RE: Position Limits for Derivatives
RIN 3038-AD99

Dear Ms. Jurgens:

On behalf of Armajaro Asset Management I would like to comment briefly on the proposed rulemaking issued by the Commodity Futures Trading Commission involving position limits for derivatives. We operate several commodity funds, largely discretionary in nature, and in particular are concerned about the implications for our trading in the tropical softs category, especially cocoa, coffee and #11 sugar.

The proposed rules, while universal in their application, are largely designed for domestic agricultural markets .The 3 markets mentioned above are all international in nature , either by virtue of their terms (as in Free On Board global ports for the sugar #11 contract) or because they involve commodities that are not grown here. We believe the proposed rule changes could negatively impact the liquidity of the markets and severely limit the ability of commercial and financial participants in the coffee, cocoa and sugar markets to assume or hedge their risks using Exchange contracts.

Expressly,

• We believe that the reduction in the size of permissible positions will reduce liquidity and volume in the markets, and potentially distort prices by allowing domination by a relatively small group of end-users who alone have easy access to hedge exemptions. It is well-documented that the cocoa/chocolate industry, and to a lesser degree the coffee trade, is highly concentrated. Buyers have an acute advantage over the millions of small-holders who produce coffee and cocoa. In small and comparatively specialized markets such as cocoa it is imperative we maintain the interest and involvement of a speculative financial community to ensure the efficient functioning of the markets and encourage price transparency.

• All 3 mentioned commodities have growing production and end-user demand so logically any position limits should be loosely pegged to this data. Traded volumes are at record levels as a logical extension of this fact. We favour maintaining existing limits given these realities. Reducing limits predominantly impacts the involvement of non-commercials and ,at least temporarily, biases the pricing process in favour of large,multinational end-users.

• Single month position limits in forward contracts are arbitrary and not reflective of underlying conditions in the cash markets. Futures market participants should be free to allocate and absorb price risk in line with the reality of crop seasonal cycles and the forward selling programs of origin suppliers. A total “net” or “all month” position limit is far more realistic and flexible but even here no fixed numbers should be established until an abundance of Part 20 data is available.

• The proposed definition of “bona fide hedging position” defines the hedge of a physical commodity as “Assets which a person owns, produces, manufactures, processes, or merchandises or anticipates owning, producing, manufacturing, processing, or merchandising.” While this

language clearly includes anticipated merchandising, as things currently stand a trader is not able to obtain an exemption for positions representing anticipated merchandising needs. The CFTC should expand the definition of enumerated hedging positions to recognize this activity as legitimate.

• The concept of cash and carry is essential to the efficient functioning of physical commodity market and should therefore be allowed as the basis for trading positions. Approximate convergence between the nearby futures price and the underlying cash is necessary for accurate price discovery which benefits all market participants. It is essential for the pricing of agricultural crops which come to market at a pace different to their usage. Without convergence markets become distorted and eventually of limited value as a real hedge. Fixed single month spot limits, without widely available cash and carry exemptions, can easily impede convergence as they artificially prevent willing stock-holders from taking up available inventory. If, for whatever reason, under-priced material is allowed to hover over the market yet not be available to it, it has the impact of artificially dampening prices and protecting the shorts to the detriment of producers. While the US has always been wary of short selling in equities and other markets, it appears to condone it in the commodity markets by protecting shorts and not allowing market longs to hold positions to maturity. Permitting market participants to absorb excess spot material ,and carry it until such time as it is needed, is a vital function of the marketplace so we ask that the CFTC routinely allow the Exchange to grant cash and carry exemptions.

• To guard against any form of price abuse or manipulation we believe the CFTC and the relevant exchange already have adequate tools at their disposal .These include the ability to ask market players to detail the cost basis of their cash and carry operation; identify their existing stock positions; the power to enforce a reduction or elimination of a position and the imposition of exit orders at various price points.

• The CFTC should automatically permit inter-market spread exemptions (arbitrage trades) in cocoa, sugar and coffee for ICE and NYSE Liffe non-spot positions. The resultant trading flows correct price imbalances and allow the individual markets to be valued correctly.

• We feel that the existing structure for reporting/oversight of positions does not need to be tampered with. Specifically, while maintaining a supervisory role, we feel it is unnecessary for the CFTC to create a second layer of reporting. ICE Futures US (“ICE” or the “Exchange”) have the staff and experience to adequately administer position limits and grant hedge exemptions, and do so in a sensitive and timely manner. They are familiar with the workings of the markets and the players within them. They are able to make reasoned decisions and respond to unusual circumstances by virtue of their experience in the field. Having 2 separate bodies with potential oversight creates room for different rule interpretations, thereby adding unnecessary complexity and uncertainty for market participants. We ask that the existing procedures and protocols therefore be maintained.

We respectfully request that the CFTC examine the lessons learned from the NYSE/Liffe imposition and interpretation of spot month position limits in their cocoa and coffee markets. These interpreted market backwardation as undesirable and included the forced exit of traders

from economically justifiable spot month long positions, including those within the limit. For approx. 3 years this regime had the impact of inadvertently impeded convergence to such a degree that the robusta coffee market is currently considered effectively non-functioning by most segments of the user domain. An examination of the prevailing conditions in this market offer compelling proof of the need for approximate convergence with stocks almost exhausted and hedgers no longer able to use the futures market as a medium to protect their basis risk because of huge and unstable differences between the futures and the underlying actuals. New proposals are currently being studied with a view to allowing the concept of convergence to return to the market.

We hope the Commission recognizes that throughout their history commodity markets have been criticized for fostering excessive speculation, alternately leading to price rises, to the detriment of the consuming public, and at other points being blamed for an unacceptable fall in agricultural prices , causing considerable grief to farmers. Markets get disrupted by any mis-match between production and consumption, and prices respond. What is important is that the workings of a free and efficient market ultimately provoke the necessary price changes to correct the situation and restore a sense of equilibrium. Let us not forget that during the financial crisis of 2008 our commodity markets displayed great transparency and resiliency because of their ability to accurately price the underlying commodities. They need to retain the basis for their efficiency. Tampering with the rules and eliminating key provisions such as the right to implement a cash and carry strategy , risk breaking a machine that doesn't need fixing.

Please do not hesitate to contact me by email or on 212.570.0539, if you would like to discuss this issue further

Yours Sincerely,

Pamela Thornton – Portfolio Manager