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secretary

From: O. A. Cleveland [cleveland@agecon.msstate.edu]
Sent: Wednesday, April 18, 2001 11:25 AM
To: secretary@cftc.gov
Cc: cotton@pobox.com
Subject: Re: Amendments To NYCE' Cotton's No.2

COMMENT

Reference: Proposed amendments to the NYCE's cotton No. 2 futures contract concerning micronaire, strength, and "old crop" cotton

The proposed amendments relating to strength and "old crop" are transparent with respect to the cash market for cotton and, thus, align the New York Number 2 contract with accepted business practices throughout all segments of the cotton industry. These amendments are a reflection of the cash cotton business. Therefore, I urge your approval of those specific changes.

However, I vigorously request your denial of the proposed amendment for the discount of 4.8 and 4.9 micronaire cotton and direct the remainder of my comments to this subject. This discount is not a practice within the vast majority of the cotton industry. Yet, I do note that a very small number of cash contracts with domestic textile mills do specify that 4.8 and higher micronaire cottons are not acceptable. Again, these are very specific contracts and are small in both the number of contracts and in the number of bales traded. That is, this proposed change is not reflective of any representative activity in the cash market.

Additionally, this change does not recognize the transformation of the US textile industry. The US cotton textile infrastructure is rapidly moving overseas. While the US domestic textile industry will remain viable, it has significantly been downsized. The export market is rapidly becoming the primary market for US cotton. Virtually 100% of US cotton export contracts do not discount 4.8-4.9 micronaire cotton. In fact, such cotton is awarded a defacto premium, as is all cotton in the premium range of 3.5 to 4.9. Thus, this proposed change is an attempt to obtain CFTC's direct approval of changing normal cash market trading activities. Note that the U.S. Department of Agriculture does not even collect or provide price data for 4.8-4.9 micronaire cotton. I urge CFTC to allow the cash market to distinguish such a difference, if it exists and there is no market evidence that it does. If such a distinction does become evident in the cash market, then and only then should the government become involved. The futures market exists to benefit the cash market. A rule that allows the futures market to dictate cash trading rules should not be approved, not vice versa.

The micronaire amendment is not consistent with your charge to either protect either the contract or those trading the contract.

Thank you for your consideration.

OA Cleveland, PhD
Professor Emeritus
Mississippi State University

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