Agricultural Letter

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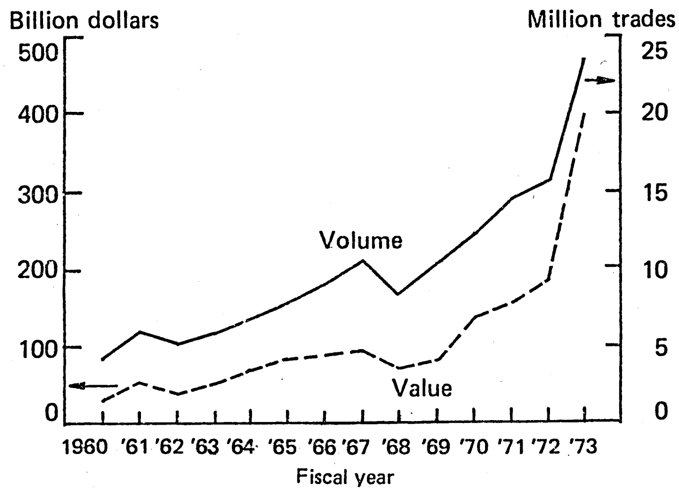
COMMODITY FUTURES MARKETS have experienced unprecedented trading over the past several months. There were 23.5 million contracts traded on all commodity exchanges during fiscal 1973, up 51 percent from the comparable year-earlier level. The increased volume coupled with higher prices boosted the estimated value of all contracts traded in fiscal 1973 to $399 billion, more than double the value for fiscal 1972 and more than two and one-half times as large as the value of all stock traded on the New York Stock Exchange during the same period.

The growth in futures trading reflects increased interest of both hedgers and speculators. The interest of hedgers—those who use the futures market to offset the price-risk associated with holding a fixed cash position—was no doubt spurred by the widely fluctuating prices of agricultural and metal commodities and the possibility of locking in favorable price levels. Fluctuating prices as well as the comparatively lackluster performance in the stock market also spurred the interest of speculators—those who provide the necessary liquidity to the futures markets by accepting the price-risk from hedgers.

Futures Trading Surges to Record



Chicago is by far the dominant location of commodity futures trading. During fiscal 1973, the three commodity exchanges in Chicago—the Chicago Board of Trade (CBT), the Chicago Mercantile Exchange (CME), and the MidAmerica Commodity Exchange (MidAm)—accounted for 80 percent of the contracts traded on all commodity exchanges. (The MidAm was formerly known as the Chicago Open Board of Trade.)

The CBT is by far the largest and the oldest of all existing commodity exchanges. Contracts currently traded on the CBT include wheat, corn, oats, soybeans, soybean meal, soybean oil, iced broilers, silver, plywood, and stud lumber. During the first eight months of this year, contracts traded on the CBT rose 58 percent over the comparable year-earlier level and accounted for over one-half of all contracts traded on all organized commodity exchanges. A better than threefold increase in the number of corn contracts traded paced the overall gain and boosted corn above soybeans as the most popular contract traded on the CBT. Other large gains included a near 14-fold increase in iced broilers contracts, and a 2.3-fold rise in the number of wheat contracts traded. Partially offsetting these gains was a sharp 25 percent decline in soybean contracts, in part reflecting the substantial number of days during which limit moves on prices of soybean futures curbed trading.

Contracts traded on the CME, the second largest futures exchange, during the first eight months of this year rose 41 percent above the year-earlier level and equaled nearly one-fourth of all contracts traded on all exchanges. Eggs, cattle, hogs, pork bellies, and foreign currencies account for the bulk of contracts traded on the CME. Through August of this year, the number of fresh egg, live cattle, and live hog contracts traded were double the comparable year-earlier level, while contracts in frozen pork bellies fell 42 percent. The number of contracts traded in all foreign currencies on the CME increased nearly fourfold from the small level of a year ago. Contracts in Japanese yen proved the most popular, accounting for nearly one-half of all currency contracts traded.

The MidAm recorded the fastest growth of all commodity exchanges despite its comparatively small size. During the January-August period, the number of contracts traded on the MidAm increased nearly 3.5-fold, paced by a 25-fold increase in corn contracts and a near ninefold gain in wheat contracts. The two most popular contracts traded on the MidAm so far this year—silver and U.S. silver coins—registered a 3.3-fold and 4.8-fold increase, respectively.

The comparatively large growth in trading at the MidAm in part reflects the increased interest of smaller hedgers and speculators. This increased interest has been facilitated by smaller-denominated contracts. For example, grain and soybean contracts traded on the MidAm are denominated in 1,000 bushels, compared to 5,000 bushels for like contracts traded on the CBT.

Whether the expanded volume of futures trading will be maintained in the months ahead is uncertain. On the one hand, preliminary evidence indicates the number of contracts traded in September fell to the lowest level since November of last year. Moreover, recent gains in the index of stock market prices as well as the more generally stable prices currently envisioned for most agricultural commodities in the months ahead could lessen the participation in futures markets. Nevertheless, with most crop prices well above support levels and the generally tight world supply situation surrounding most commodities, speculative developments such as adverse weather conditions and unrest in world monetary markets can develop quickly. Such developments are often associated with a new surge of interest in futures markets.

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