



August 31, 2018

Steve Benton
Industry Economist, Division of Market Oversight
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street NW
Washington, DC 20581

RE: Updated Deliverable Supply Data – Potential Position Limits Rulemaking

Mr. Benton,

The Minneapolis Grain Exchange, Inc. (“MGEX”) appreciates that the Commodity Futures Trading Commission (“Commission”) is seeking updated deliverable supply data for MGEX’s Hard Red Spring Wheat (“HRSW”) futures and options contract, and a recommendation for a spot month limit as it considers a new or revised proposed rulemaking on position limits. As a designated contract market (“DCM”) with a long-established contract for an enumerated agricultural commodity, the issue of position limits is fundamental. It directly impacts MGEX’s business and operation of its contract market, as well as how market participants utilize the HRSW contract. With over 135 years of experience as the primary marketplace for HRSW, MGEX has developed a deep understanding of the production and supply of HRSW. MGEX also possesses expertise about what constitutes legitimate, bona-fide hedging practices. As the Commission considers a re-proposal or new rulemaking, MGEX is optimistic that the Commission will not propose or adopt rules that artificially inhibit the use of the HRSW contract or prohibit legitimate hedging practices.

Attached as Exhibit A is deliverable supply data for HRSW spanning from January 1, 2015 through August 5, 2018. The data captures the combined weekly deliverable supply amounts for the contract’s two delivery locations: (1) Duluth/Superior and (2) Minneapolis/St. Paul/Red Wing switching districts. To be consistent with prior MGEX submissions and how the Commission has interpreted deliverable supply, the updated data only includes bushels in elevators that are regular for delivery. The data shows a weekly average exceeding 23,300,000 bushels.

The updated deliverable supply data, however, is a conservative estimate. MGEX believes that a more holistic approach should be used to determine deliverable supply. Using the Commission's own definition of "deliverable supply"¹, other factors besides just bushels currently in store in regular facilities are relevant when computing deliverable supply. MGEX has advocated in the past, and continues to believe, that factors including HRSW in transit, projected and actual production levels of HRSW, and movement in the cash market at contract delivery points play a role in determining total deliverable supply. If a more holistic approach was used, the deliverable supply of HRSW would be multiples higher.

As for a maximum spot month position limit, MGEX does not have a numeric recommendation. MGEX noted that under the Commission's last proposed rulemaking, the spot month limit for the HRSW contract would be 1,000. Specifically, the Commission proposed that the spot month limit would be based on 25% of deliverable supply (defined as what was currently in store at regular facilities). When MGEX commented to that proposal, the weekly average of deliverable supply for HRSW was 20,000,000 bushels or 4,005 contract equivalents. That equated to a spot month limit of 1,000. If this formulaic approach was applied to current data, the spot month limit for the HRSW would be 1,165 contracts.

MGEX fundamentally disagrees with the 25% formulaic calculation for the spot month position, especially if a limit is codified by rule and does not allow for adjustments as deliverable supply changes. MGEX believes that DCMs are in the best position to compute and monitor deliverable supply and establish an appropriate spot month position limit. If the Commission decides, however, to use a formula or adopt a specific spot month position limit, MGEX believes that the limit should be no less than 1,000 contracts. In addition, MGEX should have discretion to adjust the limit up or down if conditions warrant doing so. MGEX would be happy to have further discussions about how to approach the spot month position limit.

It is difficult to have a conversation about deliverable supply and spot month limits without addressing the definition of bona fide hedging and non-spot month limits. How deliverable supply is computed, what the spot and non-spot month limits are, and the definition of bona fide hedging all relate to each other. Regarding bona fide hedging, it is necessary for a DCM to grant exemptions to established spot and non-spot month position limits for bona fide hedging practices. As the Commission works toward a revised or new proposed rulemaking on position limits, it should ensure that the definition of bona fide hedging accurately reflects longstanding, legitimate risk management strategies.

Similarly, it is important that the Commission does not use a formulaic approach to set non-spot month limit positions. Using a formulaic approach for the non-spot month limit, as the Commission previously proposed, would have an adverse impact on overall trading

¹ In Appendix C to Part 38, the Commission has defined "deliverable supply" to mean "the quantity of the commodity that can reasonably be expected to be readily available to short traders and saleable by long traders at its market value in normal cash marketing channels at the derivative contract's delivery points during the specified delivery period, barring abnormal movement in interstate commerce".

at MGEX. It would also impair the ability for market participants to execute their risk management strategies, which would undermine the overall health and performance of the futures market. MGEX has consistently advocated that parity should remain among the three major domestic wheat contracts (HRSW, Soft Red Winter Wheat, and Red Winter Wheat) with respect to non-spot position limits. Market participants rely on each wheat contract as part of their legitimate risk management strategies. For instance, they often engage in cross-hedging and spread trading among the wheat contracts to respond to, among other things, domestic or global economic factors. Maintaining parity can also help reduce price volatility and create more predictability in the domestic wheat markets (i.e., the underlying cash markets). MGEX refers the Commission to the August, 1, 2014, January 22, 2015, and March 30, 2015 comment letters for a comprehensive narrative on the issue of wheat parity.

If there are any questions about the updated deliverable supply data or this letter, please contact me at (612) 321-7141 or awysopal@mgex.com.

Regards,

A handwritten signature in blue ink, appearing to read 'AWysopal', with a stylized, flowing script.

Adam Wysopal
Associate Corporate Counsel

EXHIBIT A

Date	Deliverable Supply (in bushels)	25% (5,000 bushel equivalent contracts)
1/2/2015	20,432,000	1,022
1/9/2015	21,904,000	1,095
1/16/2015	23,854,000	1,193
2/1/2015	24,604,000	1,230
2/8/2015	25,207,000	1,260
2/15/2015	25,360,000	1,268
2/22/2015	25,098,000	1,255
3/1/2015	25,222,000	1,261
3/8/2015	25,407,000	1,270
3/15/2015	25,397,000	1,270
3/22/2015	26,342,000	1,317
4/5/2015	26,493,000	1,325
4/12/2015	26,346,000	1,317
4/19/2015	26,123,000	1,306
4/26/2015	25,409,000	1,270
5/3/2015	25,687,000	1,284
5/10/2015	24,417,000	1,221
5/17/2015	23,274,000	1,164
5/24/2015	22,380,000	1,119
5/31/2015	21,427,000	1,071
6/7/2015	20,709,000	1,035
6/14/2015	21,658,000	1,083
6/21/2015	21,328,000	1,066
6/28/2015	22,171,000	1,109
7/5/2015	21,667,000	1,083
7/12/2015	20,621,000	1,031
7/19/2015	21,133,000	1,057
7/26/2015	21,023,000	1,051
8/2/2015	24,350,000	1,218
8/9/2015	23,019,000	1,151
8/16/2015	22,993,000	1,150
8/23/2015	26,441,000	1,322
8/30/2015	28,630,000	1,432
9/6/2015	28,534,000	1,427
9/13/2015	29,967,000	1,498

9/20/2015	31,726,000	1,586
9/27/2015	33,225,000	1,661
10/4/2015	32,281,000	1,614
10/11/2015	32,330,000	1,617
10/18/2015	32,815,000	1,641
10/25/2015	32,743,000	1,637
11/1/2015	33,219,000	1,661
11/8/2015	32,151,000	1,608
11/15/2015	32,231,000	1,612
11/22/2015	32,419,000	1,621
11/29/2015	30,296,000	1,515
12/6/2015	28,972,000	1,449
12/13/2015	28,952,000	1,448
12/20/2015	27,475,000	1,381
12/27/2015	27,628,000	1,381
1/3/2016	27,682,000	1,384
1/10/2016	27,308,000	1,365
1/18/2016	26,784,000	1,339
1/24/2016	26,632,000	1,332
1/31/2016	26,640,000	1,332
2/7/2016	27,072,000	1,354
2/15/2016	27,048,000	1,352
2/21/2016	26,640,000	1,332
2/28/2016	26,573,000	1,329
3/6/2016	26,265,000	1,313
3/13/2016	26,426,000	1,321
3/20/2016	26,622,000	1,331
3/27/2016	26,179,000	1,309
4/3/2016	25,233,000	1,262
4/10/2016	24,995,000	1,250
4/17/2016	25,474,000	1,274
4/24/2016	22,941,000	1,147
5/1/2016	21,189,000	1,059
5/8/2016	21,060,000	1,053
5/15/2016	21,353,000	1,068
5/22/2016	21,848,000	1,092
5/30/2016	21,659,000	1,083
6/5/2016	21,263,000	1,063
6/12/2016	21,704,000	1,085
6/19/2016	21,819,000	1,091
6/26/2016	20,412,000	1,021

7/4/2016	20,385,000	1,019
7/10/2016	21,414,000	1,071
7/17/2016	21,432,000	1,072
7/24/2016	22,251,000	1,113
7/31/2016	24,596,000	1,230
8/7/2016	24,921,000	1,246
8/14/2016	25,770,000	1,289
8/21/2016	25,437,000	1,272
8/28/2016	26,555,000	1,328
9/5/2016	26,898,000	1,345
9/11/2016	27,321,000	1,366
9/18/2016	28,569,000	1,428
9/25/2016	29,784,000	1,489
10/2/2016	29,595,000	1,480
10/9/2016	29,531,000	1,477
10/16/2016	28,758,000	1,438
10/23/2016	28,258,000	1,413
10/30/2016	27,467,000	1,373
11/6/2016	26,860,000	1,343
11/13/2016	27,036,000	1,352
11/20/2016	24,687,000	1,234
11/27/2016	24,394,000	1,220
12/4/2016	23,786,000	1,189
12/11/2016	21,884,000	1,094
12/18/2016	21,380,000	1,069
12/26/2016	20,878,000	1,044
1/2/2017	21,042,000	1,052
1/8/2017	20,971,000	1,049
1/16/2017	21,063,000	1,053
1/22/2017	20,798,000	1,040
1/29/2017	21,241,000	1,062
2/5/2017	21,139,000	1,057
2/12/2017	21,423,000	1,071
2/20/2017	21,753,000	1,088
2/26/2017	22,153,000	1,108
3/5/2017	22,847,000	1,142
3/12/2017	23,698,000	1,185
3/19/2017	23,662,000	1,183
3/26/2017	24,206,000	1,210
4/2/2017	24,582,000	1,229
4/9/2017	24,911,000	1,246

4/16/2017	24,299,000	1,215
4/23/2017	23,231,000	1,162
4/30/2017	22,082,000	1,104
5/7/2017	20,634,000	1,032
5/14/2017	20,366,000	1,018
5/21/2017	19,405,000	970
5/29/2017	19,249,000	962
6/4/2017	19,210,000	961
6/11/2017	18,214,000	911
6/18/2017	18,134,000	907
6/25/2017	17,031,000	852
7/2/2017	17,551,000	878
7/9/2017	17,324,000	866
7/16/2017	18,525,000	926
7/23/2017	19,448,000	972
7/30/2017	19,852,000	993
8/6/2017	19,803,000	990
8/13/2017	20,362,000	1,018
8/20/2017	20,682,000	1,034
8/27/2017	20,481,000	1,024
9/4/2017	22,038,000	1,102
9/10/2017	21,810,000	1,091
9/17/2017	21,813,000	1,091
9/24/2017	21,437,000	1,072
10/1/2017	24,371,000	1,219
10/8/2017	25,147,000	1,257
10/15/2017	24,430,000	1,222
10/22/2017	24,802,000	1,240
10/29/2017	24,748,000	1,237
11/5/2017	23,301,000	1,165
11/12/2017	22,874,000	1,144
11/19/2017	22,904,000	1,145
11/26/2017	22,750,000	1,138
12/3/2017	21,222,000	1,061
12/10/2017	20,896,000	1,045
12/17/2017	21,140,000	1,057
12/25/2017	21,144,000	1,057
1/1/2018	21,270,000	1,064
1/7/2018	21,356,000	1,068
1/15/2018	21,091,000	1,055
1/21/2018	20,945,000	1,047

1/28/2018	20,781,000	1,039
2/4/2018	21,263,000	1,063
2/11/2018	21,677,000	1,084
2/19/2018	21,908,000	1,095
2/25/2018	21,895,000	1,095
3/4/2018	22,080,000	1,104
3/11/2018	21,843,000	1,092
3/18/2018	21,698,000	1,085
3/25/2018	21,389,000	1,069
4/1/2018	21,765,000	1,088
4/8/2018	22,068,000	1,103
4/15/2018	21,424,000	1,071
4/22/2018	20,963,000	1,048
4/29/2018	19,657,000	983
5/6/2018	18,223,000	911
5/13/2018	18,551,000	928
5/20/2018	18,131,000	907
5/28/2018	17,333,000	867
6/3/2018	15,280,000	764
6/10/2018	15,179,000	759
6/17/2018	15,807,000	790
6/24/2018	15,559,000	778
7/1/2018	14,698,000	735
7/8/2018	14,597,000	730
7/15/2018	14,266,000	713
7/22/2018	13,771,000	689
7/29/2018	13,188,000	659
8/5/2018	14,364,000	718
Total Deliverable Supply (Bushels)	4,333,977,000	
Weekly Average Supply (Bushels)	23,300,952	
Weekly Avg Supply (Contract Equivalent)	4,660.19	
25% of Weekly Avg Supply (Contracts)	1,165.05	