

SUBMISSION COVER SHEET

Exchange Identifier Code (optional) 06-34

Date March 29, 2006

ORGANIZATION

CME

FILING AS A:

DCM

DCO

DTEF

TYPE OF FILING

- **Rule Amendments**

Self-Certification Under Reg. 40.6(a) or 41.24

Commission Approval Requested Under Reg. 40.5 or 40.4 (a)

Notification of Rule Amendment Under Reg. 40.6(c)

Non-Material Agricultural Rule Change Determination Under Reg. 40.4(b)

- **New Products**

Self-Certification Under Reg. 40.2 or 41.23

Commission Approval Requested Under Reg. 40.3

RULE NUMBERS

15202.D

DESCRIPTION (Rule Amendments Only)

increase daily price limit for CME Lean Hog futures

March 29, 2006

Ms. Jean A. Webb
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington DC 20581

Re: Section 5c(c)(2) and Regulation Section 40.5 Submission. Request for Commission Approval of Amendment to CME Lean Hog Futures Rule 15202.D. CME Submission #06-34.

Dear Ms. Webb:

1. **Request for Commission Rule Approval.** Chicago Mercantile Exchange ("CME" or "Exchange") hereby requests Commission approval of an amendment to Lean Hog Futures Rule 15202.D. regarding daily price limits. In addition, CME requests expedited approval of this amendment under Section 40.5(f).
2. **Text of Proposed Amendments.** The text of the proposed amendment is shown below, with additions underlined and deletions overstruck:

Lean Hog Futures

15202. FUTURES CALL

15202.D. Daily Price Limits

There shall be no trading at a price more than ~~\$.020~~ \$.030 per pound above or below the previous day's settlement price, except that there shall be no daily price limits in the spot month contract during the last 2 days of trading.

3. **Effective Date and Rule Promulgating Authority.** This amendment was approved by the Exchange on March 28, 2006. The Exchange intends to make this amendment effective for all contract months following Commission approval, upon notification of market participants.
4. **Operation, Purpose & Effect.** Current price limits on CME Lean Hogs futures are small when compared to those in other related commodities. For example, both Live Cattle futures and Frozen Pork Bellies futures have a daily price limit of 3 cents. The futures markets for corn, soybeans and soy meal all have price limits that are approximately 10% of the underlying cash price while even at 3 cents the proposed price limit for hogs is only about 5% of the cash price.

Under the current daily price limits structure, at times the CME Lean Hog futures market has difficulty in performing its price discovery function. In addition, market participants are disadvantaged by not being able to liquidate. This lack of liquidity can deter current and potential customers from taking new positions, thereby causing further harm to the market, if these conditions persist. Recently, on January 10 and 11, the February 2006 futures contract experienced 2 consecutive limit down settlements. There were a total of 5 daily limit movement settlements in 2005 and 9 in 2004. Those instances understate the situation as they do not account for occasions when the market touches the limit during the day. These intraday movements totaled over 30 instances in the last 2 years.

There are cash price series which affect our market and that traders rely upon when forming futures market opinions. These other prices have shown considerably more volatility and have no daily limit.

For example, the morning negotiated purchase price report for Iowa-S. Minnesota on February 15 noted a decrease of over \$4 from the previous day. Our market traded limit down that morning due to this change, according to traders. That same report has noted daily changes that exceed \$2 on over 30 occasions in both 2005 and 2004.

To address these issues, it is proposed that the daily price limits should be established at 3 cents per pound, except for the last 2 trading days in the spot month contract as is presently the case. The word "contract" has been added for clarification purposes. There would be no expansion or contraction of the price limits.

5. **Opposing Views.** The Exchange solicited comments regarding the proposal and received support for a 3-cent limit. However, one market participant objected on the basis that the underlying cash price series did not indicate a need to increase the limit. Further, that participant stated a belief that the increased limit would lead to increased volatility and delay or interfere with convergence. For the reasons stated above, the Exchange disagrees with these views.
6. **Necessary Amendments or Interpretations to the Act or Regulations.** The Exchange is not aware that any such amendments or interpretations are needed to accommodate these proposed amendments.

If you have any questions regarding this submission, please contact Jack Cook at 312-930-3295 and via e-mail at jcook@cme.com. Please refer to CME Submission #06-34 in all correspondence regarding this matter.

Sincerely,

A handwritten signature in cursive script, appearing to read "John W. Labuszewski". The signature is written in dark ink and is positioned above the typed name and title.

John W. Labuszewski, Managing Director
Research & Product Development