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Sent: Wednesday, December 10, 2003 12:40 PM
To: 'submissions@cftc.gov'
Subject: CME proposal to expand daily price limits on Live and Feeder
Cattle

December 10, 2003

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

Dear Ms. Webb,

I am writing in regard to the Chicago Mercantile Exchange (CME) proposal to expand daily price limits in Live Cattle and Feeder Cattle futures to \$.030 per pound. I am a livestock analyst and trader based in Chicago, and have filled orders and traded for my own personal account in the Live Cattle and Feeder Cattle pits on the floor of the CME for 20 years.

My first issue with the proposal and the reason for this submission is the manner in which the CME has handled the situation. The industry-both futures and cash-is aware of the problems the current \$.015 per pound limit has caused given recent price action and volatility in the cash cattle market. The locked limit trade, sometimes over several consecutive days, has likely exacerbated the factors driving the volatility. I believe the CME is correct to take steps to expand price limits.

My primary concern is the manner in which the CME has communicated information to the trading public, both off and on the trading floor. CME staff held an open meeting to gather input from floor traders on November 13th, and their proposal to the CFTC was dated November 24th. They failed to notify the floor community of their specific proposal until the morning of December 8th, nor did they note that comments could be made to the CFTC as to the specifics of the proposal. This notification came within 2 days of the end of the comment period. I assume the timing was a result of the

calendar and the Thanksgiving holiday, but the handling of the communication suggests a significant oversight or error at best, and at worst, an attempt to limit input from the industry on this issue.

I have known for some time many of the CME staff involved in developing this proposal and hold them in high regard. I have worked with them in the past on committees on numerous issues related to the Cattle contracts, and they have demonstrated considerable competence. In the past, the CFTC, CME staff, traders both on and off the floor, and industry have interacted to provide checks and balances to the implementation of contract changes. With the shift of the CME to a for profit corporate structure, the balance of power in making these decisions has shifted to the CME and its staff, as it should be. However, the CFTC must be diligent to ensure the CME represents the interests of the trading public and cattle industry as well as its own perspective.

With that said, I would like to respond to the merits of the proposed price limit change. I do agree with the CME that the current limits are too restrictive and impede price discovery as well as risk management for the industry. I also agree with the CME contention that a time lag before expanding limits (put into place in October) causes problems. I do support the concept of price limits in order to provide a circuit breaker of sorts--there is historical evidence that indicates limit price moves are not always followed by further moves in that direction the next day.

The question then becomes what size of price limit is appropriate. Large funds and commercial entities that provide OTC markets in indexes would likely support the broadest possible limits to ensure their ability to enter, exit, or move positions. It is my observation that the majority of the floor trading community at the CME feels a \$.020 to \$.025 price limit is appropriate. My personal bias is for the \$.025 per pound limit; I believe that size of limit with the ability to have spreads trade in a \$.050 range would have accommodated practically all of the trade that took place October/November with perhaps the exception of one or two days. Overall, I

am not in opposition to the CME proposal as it is relatively close to
my
own
position.

I thank you for the opportunity to express my opinions.

Respectfully Submitted,

Jack R. Weaver