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COMMENT

November 4, 2002

Jean A. Webb, Secretary
Commodity Futures Trading Commission
Three Lafayette Centre, 1155 21st, NW
Washington, DC 20581

Dear Ms. Webb:

We strongly support the Chicago Mercantile Exchange's (CME) decision to decrease from 600 to 300 contracts the speculative position limit, for the Live Cattle Contract, applicable to positions held in the expiring contract month from the close of business on the business day following the first Friday of the contract month to the business day preceding the last five trading days of the expiring month (here after referred to as spot month speculative trading limit).

In June 1998, the speculative trading limit was increased to 600 contracts from 300 contracts. Cattle feeders and livestock associations, including the National Cattlemen's Beef Association (NCBA) and the Kansas Livestock Association (KLA) opposed this increase. Cattle feeders felt that the doubling of the spot month speculative trading limit would greatly increase the leverage of the long speculative trader relative to deliverable supply and increase the demand for deliveries, all to the detriment of the convergence of cash and futures to predictable and economically defined values (here after referred to as convergence).

In January 2000, the CME submitted to the Commodity Futures Trading Commission (CFTC) a proposal to increase from 600 to 900 the spot month speculative trading limit. Twenty-six comments were submitted by cattle feeders, livestock associations including NCBA, KLA and the Texas Cattle Feeder Association, commodity brokers, bankers and packers. Not one comment was submitted in support of this proposal. Opposition centered on declining economically deliverable supplies due to existing weight specifications becoming more restrictive as slaughter weights of cattle increase, feeders inability to increase deliverable supply by including heifers in the delivery process, the limited capacity of the live delivery system and lack of convergence. Responding to the overwhelming opposition and the clearly defined threat to the usefulness of the Live Cattle Contract as a viable risk management tool for producers the CME withdrew this proposal.

Since January 2000, cattle slaughter weights have increased dramatically, and the CME has publicly voiced concerns about the capacity of, or danger of encountering bottlenecks associated with, its live delivery system. Heifers have not been considered for inclusion in the delivery process and convergence in the delivery period has become an ever-increasing

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problem. Lack of convergence during the delivery period has discouraged use of the contract by short hedgers and packers offering to contract with producers for deferred delivery. Lack of convergence has discouraged the use of the contract by long hedgers who seldom perceive the contract to be trading at economically determined values, and in general provides confusing and misleading information to the price discovery process.

The current Live Cattle Contract specifications simply do not represent the product being produced. For this reason the selling of Live Cattle contracts is not a good offset, or hedge, for the price risk of owning live cattle. The purchase of Live Cattle contracts is not a good substitute, or hedge, for the future purchase of cash cattle. The speculator will not trade a contract, long or short, whose value is not determined by the economic consideration of the contract specifications. Futures contracts were established to provide producers and users, of a product, the ability to manage price risk. Recent financial losses in the cattle industry would indicate that the need to manage price risk has never been greater. Still, a limited number of cattle producers and users employ cattle futures to hedge price risk. Without improvements in the Live Cattle Contract, creating a viable risk management tool and increasing participation by hedgers, the contract serves no economic purpose and is not in the best interest of the public or the cattle industry.

Markets where users of a product cannot manage the financial risk of owning or contracting for the future delivery of that product by utilizing a functional futures contract must build a risk premium into each transaction. In the case of the cattle market, this ever-growing risk premium required by the packer will result in the cattle feeder receiving a lower price for finished cattle. The cattle feeder will add a risk premium that will result in a lower price being paid for cash feeder cattle and the banker will require a greater risk premium increasing the cost of production and reducing profits for all sectors.

Given the continued deterioration of the relationship between economically deliverable supply, economically deliverable capacity and the current spot month speculative trading limit, it is clear why the CME has submitted this proposal. The proposed reduction in the spot month speculative trading limit will help to promote orderly trade and liquidation, will guard against excessive leverage and influence by speculative interests, will limit excessive demand for delivery, will assist in the convergence of futures and cash, and will promote growth in the use of the contract. For these reasons the CME proposal to change the spot month speculative trading limit from 600 to 300 contracts should be strongly supported. Furthermore, the urgency with which the CME in dealing with this matter is clearly understood and necessary.

Stan M. Myers

Stan M. Myers
Vice President
Bartlett Cattle Company