

**Bryan Durkin remarks to USDA Ag Outlook Forum
Crystal Gateway Marriot
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10:30 A.M. EST**

Thank you, Mike. It's a pleasure to be here today speaking with all of you about this topic. And I would like to thank the USDA for organizing this wonderful event, and this panel.

As Mike said, I'm Bryan Durkin. I'm the Chief Operating Officer at CME Group. We are the world's leading derivatives marketplace. We feature a variety of futures and options products for many different asset classes, including energy, metals, interest rates, equities, and foreign exchange.

But I imagine most of you know us by what we've been the longest – a marketplace for trading agricultural commodities.

I'd like to take some time today to discuss some of the ways that the marketplace is changing in the face of new global challenges. And the role of ag markets in meeting those challenges.

CME Group History and Purpose

Our markets in Chicago were formed more than 150 years ago because farmers needed a central place to manage the risks of doing business, and guard against wild fluctuations in price and demand for their product.

We have a special tie to agriculture. It's in our company's history, and it's part of our culture. And it's because of this that we understand that efficient and transparent markets are absolutely essential to the business of farming.

They offer farmers and ranchers the opportunity to manage the risks associated with the unpredictable events that are a big part of their business. They also provide a necessary

mechanism for price discovery – which allows the agriculture community to make informed business decisions based on current data.

Technology, economics, regulation, weather patterns, geopolitics – these and other factors are constantly weighed on our markets to determine the dollar value of corn, soybeans, wheat, livestock and other commodities.

And over time, farmers and agribusiness have increasingly used our markets to manage risk. We can see this growth expanding greatly even over the past 12 years – especially following the wide adoption of electronic trading in 2004 and 2005.

We don't have to look far to see how this benefits agribusiness. Last year, we had one of the worst droughts in decades – about 80 percent of U.S. agricultural land was under severe drought conditions.

This drastically reduced production levels of corn, wheat and soybeans, and resulted in record prices in those commodities. We play a crucial role in helping companies manage the price they pay for grain, and allow them to pass fewer costs on to consumers at the grocery store.

At the same time, farmers, ranchers and grain elevators look to exchanges like ours to serve as a safety net by enabling them to lock in a price for their product. That allows them to increase their gains or limit their losses, and continue planting the next year.

And it doesn't just apply to agricultural commodities. Any company that depends on the use of materials or instruments with fluctuating prices, benefits from managing this risk – and that's exactly what futures markets allow companies to do.

Airlines, steel mills, pension funds, banks and countless other businesses use our markets to hedge against rising or falling prices. At CME Group, they can do this by trading across asset classes on a single exchange from almost anywhere in the world.

And when companies can manage risks associated with unexpected, but inevitable events, it's not just the individual or the corporation that thrives. A nation's economic health is helped

considerably by an industry's ability to keep itself afloat in even the most turbulent of times. And the last year certainly was turbulent for many of our nation's food producers.

The State of Financial Markets

While markets are essential to almost any business, they cannot serve their proper function if they do not have integrity. And that's the challenge we've faced across much of the globe since the financial collapse of 2008.

Over just the last year, financial markets have had their share of issues. Whether stemming from the failure of MF Global or Peregrine Financial, the LIBOR scandal, global regulatory uncertainty or technological glitches in equity markets like we saw with BATS and Knight Capital.

Without a doubt, we find ourselves in a challenging economic and regulatory environment. Match that with technological challenges and the waning trust in the financial industry and you can begin to understand the new environment for trading, and its role going forward in the marketplace.

The focus of financial firms now is to restore trust, and bring confidence back to markets. We've faced this ourselves following the MF Global and PFG failures, and we've implemented several measures to ensure safer markets. This includes a fund we developed specifically for eligible farmers and ranchers hurt by these events. And I'm glad to say that through that fund, we've helped more than 200 farmers in 27 states recover losses.

But the goal is to create a marketplace where this fund is never necessary. We've seen market participants react to the current situation in financial markets by deleveraging positions in the market, and trying to free up capital. This can be seen in lower trading volumes across equity and commodity markets in 2012 – four years after the financial collapse.

Market users must have confidence that the financial industry as a whole is constantly improving its efficiency and reliability. This is especially true in liquid markets like ours, where more than three billion futures and options contracts are traded annually worldwide, with an

underlying value of more than \$1 quadrillion. This volume underscores the vital economic role played by our industry. So it is important to recognize the macro-trends that are impacting us.

This includes the increased level of electronic trading. I mentioned earlier that participants can trade on our markets from almost anywhere in the world. That's due to the presence of CME Globex, our electronic trading platform, which has been in place for more than 20 years.

But lately, when we hear news of electronic trading, it's about the problems we've seen with sudden, dramatic price drops in equity markets like we saw last year with Knight Capital. Or it's about the rise of high-frequency trading, and whether or not that's a good thing.

While we believe high-frequency trading is a critical liquidity provider to markets, what's most important to any market – regardless of platform – is a complete market ecosystem that includes soundness, safety, liquidity and transparency. At CME Group, nothing is more important than the integrity of our markets. That's why we've taken great strides to ensure our markets are structured to promote fair, open access to all participants - no matter who they are, where or how much they trade.

Our markets include risk mitigation technologies including stop logic, a critical tool in limiting the potential for disruptive market moves. It's one of the dozens of safeguards in place to protect customers who trade on our markets, and equity markets are scheduled to implement something similar in April.

New regulatory proposals and yet-to-be-finalized rules through Dodd-Frank have also introduced some uncertainty into the market. Nowhere is this truer than position limits rules, which have the potential to greatly affect the ag community. As many of you know, the finalized rules from the CFTC were vacated last fall by a federal judge. The CFTC appealed that decision and now we're awaiting next steps. In this and other cases, the challenge for regulators is to promote regulation that provides genuine consumer protections that do not impede sound financial market development.

Despite these trends – wary market users, increased electronification and changing regulation – the fundamentals of markets remain the same. They are still, as they have always been, a place for price discovery where risk can be managed in a transparent environment.

Emerging Markets/Food Security

But while markets play a role in helping agribusiness, it is also important to understand that the role of the American farmer has changed in recent years. The epicenter of global economic growth and activity has been shifting from the developed nations to the emerging economies, whose growing middle classes increasingly demand American-produced commodities.

Good risk management can help reduce the cost of food on shelves here in the U.S. But a drought like we saw last year more than ever has far-reaching implications for food security around the globe as well. In the U.S., the USDA estimates that food prices will rise between 3 and 4 percent this year – and even more for meat and dairy products. But the UN's global food price index also showed steady increases last year following the drought, which underscores the importance of grains produced here in the U.S.

And we hear a lot about China, and its demand for food with a growing middle class. But some of that demand is shrinking. And when there are higher prices for U.S. commodities, exports shrink, and that can exacerbate an already uncertain situation for farmers.

Now, lately prices have come down. Corn and wheat traded on our markets has dropped around 20 percent from their highs last summer. But the new demand we're seeing isn't just from China or India. It's from places like Iraq and Bangladesh. And the USDA projects that by 2022, developing countries will account for 82 percent of the world's population.

So the demands on U.S. agriculture to produce more food on the same acreage increases. Technology, infrastructure and access to capital will all play a role in answering this demand for higher yields and increased productivity. But underpinning all of this is the role of risk management, and the ability to lock in a price on liquid, transparent commodity markets. It's a critical resource for farmers and ranchers today, just as it has been for the last 150 years.

A Final Note

Before I conclude, I'd like to say one more thing about transparency. It's one of the most important values we can offer as an exchange. And in ag markets, the USDA provides a tremendous service through its research and reporting of agricultural data that helps markets remain transparent. That helps all of us do our jobs better – regulators, policy makers, industry leaders and market participants. As I mentioned a few moments ago, the market takes into account several factors when determining prices. Without USDA reports, many of those factors would simply not be available. So we are grateful for the relationship we have with USDA, which goes back many decades.

Thank you very much for your time, and now I'll turn it over to Dave Baudler to talk about things from Cargill's perspective.