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COMMENT

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Records Section

February 4, 2000

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

Re: Section 5a(a)(12)(A), Regulation Section 1.41(b) – Fast Track Review Submission. Amendments to Live Cattle Rule 1502.E. Position Limits and Options on Live Cattle Futures Rule 6001.F. Position Limits. CME Submission #00-03.

Dear Ms. Webb,

I am writing concerning the recent publication of a notice in the Federal Register pertaining to the live cattle futures contract listed on the Chicago Mercantile Exchange. It is the intention of the CME to increase the speculative position limits in its live cattle contracts. This would include increasing limits in both the spot and non-spot month contracts.

I am the director of the livestock central hedge desk for ConAgra Inc. ConAgra is a diversified, multinational food company with sales of over $24 billion. ConAgra assets include ConAgra Beef Company, a vertically integrated beef production and slaughter business better recognized by the name of Monfort, Inc. As such, the company is an extensive user of the Chicago Mercantile Exchange live cattle futures contract. ConAgra would be considered a commercial hedger in the contract from both the short and long side. ConAgra uses the contract to offset risk in the cash markets of beef and cattle. I think this gives ConAgra a unique vantage point in which to evaluate the performance of the contract as a hedge tool.

ConAgra has the opinion that to increase the position limits in the non-spot months is advantageous to the users of the contract. It will increase liquidity for the managed money speculator as well as the hedger, in effect making the contract a more effective risk management tool. ConAgra would be in favor of the proposed increase of limits in the non-spot months to 3200 contracts for the speculative trader.

As for the other proposal, to increase the speculative position limits in the spot month from 600 to 900 contracts, ConAgra has some serious concerns. ConAgra uses the contract as a risk reducing instrument. How that instrument relates to the actual cash markets of the product ConAgra produces is the best way to evaluate the contracts usefulness. It is ConAgra's opinion that allowing the speculative trader to increase his position in the spot month would negatively effect basis convergence.

Convergence is caused by the threat of physical delivery. It is the option of the short to initiate physical delivery of the commodity. If the speculator were allowed more position limit in the spot month it would tax an already inadequate rules structure to physically deliver cattle. By the CME's own admission in their request, each delivery location can only accept 50 loads of cattle on any given day and then only four days a week. They calculate delivery capacity based on all delivery points when in reality a short with cattle in one given location is held to the capacity of the nearest stockyard and can not deliver at all if it is sale day. ConAgra would not have a problem with the limit increases if the delivery mechanism in place for the contract were sufficient to handle the new delivery volume that could be caused by the change. As well as not allowing enough physical capacity to deliver live cattle the contract puts more restrictive physical specifications (such as sex and weight) than the cash market allows. This further complicates convergence with unnecessary differences to the cash market. Given the inadequate current delivery system if it were deemed necessary by a short hedger to increase deliveries, the deliveries would overload the system and lead to wider, more volatile basis risks. The long in the market would simply be able to wait the short out knowing they can not deliver enough contracts to effect the futures price given the current capacity of deliveries.

The statistics that surround the contract would bear these concerns out. The contract has record open interest (130,000 contracts) while deliveries have steadily declined. The market seldom delivers more than 400 contracts in any one expiration. The cash basis to the contact is more volatile and less predictable than in the recent past. Changing the position limits would magnify problems that currently exist in the contract.

Therefore without changes in the physical delivery system ConAgra urges the CFTC to deny the request for changes in the speculative limit in the spot month. Please feel free to contact me at 402-595-7456 with any questions pertaining to our position.

Sincerely,

Edward F. Prosser
Director, Livestock