

assure a rough equality on the buying and selling sides of the market. The availability of futures contracts makes substantial contributions to the financing of crops as they are planted, harvested, and start thereafter through the marketing channels to ultimate end users. Speculation within the commodity markets makes hedging possible and permits the operation of the Nation's low-cost efficient grain marketing system.

The grain marketing system, because of the availability of futures markets where people trade in futures contracts covering grain, is a highly competitive, low-cost marketing system. The function performed by futures markets is to register the forces of supply and demand by open public trading. In doing this through the medium of futures transactions, producers, processors, exporters, and others are offered an opportunity to obtain price insurance that today they may agree to deliver in the future something they may not now own or that today they may agree to take delivery in the future of goods they may now anticipate they will need, or that today they may obtain a price certain for commodities they are buying or have bought and intend to carry awaiting sales or use for processing. Through trading on exchanges, a steady flow of commodities moves from production into consumption.

The rules of futures markets require that the users of these markets deposit collateral in the form of margins, to guarantee the performance of their contract. The minimum margin to be deposited is determined by the governing boards of contract markets. Futures commission merchants can and often do require deposits in excess of the minimum established by governing boards. The minimums required are subject to constant review. They vary by commodities, by type of trade, and may be different for different delivery months.

Attempts are at times made to draw an analogy between the margin required to enter into a contract for the future sale or purchase of a commodity, and the down payment required to obtain title to stock, or goods and chattels, or real estate.

There is no analogy between these transactions.

In speculative securities transactions actual title to the number of securities traded passes from the seller to the buyer. The speculator, in securities deposits his own money in the amount required by the Federal Reserve Board to obtain title to the securities, and his broker then loans the balance, either from his own funds or from a lending bank to complete payment for the transactions. In speculative transactions actual title to securities, evidencing the acquisition or disposal of an equity in a corporate entity, passes from a seller to a buyer.

So, too, as to transactions involving goods and chattels or real estate. There purchasers obtain a title by making a down payment and arrange to pay the balance either with the seller or through a bank on terms satisfactory to the buyer, the seller, and the bank. The buyer receives a title to something tangible—something he can use—something he can deal with—subject, of course, to the rights of his lender—the seller or the bank—as those rights may be defined in a chattel mortgage or mortgage deed.

In transactions covering agreements to sell or buy commodities for future delivery or receipt, no title passes to the buyer and no title passes from the seller. Each party to such a contract entered into on a commodity exchange deposits with his broker an amount of earnest money to assure compliance with the contract when, in the future, it matures, or until an offsetting contract is entered into. Only if the contract is completed by delivery, when it matures, does a title pass. And then, contrary to the practice in transactions involving securities or goods and chattels or real estate, full payment must be made.

Implicit in each futures transaction is an intention on the buyer's part to make delivery, and on the seller's part to take delivery. These obligations often are liquidated by offsetting trades. To the extent that they are not so offset, delivery will be made by the seller and title to the grain covered by the contract will be accepted by the buyer.

The experience of late 1947 as to grain prices, indicates that in commodity markets, where the volume of speculative trading has been limited, prices react in response to supply and demand factors. In October of 1947, as demanded by the President, a 33½ percent margin was set by the exchanges for speculative transactions. At that time May (1948) wheat at Kansas City was selling at \$2.64¼. May wheat continued upward, reaching nearly \$3. During this period the markets lost much if not all their liquidity, and such trades as were available to hedgers—processors or exporters, country and terminal handlers—caused rather wide changes in prices.