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COMMENT

Jean A. Webb
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Dear Ms. Webb:

On behalf of Agri Beef Co., I am writing in support of the Chicago Mercantile Exchange decision to reduce position limits in the spot month live cattle futures from 600 to 300 contracts.

Agri Beef Co. actively participates in live cattle futures for negotiating cash cattle transactions, hedging fed cattle production, forward pricing basis contracts, and trading a hedge fund. We greatly appreciate the opportunity to participate in both long and short positions in the CME cattle futures market.

As cattle feeders we are inherently bullish live cattle and beef prices. Yet, we can appreciate the CME decision to recognize the error in the June 1998 contract change that retroactively increased the spot month position limit from 300 contracts to 600 contracts, without the important balance of correspondingly increasing deliverable supply with contract specification changes.

Similar to a number of other industries, the commercial cattle feeding industry has reacted to competitive margin pressure by incorporating new production efficiencies. At the same time, a larger percentage of cattle are being marketed based on carcass merit, requiring cattle feeders to maximize potential cattle performance. As a result, from 1990 to 2000 the average carcass weight for steers has increased an average of 5.7 pounds a year. The trend in carcass weights is not simply a two-year phenomenon in reaction to a marginal change in feed values.

It has now become evident the CME must update the live cattle futures specifications to more accurately correlate spot month futures with the underlying fed cattle market. In doing so, the CME can confidently balance spot month position limits.

Unfortunately, the increasingly negative basis has sent false market signals to the majority of cattle producers whom seldom trade futures, yet make their marketing decisions based on futures prices. False logic in believing live cattle futures will force cash cattle prices higher, regardless of basic supply and demand fundamentals, has been detrimental in achieving that very goal. Accurate correlation between futures and cash would be more effective in allowing cash market strength to develop when favorable economics develop.

We are confident the CME will remain diligent in updating their contracts to accurately correlate their products with underlying cash markets. Thanks for the opportunity to comment on this important issue.

Kevin M. Hughes
Vice President
Agri Beef Risk Management Co.