soybean Oil market for any other period of time. It should also be noted that this position is that of the Division of Economic Analysis, and is not binding upon the Commission or any other division or office of its staff.

Sincerely,

Gerald D. Gay
Gerald D. Gay,
Director