

**BOARD OF TRADE OF THE CITY OF CHICAGO INC.**

**ANALYSIS OF DELIVERABLE SUPPLY**

**OAT FUTURES**

**AUGUST 2018**

In estimating deliverable supply for the Oat Futures, the Board of Trade of the City of Chicago Inc. (“CBOT” or “Exchange”) relied on long-standing precedent, which provides that the key component in estimating deliverable supply is the portion of typical supply stocks that could reasonably be considered to be readily available for delivery. In its guidance on estimating deliverable supply, the Commodity Futures Trading Commission (“CFTC” or “Commission”) states:

In general, the term “deliverable supply” means the quantity of the commodity meeting a derivative contract’s delivery specifications 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. Typically, deliverable supply reflects the quantity of the commodity that potentially could be made available for sale on a spot basis at current prices at the contract’s delivery points. For a non-financial physical-delivery commodity contract, this estimate might represent product which is in storage at the delivery point(s) specified in the futures contract or can be moved economically into or through such points consistent with the delivery procedures set forth in the contract and which is available for sale on a spot basis within the marketing channels that normally are tributary to the delivery point(s).<sup>1</sup>

**Background:**

Oats are a cereal grain suitable for human consumption but more commonly used in livestock feed. According to the USDA, the 2017/2018 U.S. oat crop totaled 49 million bushels. Estimated U.S. oat production is expected to increase 34.7 percent for the 2018/19 crop year to 66 million bushels.

**Oats Futures Delivery Capacity (Updated Annually):**

Oat shipping certificates may be issued from any of the currently regular for delivery facilities located in one of the following territories:

Oats from regular facilities located within the Chicago Switching District, the Burns Harbor, Indiana Switching District; the Minneapolis, Minnesota or St. Paul, Minnesota Switching Districts, or within the Duluth, Minnesota or Superior, Wisconsin Switching District may be delivered in satisfaction of Oats futures contracts.

Chicago and Burns Harbor, Indiana Switching District - When used in these Rules, the Chicago Switching District will be that area geographically defined by Tariff ICC WTL 8020-Series and that portion of the Illinois Waterway at or above river mile 304 which includes the Calumet Sag Channel and the Chicago Sanitary & Ship Canal. When used in these Rules, Burns Harbor, Indiana Switching District will be that area geographically defined by the boundaries of Burns Waterway Harbor at Burns Harbor, Indiana which is owned and operated by the Indiana Port Commission.

As of August 2018, firms regular for delivery on CBOT Oats futures had approved capacity to issue 13,974 shipping certificates or 69.87 million bushels of Oats. Note, however, that many Oat regular facilities share regularity with the Minneapolis Grain Exchange (MGEX) Spring Wheat futures contract. In the event there is competition for delivery capacity, the estimated delivery capacity could be constrained.

---

<sup>1</sup> [http://www.ecfr.gov/cgi-bin/text-idx?SID=74959c3dbae469e2efe0a42b45b8dfae&mc=true&node=ap17.1.38\\_11201.c&rgn=div9](http://www.ecfr.gov/cgi-bin/text-idx?SID=74959c3dbae469e2efe0a42b45b8dfae&mc=true&node=ap17.1.38_11201.c&rgn=div9)

Below are the facilities regular for delivery on Oats futures in August 2018 along with the maximum number of shipping certificates they may issue, with each shipping certificate equivalent to 5,000 bushels:

Firm	Location	Maximum Certificates Deliverable
COFCO International Grains US LLC	Chicago, IL	2,462
General Mills Operations, LLC	Superior, WI	2,714
Hansen-Mueller Co.	Superior, WI	646
WB Duluth Storage, LLC	Duluth, MN	2,200
General Mills Operations, Inc.	Minneapolis, MN	801
General Mills Operations, Inc.	Fridley, MN	991
General Mills Operations, Inc.	Washburn, MN	710
Riverland Ag Corp.	Shakopee, MN	674
Riverland Ag Corp.	Minneapolis, MN	921
Savage Riverport LLC	Savage, MN	1,855

**Oat Futures Deliverable Supply Procedures and Estimates (Updated Annually):**

Each Tuesday the Registrar’s Office publishes Oats meeting deliverable grades that are in-store as of the previous Friday at all regular delivery facilities.

Deliverable supply is estimated as the stocks of grain in regular facilities on the Friday prior to First Notice Day<sup>i</sup>. This estimate includes a 50 percent reduction to stocks reported in the Chicago region because one of the two firms included in the Chicago region stores oats but does not always own them. Overall, this deliverable supply estimate is likely a very conservative estimate of deliverable supply because it does not count the significant amount of Oats that are likely near the delivery facilities and could easily be placed into delivery position very quickly. The Exchange may, at a later date, decide to estimate these stocks and included them in future deliverable supply estimates.

Futures Contract Expiration	Stocks of Oats in Regular Facilities on the Friday prior to FND (1M Bushels)
Mar-17	19.73
Mar-16	20.03
Mar-15	14.15
<b>MAR AVG</b>	<b>17.97</b>
May-17	18.11
May-16	18.83
May-15	16.71
<b>MAY AVG</b>	<b>17.89</b>
Jul-17	13.84
Jul-16	15.00
Jul-15	13.70
<b>JUL AVG</b>	<b>14.18</b>
Sep-17	10.62
Sep-16	14.76
Sep-15	13.25
<b>SEP AVG</b>	<b>12.88</b>
Dec-17	21.64
Dec-16	20.88
Dec-15	19.51
<b>DEC AVG</b>	<b>20.68</b>
<b>AVG ALL DELV MONTHS</b>	<b>16.72</b>

#### Seasonality:

The Exchange evaluates seasonality on the deliverable supply across all Oats futures contract expirations. To the extent that 25 percent of any contract month's future estimated deliverable supply falls below the current spot month limit, the Exchange will evaluate whether there is a need to adjust the spot-month position limit for that corresponding contract month.

#### Long Term Contracts:

There is no readily available data on oats under long-term contracts or agreements that could not be delivered on futures and should not be counted in deliverable supply estimates. To get a sense of the extent oats are under long-term agreements and not deliverable, the Exchange reached out to 4 oat regular delivery firms. Feedback from these firms indicates generally zero (0) percent of oats in their facilities are under long-term agreement and could not be delivered against Oat futures. One firm indicated generally zero percent under long-term agreement but at the very most five percent during some limited time frames. In addition, General Mills' Fridley, Minnesota warehouse is adjacent to their Oat mill, and we believe at this time it is possible that stocks in this facility may be primarily committed for milling purposes. Since stocks in individual warehouses are not publicly available, an alternative method to account for these potentially committed stocks is to reduce estimated deliverable supply by the ratio of Fridley deliverable capacity to total Oats deliverable capacity. Fridley is approved to issue 991 certificates (4.955 million bushels) out of a total deliverable capacity of 13,974 certificates (69.87 million bushels), which is approximately 7% of total regular storage capacity. Therefore, estimated deliverable supply above is reduced by 7%.

## ANALYSIS OF DELIVERABLE SUPPLY

Based on the above analysis, the Exchange estimates the monthly deliverable supply over the past five years to be 16.72 million bushels or 3,344 contract equivalents (contract size: 5,000 bushels). Excluding the estimated stocks that may be committed for milling at the Fridley warehouse, this total is reduced by 7% or 1,170,274 bushels (234 contracts), leaving estimated monthly deliverable supply at 15.55 million bushels or 3,110 contracts. The current spot month limit of 600 contracts represents **19.29%** of this estimated monthly deliverable supply.

---

<sup>i</sup> At any given time, the deliverable supply of oats will likely contain a high percentage of Canadian oats. CBOT Rules do not have any U.S. origin specifications in Oat futures, and Canadian grown oats that have U.S. Grades may be delivered. In crop year 2015/16, the US imported 38 percent of its oat supply; in 2016/17 42 percent of its oat supply; and in 2017/18 47 percent of its oat supply. The vast majority of these oats are imported through the districts of Duluth Superior and Pembina, ND, both of which are gateways into the Oat futures delivery locations. Imports through Duluth Superior and Pembina accounted for an estimated 99 percent of all oat imports into the U.S. in 2015/16; 83 percent of all oat imports into the U.S. in 2016/17; and 83 percent of all oat imports into the U.S. in 2017/18. In addition, approximately 41 percent of 2017/18 total US oat supply goes toward food, seed, and industrial use while the balance of disappearance goes toward feed and residual use.

