

From: Ken McCoy <ken@northentier.com>
Sent: Friday, April 9, 2010 9:56 PM
To: Metals Hearing <metalshearing@CFTC.gov>
Subject: Ted Butler Commentary - A Time to Act

Dear Sirs;

I have been watching the case going on with the CFTC regarding position limits and have written Chairman Gensler and some of the others Ted Butler recommended a while back. One of the points made in the letter was that position limits appear to be rather irrelevant when there is no verifiable supply behind the futures contract and therefore position limits appear to be a stop gap measure to preclude the runaway short situation we have today.

The argument that position limits will drive business to other markets doesn't hold water. If there is a supply of a commodity a contract may be written against it - no supply: no contract. The supply should be verifiable - gold on the moon or an orbiting asteroid should not qualify. Likewise with soybeans, as there appear to be more contracts chasing soybeans and other food commodities than is currently available - this could potentially cause famine in some countries that are counting on delivery of those commodities.

So perhaps the limit should be on the number of contracts written against any given commodity shall be based on a proven and available supply. Commodity contracts written in the US should be done on commodities verified available in the US - maybe that would inspire an audit of Ft Knox - then whatever happens in any other market around the globe may happen; if some governments wish to write contracts on fictional commodities their markets will not long exist, nor will ours if this situation is not repaired.

This basically boils down to an accounting issue and the banks in London have too long played games with the measure of gold available in the system. If a limited number of contracts are available for a given commodity it will obviously be more likely that the price will rise for those contracts when they are one to one parity with supply. This would alert farmers, for example, to plant more soy beans to meet a projected shortfall.

Everything that I have read to date suggests that all of the commodities contracts have no correlation to physical supply, and if this is the case, how will the "free market" system in the United States ever be expected to work. We otherwise regress into a postwar state of communist quotas and doublespeak to explain shortages and people waiting in lines for hours to purchase a loaf of bread. Fix it gentlemen, and fix it right.

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