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OFFICE OF THE SECRETARIAT

COMMENT

February 3, 2000

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

Re: CME proposal to raise Live Cattle speculative position limits

I am a member of the Chicago Mercantile Exchange and have been for many years. I also manage the livestock operations for R.J. O'Brien & Associates Inc. As a firm, we have the largest market share in the live cattle pit. I support the CME's proposal to raise non-spot month limits from 2,400 contracts to 3,200 contracts. **I happen to have some severe problems with the CME's proposal to raise the spot month limits from 600 to 900 contracts.**

The cattle industry has gone through dramatic changes in recent years. One of the major changes we have seen is the way in which live animals are marketed. The industry has turned towards marketing through 'formula' sales in a massive way. There are many alliances that are being done which basically tie the cattle up with certain packers. This seems to be a trend that has really snowballed. All of the cattle involved in these alliances are taken out of the deliverable pool.

As a firm, our customers have done large numbers of deliveries in recent years if it was economically justified. Just from our client base alone, I can see a dramatic decline of animals that will be available for delivery in the future even if the basis becomes too wide. The dramatic decline that we are experiencing in available numbers would actually justify a decrease in spot month limits; not a 50% increase.

The proposed increase would give an individual speculator the right to control approximately 30,000 head of deliverable animals. This is approximately 50% more than the largest feeder markets in an entire week. We all know, out of that pool, that there are large amounts of those animals that aren't deliverable. There has been no independent research done on this proposal in relation to true deliverable supplies. Naturally, the biased research, presented with the proposal attempts to show plentiful deliverable supplies. I am here to tell you that this isn't feasible.

There is another issue that the cattle feeding industry continues to battle. There is a large disparity between carcass weights, which would meet deliverable specifications, and the live weights needed to meet the specifications if the delivering long decides on a live delivery. The long has the right to demand live deliveries and this has proven to be a major problem for feeders in the northern feeding areas as many of their cattle will easily meet carcass specifications, but will not meet the live specs. This has further diminished deliverable supplies.

This proposal has been submitted by the CME as an attempt to increase the volume and the liquidity in the spot month. I contend that clear evidence shows that the opposite is true. The CME

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doubled the spot month limits from 300 to 600 in June 1998. Since that time, neither the volume in the spot month nor spot month open interest has increased. By definition though, a spot month contract should be a liquidating contract. The prior increase has not hurt total open interest, as we have seen recent records being hit in the total of all contract months combined.

The dramatic amounts that the CME is attempting to increase the spot limits by sets up the potential for abuse. It takes just one major abuse, as happened back in October 1991, to dramatically hurt the contract. I contend that we are just now beginning to recover from the serious damages that those individuals inflicted on this contract. The fines that were imposed do not compensate the industry for the millions that were lost due to the lack of convergence of the contract. Spot month position limit increases that are being proposed will only invite abuse of our contact and will further damage it as a risk management tool. The hoped for commission dollars, to be gained by a few traders, puts our contract in jeopardy as a risk management tool which can be relied on.

In summary, I support the increased non-spot month position limits. But, the spot month position limits were designed with a purpose. Dramatic trends in the cattle industry continue to take large amounts of cattle out of the deliverable pool. **I feel that the spot month proposal should be rejected as it only invites abuse of the live cattle contract**.

Sincerely,

James E. Brooks
R. J. O'Brien & Associates Inc.