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COMMENT

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

Dear Ms. Webb:

The Chicago Mercantile Exchange (CME) has requested an increase in the spot month speculative trading limits for the Live Cattle Contract. We strongly oppose this requested increase and also believe that the doubling of the speculative trading limits in the spot month, which went into effect in June 1998, was inappropriate and detrimental to the performance of the contract. We ask that the Commodity Futures Trading Commission (CTFC) deny the CME request for an increase in the spot month speculative trading limit for Live Cattle. We further request that the CTFC restore the spot month speculative trading limit to 300 contracts long or short at the close of business on first notice day, with no more than 200 contracts long or short at any time during the last four trading days.

History

Prior to June 1998 the speculative trading limit in the spot month had not been changed since the initial listing of the contract in 1967. Spot month is defined as the period from first notice day through last trading day. The spot month speculative trading limit was established in 1967 to provide for orderly trade, orderly liquidation, to guard against excessive leverage by speculative interests, to limit excessive delivery demand, and assist convergence of futures and cash. The Live Cattle Contract, to be settled by physical delivery, required a spot month position limit in order to establish and maintain itself as a viable risk management tool. These needs and concerns exist today as strongly as they did in 1967.

While the speculative trading limit in the spot month did not change between 1967 and 1998, the definition of "first notice day" did change. Prior to February 1991, first notice day was defined as the first business day in the spot month. Beginning with February 1991, first notice day was defined as the Monday following the first Friday in the spot month. This reduction in the number of delivery days in the spot month constituted, in effect, an increase in the speculative trading limit as the trading limit remained constant and the number of days in the spot month were reduced.

In October 1991, large deliveries failed to provide convergence, as economically warranted, between futures and cash. The Live Cattle Contract performed poorly as a risk management tool. Cattlemen, attempting to use the contract to offset the price risk associated with cattle ownership, were alarmed and discouraged, with many refusing to further recognize or promote the contract as a viable risk management tool. By October 1992, large fines were levied against traders who had circumvented spot month speculative trading limits. This disciplinary action came too late to restore cattlemen's confidence in the contract. The integrity of the contract was damaged, traders were lost, and no fines or penalties could repair the damage.

Beginning in January 1992, the efforts of a few speculative traders switched from trading in concert and exceeding trading limits to increasing speculative trading limits in the spot month. The rule changes sought would create a distinct advantage for themselves, changes that could result in significant personal gain. This effort to alter spot month trading limits has continued throughout the 1990's.

Before June 1994, a "come down" speculative trading limit was applied to the trading calendar month just prior to the spot month. In June 1994, this month prior to the spot month "come down" was eliminated, the non-spot month speculative trading limit was increased and the spot month limit remained unchanged.

The CFTC, in analyzing the CME request to increase speculative trading limits in the spot month, to be implemented with other changes in June 1995, refused to increase limits until the new contract was observed for one year. At the end of one year, the contract had performed so poorly that a large number of significant changes were proposed. Despite the poor performance and facing a major revision, once again the CME proposal included a request to increase the spot month speculative trading limit. In June 1998, along with other changes, the spot month Live Cattle speculative trading limit was increased from 300 to 600 contracts applicable to positions held during that part of the spot month that precedes the last five trading days.

Analysis

Prior to the June 1998 increase in the spot month speculative trading limit, we communicated during the comment period, by letter, our opposition to the increase and attended a CFTC meeting where we spoke against this change. Our argument against the change is that a limit larger than 300 contracts provides excessive leverage to the long position holder. This leverage is accomplished with a longs initial position of 600 contracts. Once deliveries are assigned, the speculator can restore his position to 600 contracts and further increase his leverage as deliverable supplies decline. The potential gain derived from holding the expanded futures position can easily offset the cost of receiving a significant number of deliveries at a loss.

Six hundred contracts represent approximately 20,000 head of cattle. With 600 contracts, as currently allowed, each individual speculator controls the average deliverable inventory of more than one hundred 20,000 head feedyards, with each feeding at capacity. (Exhibit 1)

Only once in the last four and one half years (June 1995 – December 1999, twenty seven expirations) has there been more the 1000 contracts delivered for any delivery month. The average number of deliveries per month, during this same time period, was 311. Deliveries have rarely had an appropriate economic influence on basis convergence. Clearly the economics have dictated a far greater number of deliveries. Given this fact, any analysis designed to determine appropriate come down limits, or speculative trading limits in the spot month, must explain why deliveries have never exceeded these levels. A study must determine not only that the cattle are available, and that the delivery capacity is adequate, but also determine if they will actually be delivered when appropriate. If available yet not delivered when appropriate, it must be determined why. What is the deliverable capacity and what is the deliverable supply? When is the deliverable supply available but the deliverable capacity is limited and when is the deliverable capacity available but the deliverable supply limited?

Following the increase in the speculative trading limit in the spot month from 300 to 600 contracts in June 1998 the number of deliveries doubled. Deliveries increased from an average of 217 contracts per month prior to the change, to an average of 479 contracts per month following the change. The doubling of the speculative trading limit was seen by some to be an invitation to manipulate cattle futures prices. In an effort to further increase leverage, the long initiated a dramatic shift away from "carcass" delivery by electing to receive deliveries "live". (Exhibit 2)

Deliverable Capacity and Deliverable Supply

In order to discuss deliverable capacity and deliverable supply, it must be clear that the long position holder and receiver of the delivery dictates the method by which the delivery will be made, "Live" or "Carcass". If one method of delivery is proven to be more restrictive, then deliverable supply or deliverable capacity can be limited by the long through his election of the delivery method. The live delivery election has proven to be more restrictive to deliverable capacity and deliverable supply. Because the "live" delivery election is more limiting, discussions relating to contract changes that affect "carcass" method of delivery, "carcass" based deliverable capacity, or "carcass" based deliverable supply must be viewed as a non-limiting factors.

Factors Limiting Deliverable Capacity

Number and location of delivery points – When the "carcass" delivery method was added in June 1995, location of packing plants became a restrictive factor in selecting new delivery points. Because of the added "carcass" option, Greeley, Colorado was eliminated as a delivery point. Colorado cattle feeders are requesting that a delivery point be reestablished in their state. Cattle feeders in the state of Iowa continue to request an interior delivery point. As delivery points are added, each additional delivery point has declining utility. Each additional delivery point is positioned in an area yielding fewer cattle on feed and in areas where the cattle feeder is not as familiar with the delivery process. The result is that some delivery points cannot accommodate heavy delivery requirements without restricting economic availability, while others are little used.

Trucking – The live delivery process requires trucks in excess of the normal daily function of transporting livestock. Due to regional trade and seasonal cattle movement, the availability of trucking may limit deliverable capacity. The trucks may not exist to transport cattle to live delivery sites in quantities necessary to offset current spot month trading limits.

Grading live deliveries - The grading of "live" deliveries is very time consuming. The time required to grade a "live" delivery was substantially increased due to the contract changes introduced in June 1998. These changes required that an increased number of characteristics be evaluated and recorded by the USDA grader, adding Prime, Standard, Sub-Standard, Yield Grade 1 and Yield Grade 2. This substantial increase in the time requirement for grading live deliveries diminishes deliverable capacity.

Weather – Poor weather slows the "live" delivery process and severe weather conditions could prevent the grading of live animals. Weather considerations can easily be a contributing factor in limiting deliverable capacity.

Grading fees – Only two of the current ten live delivery points have resident graders. A non-resident grader assigned to a remote delivery point will charge for travel time, lodging, travel expenses and food. The short does not determine the method of delivery, "live" or "carcass". The short when required to make a "live" delivery is responsible for all of these charges. For the short delivering to a live delivery point without a resident grader, his grading fees are not known and may be far greater than the perceived economic incentive to deliver. This unknown and potentially large grading fee, due to the lack of an economically available grader, can severely limit the capacity of the delivery system.

Packer participation – One major packer, operating two CME approved packing plants, has not participated in the bidding process on which the carcass delivery system is based. This non-participation limits the deliverable capacity.

Factors Limiting Deliverable Supply

Heifers – Heifers are not deliverable on the current Live Cattle Contract. Heifers represent approximately thirty-five percent of all fed cattle. The CME has all but refused to address this issue. In January 1998, the CME sent a letter to the National Cattlemen's Beef Association (NCBA) offering to review heifer delivery and asking for NCBA representatives to be part of the CME sub-committee being formed to execute the review. One phone meeting was held at which the NCBA representatives agreed to submit questions addressing heifer delivery concerns. The NCBA representatives submitted questions to be forwarded by the CME to economists, meat scientists and animal scientists as chosen by the CME. The questions were never forwarded by the CME and the CME refused to hold additional meetings. The exclusion of heifers greatly reduces deliverable supply.

Captive supply – A growing number of "captive supply" cattle has resulted in a large number of cattle that are previously committed for sale and are not available for delivery. Captive supply currently represents approximately twenty-five percent of all fed cattle and this percentage is increasing. In theory, some captive supply cattle could be diverted to delivery. However, since independently negotiated contracts have larger premiums and lesser discounts, the captive supply cattle will still remain economically unavailable for delivery. Increasing growth of "captive supply" cattle has greatly limited deliverable supply.

Live weight - "Live" deliveries are required to average between 1100 and 1300 pounds with no individual animal less than 1050 pounds or greater than 1350 pounds. The upper and lower weight limits on "live" deliveries are far more restrictive than the upper and lower weight limits at which discounts are applied for "carcass" deliveries. In addition to greatly expanded weight limits, with a "carcass" delivery the cattle will be discounted, while with a "live" delivery the cattle will not be accepted. The upper weight limit is especially restrictive during times when low grain prices dictate larger finish weights and in areas such as Iowa and Nebraska where grain prices tend to be lower and finish weights larger. The increase in the upper weight limit for "live" deliveries that was granted in June 1998 did not increase deliverable supply. It only served to adjust contract weight specifications higher to recapture deliverable supply previously lost to ever increasing live cattle market weights.

It is NCBA policy to work towards correcting this serous problem. The CME has not responded to a letter from NCBA requesting a correction of the inequity between delivery methods and their reason for refusing to address this issue is unknown. Given current contract specifications, a long wishing to limit deliverable supply simply elects the "live" delivery method.

Delivery settlements and records – The error rate in settling deliveries is high. It is also difficult to get a complete accounting of delivery records and settlements. The problem with errors and the transfer of delivery records has occurred consistently since contract changes were implemented in June 1995, with little or no improvement forthcoming.

These errors, and the difficult process involved in attempting to correct these errors, are very detrimental to potential deliverable supply. Smaller traders are especially discouraged by settlement errors, often to the point of refusing to ever participate again or to openly speaking to the futility of the delivery system. This limited capacity to process deliveries, discourages deliveries and reduces deliverable supply.

Dairy breeds – No cattle showing a predominance of dairy breeding shall be deliverable. Removing dairy breeds reduces deliverable supply.

Brahma cattle – No cattle showing a prominent hump on the forepart of the body shall be deliverable. Removing cattle showing a prominent hump reduces deliverable supply.

Maturity - Discounts associated with maturity will cause cattle in excess of thirty months of age to be economically unavailable for delivery. Age limits and associated discounts reduce deliverable supply.

Carcass delivery - The CME has indicated that the carcass delivery election is consistent with the future direction of cattle industry as related to cattle marketing. However, the carcass election is not consistent with current marketing practices. Deliverable capacity is restricted by utilizing a delivery process not consistent with current marketing practices, not widely understood and not totally accepted by many industry participants.

Reputation cattle – Cattle with a known reputation for superior grade and yield will not be made available for delivery on a "live" basis, as their appearance does not support what is known to be true in the packing plant. As it is not the choice of the short as to the delivery method, "live" or "carcass", the cattle will not be tendered. Thus, the deliverable supply is reduced.

Futures accounts – An alarmingly small number of cattle feeders utilize the Live Cattle contract for the purpose of managing market risk. In evaluating deliverable supply, cattle fed by producers who do not use the Live Cattle contract are not available to be delivered.

Shrink at live delivery – With a live delivery, time is money for the short. As the grading process proceeds, the yet to be graded deliveries continue to shrink. The delivery weight is not established until the delivery load is accepted. As the time required to grade delivery loads and/or the number of loads to be graded increases, the expected revenue or selling price for the short declines. The economic impact of time and thus shrink, will limit the economically available deliverable supply.

Weather – Poor weather conditions can physically and economically curtail the deliverable supply of cattle. Once tendered the short receives less than two days notification as to delivery day and type of delivery, "live" or "carcass". Given bad weather, "live" deliveries are difficult to load at the feedyard and difficult to present, grade, and weigh at the "live" delivery point. "Carcass" deliveries would be difficult to load at the feedyard and the short may not want to subject himself to weather altered yields. The alternative when facing the potential of poor or uncertain weather is to not tender. Weather can greatly influence both deliverable supply and deliverable capacity. Weather restrictions can easily prevent the deliverable supply from being matched with deliverable capacity.

Education – The CME has not adequately provided delivery rules, delivery information, and education to users and potential users of the Live Cattle Contract. This has served to limit the use of the contract and limited deliverable supply.

Delivery days and Cash Market – Cash cattle trade in the 1990's has seen a change in the timing and duration of the cash trade. At present, the cash trade occurs primarily on one day of the week and often for only a three or four hour period during that day. The trade also occurs later in the week than previously observed. This trading pattern results in a limited number of basis observations on which to make a delivery decision. This cash cattle trading pattern reduces delivery opportunities and results in reduced deliverable supply.

Choice/select spread – Beginning with June 1995, the contract specification relating the discount factor between choice and select grades was changed from a fixed amount to a day-of -tender, market-based adjustment. This change, given the wide fluctuations between the choice and select grade, has added greatly to basis variability and made the job of projecting the basis more difficult. Feeders cannot protect themselves from changes in this spread. When the spread is wide, deliveries are discouraged as the determination or estimation of grading becomes critical to a satisfactory economic outcome. The addition of this variable has greatly reduced deliverable supply.

Grading fees – Only two of the ten current live delivery points have resident graders. A non-resident grader assigned to a delivery point will charge for travel time, lodging, travel expense and food. A short tendering one to two contracts to a live delivery point without a resident grader, may find that, being the only tender, his grading fees not only are unknown, but may be far greater than the perceived economic incentive to deliver. This unknown and potentially large grading fee is a strong deterrent to delivery and limits deliverable supply.

Discussion

For the benefit of the Live Cattle contract, the deliverable supply cannot be too large. The hedger is in a net even position and does not stand to gain or lose if the market rises or falls. The cattle hedger will not deliver if he expects to receive less than the cash market by doing so. However the speculator clearly feels that the market will rise or fall and has taken a position to profit from such a market move. The long speculator has and will take delivery of cattle at a cost well above the current cash market in order to take advantage of the leverage provided by liberal speculative trading limits in the spot month. Taking a loss on a few deliveries can be more than offset by profits from a large long futures position.

Opposition to any increase in the spot month speculative trading limits for the Live Cattle contract has been strongly voiced by the cattle industry, as shown by industry responses submitted during the comment period, January through February 1997. All eight independent cattle industry responses suggested from, at a minimum, "a delay in any change" to "strongly opposed" and "terrible mistake". In addition, the NCBA repeated its long-standing policy that spot month position limits remain at current levels (300 contracts at the close on first notice day). As of this month, January 2000, the Kansas Livestock Association (KLA), Texas Cattle Feeders Association (TCFA), and NCBA have debated and voted to create policy opposing any increases in the spot month speculative trading limits.

The industry has recognized for years that the push to increase speculative trading limits in the spot month is designed to benefit a few select traders and will come at the expense of hundreds of cattle feeders. These cattle feeders are desperately seeking a viable contract that is needed to offset the market risk associated with cattle ownership. Cattle industry participants are tired of being forced to carry inventories, overfeed cattle, and suffer financial loss, as speculative traders, given excessive leverage by current spot month speculative trading limits, force futures to a premium and prevent convergence of cash and futures. Unfortunately the CME has chosen to ignore this strong and consistent recommendation from the cattle feeding industry.

Major packers have agreed to bid on and kill delivery cattle. This can cause minor and may at times create substantial disruption to their operations. If increases in the spot month speculative trading limit creates excess leverage for the long and leads to lack of convergence and a continuous stream of ineffectual deliveries, it should not be assumed that packer participation in the process will continue. Still, it would appear that packers have not been consulted as to their opinion about an increase in speculative trading limits in the spot month.

Clarification of statements and questions concerning an increase in the spot month speculative trading limit for the Live Cattle contract

1. **Won't an increase in the speculative trading limit in the spot month improve the contract by helping hedgers to more easily lift hedges? -** If hedges are lifted subject to a relationship where cash and futures are not allowed to converge relative to the economic terms of the contract, then any hedge lift is a poor hedge lift. The cattle hedger has not identified the ability to lift hedges as a problem and has sought no relief in this area. If increasing the speculative trading limits in the spot month would create a benefit for the cattle feeder then obviously NCBA, TCFA, and KLA would not have policy openly debated and passed in opposition to any increases.

2. **Will raising the spot month speculative trading limits increase liquidity? -** Further increases in spot month speculative limits, to be utilized by a very limited number of traders, will not increase liquidity. Positions held by traders utilizing the expanded spot month speculative trading limits, have not proven to be very liquid.

3. **Are speculative fund traders asking for the spot month limits to be increased? -** The vast majority of speculative fund traders have established trading rules included in their prospectuses dictating that positions be liquidated prior to first notice day. As speculative fund traders do not desire to hold a position in the spot month they have no interest in changes in the spot month speculative trading limit.

4. **Will traders have difficulty reducing positions to the spot month speculative trading limit? -** Prior to June 1994, there was an intermediate come down provision specifying a separate speculative trading limit for the month prior to the spot month. In June 1994, this month prior to the spot month come down was eliminated while the non-spot speculative trading limit was increased. The elimination of this come down and an increase in the speculative trading limits for non-spot months should not influence the speculative trading limit in the spot month. The spot month speculative trading limit was established with good reason to promote an orderly liquidation, guard against excessive leverage, limit deliverable demand, and assist convergence of futures and cash. If eliminating the come down in the month prior to the spot month or an increase in position limits in any non-spot month has created a come down problem, then the remedy should not be sought by trading limit changes in the spot month. Also, the magnitude of the come down from the month prior to the spot month or any non-spot month to the spot month should not influence the trading limit in the spot month. All traders know the size of their position and the number of days until first notice day. Traders of large positions understand this relationship of time and quantity and will receive no benefit from an increase in speculative trading limits in the spot month designed to limit the magnitude of the come down at first notice day. However, an increase in the spot month speculative trading limit prior to the last five trading days does create a large come down relative to the expected open interest five days prior to expiration.

5. **Without an expansion of trading limits in the spot month will commission dollars be lost? -** The number of traders limited by the current spot month limit is small. It does not make sense to risk the integrity and functional value of the Live Cattle contract to award a few commission dollars to a few select brokers.

6. **Has the deliverable supply of cattle been increased due to recent changes in the contract** - The many factors limiting the delivery supply have been previously discussed. Contract changes implemented in 1998, designed to restore the original intent of the 1995 revision, should not be touted as a contract improvement, as an increasing in deliverable supply, or used in support of an increase in the spot month speculative trading limit. These contract changes, by partially correcting and

removing restrictive characteristics and problems, have only served to restore deliverable supplies to levels previously assumed.

7. **Since hedgers may have exemption in excess of speculative trading limits, will an increase in speculative trading limits in the spot month be needed to create a balance?** - The hedgers net position is neither long nor short and the hedger does not stand to gain by the futures or cash price rising or falling. Hedgers requesting trading limit exemptions must file detailed reports documenting the history of cash positions, can be asked to document cash positions with limited notice and are subject to annual review and approval. The hedger is only concerned that the basis be consistent, predictable, and converge to price levels represented by the economic terms of the contract. If the futures and cash do not converge to appropriate levels the hedger requires a delivery process that is efficiently administrated where the deliverable supply and deliverable capacity relative to speculative trading limits be sufficient to promote efficient performance of the contract. The speculator, granted excessive leverage through expanded spot month speculative trading limits, will consistently use this leverage to attempt to move the futures price in a profitable direction, regardless of the direction of the cash market. Because of the differing economic incentives created by hedge exemptions and speculative trading limits, a perfect balance need not be sought.

8. **There has been little recent abuse of current speculative limits** - As speculative trading limits in the spot month expand, abuses of those limits should decline. When there are, in effect, no rules then, of course, there will be no abuse. However, this may not be what is best for the contract given its' stated use as a risk management tool. Lack of abuse does not justify an increase in the spot month position limit.

9. **If an increase in the speculative trading limit in the spot month creates a problem, can't the limits be changed back to previous levels?** –It would be very difficult to change back, the damage to the contract will have been done.

10. **An increase in total trading volume is not a valid argument for supporting an increase in the spot month speculative trading limit** -There certainly was no talk of lowering speculative limits in the spot month when trading volume was low, and for good reason, because these factors are unrelated. The come down provision for physical delivery contracts have long served the purpose of providing an orderly liquidation while preserving the delivery period for the risk management function on which the contract was based and for which it was created.

11. **Prior to 1998 the speculative trading limit in the spot month had not been changed since the initial listing for the contract in 1967** - The mere passage of time is not a good argument or reason to increase the speculative trading limit in the spot month. The limit was established in 1967, with good reason, to promote an orderly liquidation, guard against excessive leverage by speculative interest, and assist convergence of futures and cash. The Live Cattle contract, to be settled by physical delivery, required a position limit in order to establish and maintain itself as a viable

risk management tool. These needs and concerns exist today as strongly as they did in 1967.

12. **We need a viable speculator if we expect the contract to function properly -** While this is an important and true statement it falsely infers that the speculator is not alive and well. The fact is that the speculative activity in the Live Cattle contract is growing and speculative open interest is at record levels. The Live Cattle long speculator is also clearly maintaining a strong influence, an influence capable of holding the basis at non-economic levels throughout the entire delivery period as witnessed in April 1999. (Exhibit 3)

13. **Why does the NCBA have policy in place to work toward a cash settled cattle contract? -**The NCBA formed a sub-committee on cash settlement reviewed the process and developed a contract. No futures exchange is currently interested in listing the contract. The push by the NCBA to seek a "cash settled" contract stems primarily from frustrations in dealing with the CME and the current Live Cattle contract, including the constant effort by the CME to increase spot month speculative trading limits. The CME has not been responsive to its customers concerns and needs, such as heifer delivery and the weight specification descrepency existing between the "live" and "carcass" delivery methods. For these reasons NCBA is seeking an alternative method for its members to manage price risk.

Summary

1. The CME has not clearly documented any benefits associated with increasing speculative limits in the spot month.

2. The spot month position limits for physical delivery contracts should be set in relation to the estimate of deliverable supply.

3. The leverage provided by current spot month speculative trading limits is excessive when compared to the true deliverable supply.

4. In an effort to create a physical delivery futures contract that performs efficiently, deliverable supply cannot be too large.

5. The CME has not been responsive to customer needs, primarily the needs of the cattle feeding industry. The CME has refused to respond to calls for heifer delivery and adjustments to weight limits for live deliveries. The heifer delivery and weight issue would both increase deliverable supply. It appears that the CME does not intend to make any effort to increase deliverable supplies.

6. Deliverable capacity and deliverable supply are both far more limiting than indicated by the CME analysis. Corrections, to a delivery system designed to restore functional operation, do not create a sound argument for supporting a change in the spot month speculative trading limit. These relative improvements do not speak to either the operational efficiency of the delivery mechanism or an appropriate deliverable supply.

7. Determination as to how the delivery is made "live" or "carcass" is solely at the election of the long.

8. Deliverable capacity is far more restricted if the "live" delivery method is elected as compared to when the "carcass" method is chosen.

9. It has not been demonstrated that further increases in the spot month speculative trading limit will not leave the Live Cattle contract susceptible to price manipulation. Indeed, the increase in spot month speculative trading limit from 300 to 600 contracts was met with a "come and get it" attitude from several speculative traders, resulting in a doubling of deliveries and a doubling in the percentage of deliveries elected to be taken "live".

Conclusion

The cattle industry desperately needs a means of managing the risk of cattle ownership. The United States government is spending billions of dollars to subsidize agriculture and wishes to promote individual responsibility in managing agricultural price risk as a means of reducing and/or limiting the expansion of these expenditures. The least that can be done is to prevent the only risk transfer mechanism available to cattle producers from being systematically weakened by efforts to increase speculative trading limits in the spot month. This spot month trading limit increase will benefit a very few select traders at the expense of many cattle feeders. As is readily apparent from the damage done to the contract by abuses committed in 1991, you can not go back and correct an error of judgement in this area. Many producers and legitimate users of the contract will never be back.

Since 1991 there has been a consistent effort by the CME to increase speculative trading limits in the spot month. The CFTC in analyzing the CME request to increase speculative trading limits in the spot month to be implemented with other changes in June 1995 refused to increase limits until the performance of the contract had been observed for one year. During the one-year observation period the contract had performed so poorly that a large number of changes and adjustments were proposed. Despite the poor performance of the contract, changes proposed in January 1997 included an increase in the spot month speculative trading limit. In June 1998, speculative trading limits in the spot month were increased from 300 contracts to 600 contracts.

The CFTC, in analyzing the January1997 CME request that spot month speculative limits be increased, all but ignored the overwhelming industry response requesting that the limits not be changed. The CFTC, in its analysis of the CME request, failed to emphasize to commissioners the fact that the decisions as to the method of delivery, "live" or "carcass", was at the sole election of the long. The CFTC was incorrect in accepting the CME claim of increased deliverable supply and its relationship to spot month trading limits. We feel that further recommendations and research submitted by the CME concerning changes to the Live Cattle contract should not be accepted without a totally independent analysis by the CFTC.

Today, there is no evidence that an increase from current levels should be considered. The current 600 contract speculative trading limit in the spot month invites price manipulation and price distortion due to the excessive leverage this limit grants to the speculator. The spot month speculative trading limit is clearly excessive when compared to deliverable capacity and deliverable supply.

Upon further analysis we feel that the June 1998 doubling of Live Cattle spot month speculative trading limit was in error and in no way benefited legitimate market participants. We feel that the previously approved increase should be reversed. Clearly, the argument for an increase should be overwhelmingly supported before the contract is put further at risk by increasing trading limits in the spot month. The arguments for increases are weak and misleading. We suggest a reduction to 300 contracts on first notice day with a maximum limit of 200 contract at any time during the last four trading days.

Sincerely,

Stan M. Myers

Stan M. Myers
Vice President
Bartlett Cattle Company

Exhibit 1

Maximum number of deliveries received for a delivery period (avg. days):

12.67 days at 600 contracts per day	= 7,602 contracts
5.00 days at 300 contracts per day	= 1,500 contracts
Total	= 9,102 contracts

Deliverable capacity per delivery period of an average 20,000 head feedyard:

20,000 head capacity at 2.2 turns of capacity per year = 3,667 head per month

3,667 head * .65 = 2,384 head	Remove avg. number of heifers
2,384 head * .75 = 1,788 head	Remove captive supply
1,788 head * .98 = 1,752 head	Remove dairy steers and all bulls
1,752 head * .95 = 1,664 head	Remove over and under weight steers

1,664 head / 33 head per contract = 50 contracts per delivery period

Number of 20,000 head feedyards required to supply one speculator trading a spot month limit position:

9,102 contracts / 50 contracts per 20,000 head yard = 182 feedyards

Exhibit 2

Live Cattle Deliveries

June 1995 - December 1999

Month	live Graded	Carcass Graded	Total
June 1995	10	82	92
August 1995	100	333	433
October 1995	133	57	190
December 1995	6	408	414
February 1996	0	118	118
April 1996	49	189	238
June 1996	0	222	222
August 1996	344	347	691
October 1996	4	88	92
December 1996	0	4	4
February 1997	23	37	60
April 1997	0	113	113
June 1997	3	53	56
August 1997	258	227	458
October 1997	30	240	270
December 1997	0	55	55
February 1998	6	136	142
April 1998	76	160	236
June 1998	316	533	849
August 1998	3	433	446
October 1998	525	579	1104
December 1998	115	51	166
February 1999	611	185	796
April 1999	550	185	735
June 1999	4	10	14
August 1999	0	30	30
October 1999	35	140	175
December 1999			

Exhibit 3

APRIL 99 LIVE CATTLE DELIVERY SUMMARY

3-26 TO 4-01

TENDER DAY	# HEAD	$/CWT	BASIS $/CWT	LIVE CARC	YARD

		HEAD	$/CWT	BASIS $/CWT
DELIVERIES		0		
TCFA		50,194 S	64.52	
		24,712 H	64.22	
		74,906 T	64.42	
BARTLETT		S		
		H		
	NONE	T		

4-02 TO 4-08

TENDER DAY	# HEAD	$/CWT	BASIS $/CWT	LIVE CARC	YARD
05-Apr	35	67.95	.30	L	I
05-May	625	66.39	-1.26	L	I
05-May	347	67.71	.06	L	II
06-Apr	514	68.15	.27	L	II
07-Apr	535	68.48	.88	L	II
08-Apr	250	67.00	.15	L	II
08-Apr	169	67.29	.44	L	I

		HEAD	$/CWT	BASIS $/CWT
DELIVERIES		2,475	67.54	-.01
TCFA		4,742 S	65.11	
		2,447 H	65.11	
		7,189 T	65.11	
BARTLETT		S		
		H		
	NONE	T		

4-09 TO 4-15

TENDER DAY	# HEAD	$/CWT	BASIS $/CWT	LIVE CARC	YARD
12-Apr	200	65.88	-1.39	C	II
12-Apr	132	66.17	-1.11	C	II
12-Apr	344	67.36	.09	C	II
12-Apr	377	66.40	-.88	C	II
12-Apr	351	66.05	-1.22	C	II
12-Apr	131	67.63	1.26	C	II
13-Apr	354	66.83	-.09	L	I
13-Apr	709	66.39	-.53	L	II
14-Apr	37	66.90	53	L	I
14-Apr	241	66.45	-.47	L	I
14-Apr	279	65.45	-.92	C	II
15-Apr	704	65.84	-.26	L	II

	HEAD	$/CWT	BASIS $/CWT
DELIVERIES	3,859	66.34	-.50
TCFA	70,364 S	65.55	
	44,927 H	65.59	
	115,291 T	65.57	
BARTLETT	3,672 S	65.47	-1.46
	5,861 H	65.48	-1.46
	9,533 T	65.48	-1.46

4-16 TO 4-22

TENDER DAY	# HEAD	$/CWT	BASIS $/CWT	LIVE CARC	YARD
20-Apr	348	66.36	-.04	C	II
20-Apr	355	65.84	-.56	C	II

	HEAD		$/CWT	BASIS $/CWT
DELIVERIES	703		66.10	-.30
TCFA	47,192	S	65.03	
	26,607	H	65.03	
	73,799	T	65.03	
BARTLETT	95	S	65.00	-1.25
	2,316	H	64.82	-1.27
	2,411	T	64.83	-1.27

4-23 TO 4-29

TENDER DAY	# HEAD	$/CWT	BASIS $/CWT	LIVE CARC	YARD

	HEAD		$/CWT	BASIS $/CWT
DELIVERIES	0			
TCFA	53,243	S	65.93	
	33,046	H	65.90	
	86,289	T	65.92	
BARTLETT	4,055	S	65.45	-1.31
	980	H	66.00	-.90
	5,035	T	65.56	-1.23

4-30 TO 5-06

TENDER DAY	# HEAD	$/CWT	BASIS $/CWT	LIVE CARC	YARD
04-May	672	66.18	-.42	L	II
05-May	690	66.35	-.25	L	II

* 620 S & 675 H SOLD 4/30
@ 65.00 = -1.40
BALANCE VS
LCM

	HEAD		$/CWT	BASIS $/CWT
DELIVERIES	1,362		66.27	-.33
TCFA	38,052	S	65.01	
	21,236	H	64.93	
	59,288	T	64.98	
BARTLETT	4,514	S	64.77 *	-1.40
	1,611	H	65.00	
	6,125	T	64.83	

TOTALS

TENDER DAY	# HEAD	$/CWT	BASIS $/CWT	LIVE CARC	YARD

	HEAD		$/CWT	BASIS $/CWT
DELIVERIES	8,399		66.66	-.31
TCFA	263,787	S	65.25	
	152,435	H	65.24	
	416,222	T	65.25	
BARTLETT	12,336	S	65.20	-1.38
	10,768	H	65.31	-1.35
	23,104	T	65.25	-1.37

DELIVERY CALENDAR - APRIL 1999

DAY		DAY OF WEEK	C'S TENDER	C'S RECL	CASH STEER # HD	CASH HEIFER # HD	CASH SALES $/CWT	CASH BASIS $/CWT	DEL # HD	DEL SALES $/CWT	DEL BASIS $/CWT
26-Mar		FRI									
27		SAT									
28		SUN									
29		MON									
30		TUES									
31		WED									
01-Apr		THUR									
2		FRI									
3		SAT									
4		SUN									
5	FND	MON	30						1,007	66.90	-.75
6		TUES	15						514	68.15	.27
7		WED	15						535	68.48	.88
8		THUR	15						419	67.12	.27
9		FRI		3	1,787	2,787	66.00	-1.50			
10		SAT									
11		SUN									
12		MON	40						1,535	66.55	-.64
13		TUES	30						1,063	66.54	-.38
14		WED	20						557	65.98	-.63
15		THUR	20		1,885	3,074	65.00	-1.43	704	65.84	-.26
16		FRI				845	64.50				
17		SAT									
18		SUN									
19		MON									
20		TUES	20						703	66.10	-.30
21		WED	20								
22		THUR		20	95	1,471	65.00	-1.25			
23		FRI									
24		SAT									
25		SUN									
26		MON									
27		TUES									
28		WED									
29		THUR			4,055	980	65.56	-1.23			
30	LTD	FRI			620	675	65.00	-1.40			
01-May		SAT									
2		SUN									
3		MON			1,395		65.00				
4		TUES	20		1,196		64.50		672	66.18	-.42
5		WED	20		1,303	936	64.81		690	66.20	-.25
6		THUR									
7		FRI									