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secretary

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From: Carol Balvanz [carol@iabeef.org]
Sent: Friday, February 13, 2004 1:43 PM
To: 'secretary@cftc.gov'

2004 FEB 13 PM 1:59

February 13, 2004

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

Fax: (202) 418-5521
Email: secretary@cftc.gov

RE: Proposed Amendments to the Live Cattle and Feeder Cattle Futures
Contracts Increasing the Maximum Daily Price Fluctuation Limit to \$0.30 per
Pound

COMMENT

RECORDS SECTION

2004 FEB 17 AM 10:49

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Dear Secretary Webb,

The Iowa Cattlemen's Association (ICA) appreciates the opportunity to comment on this proposed price limit change by the Chicago Mercantile Exchange (CME). The ICA understands that this proposed change by the CME reflects a response to the unusual market activity that has occurred during the past few months when price and basis levels were extraordinarily volatile.

When the CME initially made this request in December of last year, Iowa cattle producers called our office and made comments to the CFTC received many comments expressing concern about the impact that doubling the daily price limit would cause. The CME delayed implementation and sent representatives to the NCBA annual convention in Phoenix to present their observations about the live cattle contract and their arguments in favor of expanding the limit to \$3 per cwt. Many of our of our ICA producer members participated in this dialogue.

Following the CME presentation at our meeting, ICA members agreed with the NCBA members in attendance that the CME request to double the daily price limit, from the current \$1.50 per hundredweight to \$3 per hundredweight is not appropriate.

ICA agrees with NCBA's assessment that recognizes the CME's concern of the recent market volatility due to relatively broad ranges of price movement of the Live Cattle and Feeder Cattle contracts and that the previously existing limits were not able to accommodate the market conditions existing at the time. ICA members also recognize, as was discussed at our convention, that the current limit of \$1.50 is creating situations where the market is locked on many occasions. However ICA members believe that addressing these concerns by imposing a \$3 per hundredweight daily price limit will generate greater economic risk to cattle producers and limit the participation of many current hedgers who see the risk of a \$3 daily move as too much to bear.

As an alternative to the CME request, ICA agrees with the NCBA proposal to increase the daily price limit from \$1.50 per hundredweight to \$2 per hundredweight with the ability for the CME to expand the daily limit to \$3 if the market closes at the limit two consecutive days. Under newly developed NCBA policy, on a weekly basis the market could move \$13 which is \$2 less than the \$15 per week allowed under the CME proposal. We think

NCEA's policy strikes a good compromise between the existing limit and the CME proposal.

We submit that a \$13 move on the futures market in one week is more than enough to accommodate fluctuations in the cash price. We have only observed weekly cash moves like this on two previous occasions, both within the past five months. On both occasions, the CME took additional actions under emergency authority to maintain the integrity of the contract and the functioning of the market.

ICA members have made it clear that they wish to ensure that the futures market functions better as a tool for risk management, improved basis convergence and reduced risk of market manipulation.

ICA appreciates the opportunity to comment on the proposed amendments by the CME. We urge the CFTC to maintain its historic vigilance over the live cattle futures markets, especially during time periods when our industry experiences the aggressive market activity that we have seen the past few months.

Sincerely,

Bob Johnson
President, Iowa Cattlemen's Association