Andrew A. Gottschalk

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COMMENT

February 15, 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 third generation participant in the beef cattle industry. Additionally, I am a beef industry market analyst and futures broker with over 25 years experience. My clients range from individual cattle producers and cattle feeders to many of the nations largest agri-business and cattle feeding entities. I have supplied research in the past to your organization upon request from then Chairman of the CFTC, Kalo Hineman. Also, research was provided and interviews granted with the General Accounting Office at their request upon their investigation of the futures and cattle industry. More recently, I have provided research and interviews with the Packers and Stockyards Administration regarding current pricing issues affecting the cattle industry.

I wish to express my *opposition* to the CME's proposal to raise the spot month limits from 600 to 900 contracts. Concurrently, I support the increasing of position limits in non-spot months from 2,400 to 3,200 contracts. The CME's proposal provides no changes in current specifications to broaden the supply of deliverable cattle. Thus by default, the proposed changes further diminish the balance between hedgers and speculators. With deliverable supplies of fed cattle declining, a result of new marketing arrangements that are beneficial to the beef industry, increased limits in the spot month would only entice and encourage those who wish to manipulate the spot futures market for personal gain. Any suggestion that this has not happened recently is not sufficient to justify an increase in spot months futures limits. History is replete with clear examples of individuals (some receiving convictions) for attempts to use the spot month to manipulate prices for personal gain. This occurs with total disdain for other futures participants namely legitimate hedgers. Any action that potentially limits price convergence injures the cattle industry in total. In the past, by the time regulators would or could act the damage to hedgers caused by lack of convergence was already done.

The previous change in spot month limits from 300 to 600 in June of 1998 contributed to the weakest annual average basis (-$1.53 futures minus cash) on record. This compares to the weakest average annual basis in the previous four years of -$0.97, or a basis deterioration of $.56. Using an average live-weight of 1200 pounds, this average basis deterioration *cost* hedgers an average of $6.72 per head. No evidence exists to suggest that a further expansion of spot month limits from 600 to 900 contracts would have any differing result. To the contrary, the evidence of the previous change granted in 1998 suggests the lack of futures-cash convergence was only exacerbated by increased spot month limits. (Note: basis history is from western Kansas: 1994 = -$.86, 1995 = -$.36, 1996 = -$.97, 1997 = -$.79) I strongly urge the CFTC to deny the CME's request for increased spot month futures limits.

Sincerely,

Andrew A. Gottschalk

Andrew A. Gottschalk
Sr. VP
LFG, L.L.C.
8480 E. Orchard Rd. Suite 1250
Englewood, CO 80111

PH (800) 756-0063
FAX (303) 488-3155