



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**

Dear Secretary Webb,

The National Cattlemen's Beef Association (NCBA) appreciates the opportunity to comment on this proposed price limit change by the Chicago Mercantile Exchange (CME). The NCBA 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 at extraordinary levels.

When the CME initially made this request in December of last year, the CFTC received many comments from producers and futures market users expressing concern about the impact that doubling the daily price limit would cause. This prompted the CME to delay implementation of this rule change until our membership had an opportunity to review the rule and discuss the issue with the CME. The CME sent representatives to our annual convention in Phoenix and presented their observations about the live cattle contract and presented their arguments in favor of expanding the limit to \$3 per cwt. We appreciate the dialogue and the role of the CFTC in making that dialogue happen.

Following the CME presentation at our meeting, NCBA members debated the merits of the proposal in a very open fashion. Our membership concluded that the CME request to double the daily price limit, from the current \$1.50 per hundredweight to \$3 per hundredweight is not appropriate.

NCBA clearly 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. NCBA also recognizes, as was discussed at our convention, that the current limit of \$1.50 is creating situations where the market is locked on too many occasions. However NCBA believes that addressing the above concerns by the CME with 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, NCBA proposes increasing 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 our 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 our 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. Indeed, 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.

It has been the goal of NCBA to ensure that the futures market functions better as a tool for risk management, improved basis convergence and reduced risk of market manipulation. The CFTC, CME and cattle producers are well aware of NCBA's activity on this front.

The NCBA 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,

A handwritten signature in black ink that reads "Jan Lyons". The signature is written in a cursive, flowing style.

Jan Lyons
President, National Cattlemen's Beef Association