



Agribusiness Association of Iowa

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May 7, 2013

USDA-NASS
Agricultural Statistics Board Chair
1400 Independence Ave. SW, Room 5029
Washington, DC 20250

RE: USDA Statistical Report Release Times

Dear Sir or Madam:

I am writing to you as Chair of the Agribusiness Association of Iowa ("AAI") regarding the public release time of National Agricultural Statistics Service ("NASS") and World Agricultural Outlook Board ("WAOB") reports. As a membership organization representing agribusiness professionals in the state of Iowa, AAI believes it is important to share with the USDA how current reporting times are affecting AAI's members and others in the agribusiness community.

A recent poll of our membership revealed that the vast majority of our members find that the current practice of releasing reports during active trading times benefits investment professionals while disadvantaging producers and other agribusiness professionals. The advantage held by sophisticated trading professionals is so widely known in the industry that it was the topic of a May 1, 2013 Wall Street Journal entitled "High-Speed Traders Exploit Loophole." The article, a copy of which I have enclosed with this letter, details how certain investment professionals can obtain an advantage over others by establishing and utilizing powerful computers to respond to market changes a fraction of a second faster than other investment professionals can. The resulting disadvantage is even greater for our members who may not have access to high-speed internet or the latest trading software.

Our membership also expressed concerns over the extreme variability in the markets following release times. On most days in recent history, the market variability following release of grain reports has been significantly greater than at any other time during the day. After several minutes of trading, the variability in prices typically subsides, and prices often settle close to their pre-release levels. These market changes suggest that the release of grain reports during trading hours is creating artificial variability in market prices, and that variability is harming our members and other agribusiness professionals.

As a result, AAI strongly encourages the USDA to consider adjusting its report release times to coincide with the Chicago Mercantile Exchange break in trading between 7:45 a.m. Central Time and 8:30 a.m. Central Time. AAI believes that this would reduce the variability in the market in the minutes following report releases and increase fairness in trading and equal access to information for agribusiness professionals. Because producers and smaller agribusiness professionals often do not have access to high-speed internet or real-time report processing software or professionals, releasing reports during non-trading hours would ensure that these market participants are not at a disadvantage compared to larger operations and sophisticated investment professionals. Releasing reports during a break in trading would also allow all market participants time to process the information contained in the reports and make informed trading decisions rather than react to jumps in the market, further increasing market variability.

AAI appreciates the opportunity to bring to your attention the concerns of its members. AAI and its members would be happy to discuss these concerns and recommendations with you further at your convenience. Please feel free to contact me if you would like to schedule a time to discuss this issue with AAI or if you have any information relating to your consideration of changing the timing for release of USDA reports.

Very truly yours,

Allyson Perry
AAI Chair

Enclosure

cc: Agribusiness Association of Iowa, Board of Directors

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THE WALL STREET JOURNAL.

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MARKETS | May 1, 2013

High-Speed Traders Exploit Loophole

By SCOTT PATTERSON, JENNY STRASBURG and LIAM PLEVEN



High-speed traders are using a hidden facet of the Chicago Mercantile Exchange's computer system to trade on the direction of the futures market before other investors get the same information. Scott Patterson reports on MoneyBeat.

High-speed traders are using a hidden facet of the [Chicago Mercantile Exchange's](#) computer system to trade on the direction of the futures market before other investors get the same information.

Using powerful computers, high-speed traders are trying to profit from their ability to detect when their own orders for certain commodities are executed a fraction of a second before the rest of the market sees that data, traders say.

The advantage often is just one to 10 milliseconds, according to people familiar with the matter and trading records reviewed by The Wall Street Journal. But that is plenty of time for computer-driven traders, who say they can structure their orders so that the confirmations tip which direction prices for crude oil, corn and other commodities are moving. A millisecond is one-thousandth of a second.

The ability to exploit such small time gaps raises questions about transparency and fairness amid the



computer-driven, rapid-fire trading that increasingly grips Wall Street and confounds regulators.

The Chicago Mercantile Exchange, a unit of CME Group Inc., is the largest U.S. futures exchange, handling 12.5 million contracts a day on average in the first quarter, according to Sandler + O'Neill Partners L.P. High-frequency trading generated about 61% of all futures-market volume, up from 47% in 2008, according to Tabb Group.

Fast-moving traders can get a head start in looking at key information because they connect directly to the exchange's computers, giving them the data just before it reaches the so-called public tape accessible to everyone else. The exchange connections contain a host of data, of which the advance notice of trade confirmations is only a piece.

More

CME: Will Cut 'Potential Discrepancies' in Data Access

Related Video



A lot of job-switchers are ignoring what may be one of the best options to get the most out of their retirement: Moving their savings into their new employer's 401(k). MarketWatch's Jim Jelter explains the benefits. (Photo: AP)

All firms that connect directly to CME's trading computers are able to get information ahead of the market when their trades are executed, firm officials say. But many companies are unaware of the advantage or choose not to use it, traders say, either because they don't have the technology to take advantage of such tiny edges or employ different investing strategies.

CME spokeswoman Anita Liskey said the exchange operator is aware of the order delays, which industry officials refer to as a "latency."

There are "times when customers experience a latency of a few milliseconds between the time they receive their trade confirmations and when the information is accessible on the public feeds," she said, noting that the delays "are not consistent and vary across asset classes."



Bloomberg News

The Chicago Mercantile Exchange is the largest U.S. futures exchange.

Ms. Liskey said CME has been able to trim some delays through computer upgrades and plans additional efforts. Some customers of the exchange have been pressuring CME to improve its technology, according to people familiar with the matter.

Sophisticated traders have been aware of CME's order-latency issue for years and have incorporated the information into their trading strategies, according to an official with Jump Trading LLC, a big Chicago high-frequency company.

Earlier: Dark Markets

The Journal is investigating a new age of murkiness in the financial markets and the challenges that creates for investors.

Officials with Virtu Financial LLC, a high-speed trading firm in New York, view a slight head start as good for the overall market, according to a person familiar with their

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thinking. The person said the data helps traders who buy and sell futures contracts throughout the day manage risk and post more quotes that benefit other buyers and sellers. The person said Virtu doesn't use the information to amplify its profits by anticipating moves elsewhere in the market.

Proponents say eliminating the ability of parties in a trade to get information slightly in advance could lead to

less-liquid markets because some firms would be inclined to trade less due to the greater risks.



Officials with Chicago-based DRW Trading Group see the data -feed lags at CME as a "fact of life," not an unfair advantage, because any firm trading in milliseconds can take advantage of it if they build their systems properly, according to a person familiar with their views.

Firms can use their early looks at CME trading data in several ways. One strategy is to post buy and sell orders a few pennies from where the market is trading and wait until one of the orders is executed. If crude oil is selling for \$90 on the CME, a firm might post an order to sell one contract for \$90.03 and a buy order for \$89.97.

If the sell order suddenly hits, the firm's computers detect that oil prices have swung higher. Those computers can instantly buy more of the same contract before other traders are even aware of the first move.

Firms can also capitalize on that early information by buying a related product on another exchange before other traders know of a market shift. For example, it takes about 200 microseconds for trades to get from CME's Aurora, Ill., data center to the computers of [IntercontinentalExchange](#) Inc. about 33 miles away. A microsecond is one-millionth of a second.

Traders able to see market swings milliseconds before others gives them "an informational advantage," says Pete Kyle, a finance professor at the University of Maryland who is a former member of the Commodity Futures Trading Commission's Technology Advisory Committee.

Mr. Kyle likened the activity to "a tax on other traders" because "you get all the gains from being the first guy" to trade.

The CFTC, which oversees futures exchanges such as the CME, has been ramping up oversight of high-speed trading but agency officials said the CME'S latency issue isn't currently an area of focus.

While many speed advantages are well-known to market insiders, only a relatively small group of sophisticated firms appears to be aware of the CME's trade-reporting delays. The CME has told regulators that investors routinely get trade information at the same time. A March 29, 2012, CME presentation to the CFTC stated that market data "is disseminated to all participants simultaneously."

A Chicago trading firm says it recently detected delays between the time it received confirmations of trades and the time the CME published the information on multiple futures contracts covering

thousands of trades. For two weeks in late December and early January, the firm detected an average delay of 2.4 milliseconds for silver futures, 4.1 milliseconds in soybean futures and 1.1 milliseconds for gold futures.

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