



AGRICULTURE

EU Wheat Speculative Position Limits and Hedge Exemptions

The Commodity Futures Trading Commission (CFTC) has federal oversight of the Chicago Board of Trade (CBOT). Part 150 of the Commodity Futures Trading Commission's (CFTC) regulations sets forth guidelines for Exchanges to follow when determining how many contracts a speculator may hold in listed physically delivered contracts. The speculative limits are for net long or short positions for futures and options combined. For CBOT EU Wheat futures and options, these limits are currently set as follows (pending CFTC review):

EU Wheat Speculative Position Limits

| Contract | Spot Month | Single Month | All Months Combined |
|----------|------------|--------------|---------------------|
| EU Wheat | 600 | 2,700 | 2,700 |

Spot Month Limits

Spot month limits restrict how many contracts a speculator can hold in a contract month that is entering or has entered its delivery cycle. For example, sellers may give their intention to deliver against EU Wheat futures contracts two business days prior to the delivery month. For the December 2016 EU Wheat futures contract, that date will be November 29, 2016. All speculators in the EU Wheat futures market can hold no more than 600 net long or net short positions in the December 2016 EU Wheat futures contract at the close of trade on November 29.

Spot month speculative position limits are based on the deliverable supply of the commodity at the futures delivery points and typically are set at no greater than one-quarter of the estimated deliverable supply at these delivery points. For example, if the minimum monthly deliverable supply over an entire crop year at all EU Wheat futures delivery points is 120,000 tons, one-quarter of this amount is 30,000 tons. Since each EU Wheat futures contract represents 50 metric tons, the EU Wheat spot month speculative limit would be 30,000 tons divided by 50 or 600 contracts.

Single Month and All Months Combined Limits

The CFTC also establishes rules around single and all-month combined speculative limits. The single month limit indicates the maximum number of net long or net short positions a speculator may hold in one non-spot contract. For example, a speculator can hold no more than 2,700 contracts net long or net short in any single EU Wheat futures and/or futures equivalent options contract month that has not entered its delivery cycle. All-month limits establish the maximum number of positions a speculator can hold in all trading months including the spot month. In EU Wheat, the all-month limits is equivalent to the single-month limits and a speculator may hold no more than 2,700 contracts net long or short in all EU Wheat futures and options contract months combined. The available contract months for EU Wheat are September, December, March, and May which span multiple contract years.

Single and all-month speculative limits in EU Wheat have been set following CFTC guidelines for new physically delivered contracts. After initial contract launch, however, single and all-month limits are generally established by a formula that allows single and all-month limits to be 10% of the average combined futures and delta-adjusted option month-end open interest for the most recent calendar year up to 25,000 contracts with a marginal increase of 2.5% of the remaining open interest thereafter.

As a contract grows, the formula allows larger single and all-month speculative limits. However, spot month speculative limits are determined by the amount of physical commodity that is deliverable.

Hedge Exemptions

All traders in EU Wheat futures and options contracts are subject to these speculative position limits unless they apply for and receive a hedge exemption. Participants who can demonstrate that their futures positions are hedging transactions in accordance with Rule 559 may apply to the Exchange to receive an exemption from speculative position limits and, if the exemption is granted, may hold positions in excess of these limits. Hedging transactions are transactions that normally represent a substitute for transactions to be made, or positions to be taken, at a later time in a physical marketing channel and that are economically appropriate to the reduction of risks in the conduct of a commercial enterprise. No transaction or position will be classified as exemption eligible hedging unless its purpose is to offset price risks incidental to commercial cash or spot operations and such positions are established and liquidated in an orderly manner in accordance with sound commercial practices.

For example, a grain cooperative/merchant who owns wheat that it plans to sell in the future can hedge the risk that the price of that wheat will decrease between now and the expected sale date by selling EU Wheat futures contracts. Since the futures position is a hedge against the price falling on actual physical grain held in storage, this type of activity can be exempted from speculative position limits if the cooperative/merchant applies for a hedge exemption. Similarly, a long futures position used to hedge fixed-priced sales or unfilled anticipated requirements for processing or manufacturing may also be exempted from speculative limits.

Hedge Exemption Process

Hedgers must request and file a hedge exemption justification application with the Exchange if they plan to open futures/option positions that exceed the speculative position limits. Market participants may request an application via email at hedgeprogram@cmegroup.com. The application shows the participant's positions in the cash market, and it is used to validate whether or not the participant's cash position justifies any futures/option position in excess of the speculative position limits. Applications are maintained by the Exchange Market Regulation department, and all information included in the application is held in confidence.

Summary

Speculative position limits in CBOT EU Wheat futures and options are based on the deliverable supply of the underlying commodity and on the size of the market. The Exchange closely monitors and strictly enforces speculative position limits. In order to exceed speculative position limits, a market participant must apply to the Exchange for a hedge exemption and must be able to demonstrate that any futures and options positions in excess of speculative limits represent a bona fide hedge against specific price risk.

The Exchange maintains a comprehensive market surveillance program that requires daily large trader reporting and includes analysis of positions, trading activity, price relationships and market fundamentals, as well as routine dialogue with market participants. These programs are designed to detect and deter potential price manipulation and provide a high level of market oversight that preserves the integrity of the market's price discovery function.

**Should you have additional questions,
please contact us at euwheat@cmegroup.com.**



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