COMMENT

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

Dear Ms. Webb:

We would take this opportunity to voice our support of the Chicago Mercantile Exchange's proposed amendment to the Live Cattle Futures contract. We view the action of reducing the spot month speculative position from 600 to 300 contracts as a positive move. It is our opinion that the Live Cattle Contract in its current form requires immediate changes, and we endorse the proposed actions of the CME.

The June 1998 change of the speculative trading limit from 300 to 600 contracts was opposed by a number of cattle feeders and livestock associations, including the National Cattlemen's beef Association and the Kansas Livestock Association. Feeders were concerned that the doubling of the spot month speculative trading limit would have the effect of increasing the leverage of the long speculative trader in reference to deliverable supply and also increase the demand for deliveries, all impacting negatively the convergence of cash and futures.

Changes in the marketplace since January of 2000 have served to highlight the necessity of the Live Cattle Contract as a management tool for producers. Dramatic increase in cattle slaughter weights have resulted in CME concerns about the potential for encountering bottlenecks associated with the live delivery system. Additional factors include the lack of inclusion of heifers in the delivery process, and convergence in the delivery period that has discouraged use of the contract. Lack of convergence has implications for short hedgers, packers, and long hedgers. All parties are concerned that the contract in general provides confusing and misleading information in the price discovery process.

In its current form, the Live Cattle Contract specifications do not accurately reflect the amount of product. As a result, the selling of Live Cattle contracts is not a good offset for the price risk of owning live cattle nor is the purchase of Live Cattle contracts a good hedge for the future purchase of cash cattle. The speculator will not trade either a long or short contract whose value is not determined by the economics of the contract specifications.

The establishment of futures contracts was intended to provide a price risk management tool for producers and users of a product. Recent financial reverses in the cattle industry illustrate the need to manage price risk even though a limited number of cattle producers and users employ cattle futures to hedge price risk. Improvements in the Live Cattle Contract can create a viable risk management tool for producers and increase

participation by hedgers. In this way, the changed contract will serve a valuable economic purpose that is in the best interest of the public and the cattle industry.

Without a functional futures contract, every segment of the market must build a risk premium into each transaction. The packer's risk premium will result in the cattle feeder receiving a lower price for finished cattle, the cattle feeder's risk premium will result in a lower price for cash feeder cattle, and the banker's risk premium will increase the cost of production while reducing profits for all sectors.

The proposal submitted by the CME will address the negative relationship between economically deliverable supply, economically deliverable capacity, and the current spot month speculative trading limit.

The proposed reduction of the spot month speculative trading limit from 600 to 300 contracts:

- Will enhance 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
- Will promote growth in the use of the contract

In the interest of the industry, we offer our endorsement of the amendment to the Live Cattle Futures Contract as proposed by the CME.

Best regards,

Jerry D. Adams
Vice President of ALCC