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COMMENT

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

Re: CME proposal to decrease live cattle spot month speculative position limits

Dear Ms. Webb:

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. As a firm, we have the largest market share in the live cattle pit. **I support the CME's proposal to decrease the spot month position limits from 600 to 300 contracts. I also respect the urgency in which the CME has acted in an attempt to keep the live cattle contract a viable contract. I realize that there has been precedence for the exchange to act on spot month limits on existing contracts. For instance, the proposal back in 2000 in which the CME was attempting to raise spot month limits from 600 to 900 contracts was to take effect immediately with currently listed and new contracts.**

I would like to address how we ended up in this predicament. There are a few different reasons. One trend in the industry is how cattle are marketed. There are many alliances between feedyards and packers which have taken large amounts of cattle out of the deliverable pool.

The second area that has brought us to our current problem is that the live cattle contract has fallen out of "industry standards". This is one essential ingredient for a successful futures contract. The average carcass steer weight in America last week was over 840 lbs. This converts back to a live weight of approximately 1333 lbs. The packers are not discounting cattle of those weights, but a load of cattle at that weight is not deliverable at the CME. This limiting factor has impacted deliverable supplies substantially.

Due to the fact that the live cattle contract has fallen out of "industry standards" has proceeded to drive users of the contract out the door. It has driven the short hedger out as he has large basis risks depending on how aggressive the longs wish to be. The shorts cannot feasibly come up with enough deliveries to get convergence if the longs remain tough. It has driven the long hedger out of the market as the basis risk has proven to be unpredictable for them to make it a worthwhile risk management tool. Likewise, the contract has driven speculators both long and short out of the marketplace as prices

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approaching expiration do not reflect the cash market value of the deliverable commodity.

In general, the live cattle contract has driven market participants out the door. Due to the fact that we fell out of "industry standards" has put the industry in a weird position. The industry needs to manage risk in today's environment as much as ever. Since we have not adjusted to the change in standards it has left the industry little choice but to look for alternative methods of managing their risk. This includes any way which avoids the CME. The contract has been part of the reason that the trends of marketing cattle has changed dramatically. The contract has failed to provide the proper tool of transferring risk. This after all is what a futures contract is designed for in the first place.

In summary, I support the CME's proposal to decrease the spot month limits from 600 to 300. I respect the urgency in which the CME has acted in an attempt to once again make our live cattle contract a viable contract.

Sincerely,

James "Bugz" Brooks
R.J. O'Brien