

# McVEAN

TRADING & INVESTMENTS, LLC



02-03

(21)

November 5, 2002

Ms. Jean A. Webb  
Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Center  
1155 21<sup>st</sup> Street, NW  
Washington, DC 20581

COMMENT

**Received CFTC  
Records Section**

11/08/2002

Dear Ms. Webb:

I am writing to oppose the recent recommendation of the CME on lowering speculative position limits in the spot month.

I believe the reasons the CME have given you for their recommendation are just plain wrong. The idea that there are not enough deliverable supplies of cattle to warrant the current position limits is not reflected in the actual delivery data. As you can see in the table below, this year has had the second most deliveries in the past seven years with the December contract remaining.

### Actual Deliveries

	1996	1997	1998	1999	2000	2001	2002
Feb	118	60	142	796	190	146	707
April	238	113	236	735	102	83	106
June	222	56	849	14	10	40	2
Aug	691	485	446	30	516	349	338
Oct	92	270	1104	175	254	129	632
Dec	4	55	166	11	112	122	?
<b>Totals</b>	<b>1365</b>	<b>1039</b>	<b>2943</b>	<b>1761</b>	<b>1184</b>	<b>869</b>	<b>1782</b> through October

I think it is very irresponsible of the CME to propose changes that not only affect the players directly involved in the futures markets, but also impact every individual who has anything to do with the beef industry. The cattle futures have a problem unlike any other commodity trading on any other exchange that I know of. It does not have a

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natural long hedger in the spot month. Neither the retailer, nor the beef packer, will participate on the long side of the market. The reasons for this are numerous, but the primary reason is they do not want to support the futures which directly affects the cash cattle market. To limit the speculator more than we already do would do nothing more than create a further systemic downward bias to the futures market and hence, a trailing response in the cash cattle market, which in turn, would hurt the 90% of the cattlemen who are not hedgers.

The cattle industry has gone through numerous changes in the past decade, with large feeding entities forming alliances with beef packing companies. These alliances have given the packers much more control over their weekly slaughter inventory, which in turn, has created an environment where we trade cattle in the open market for one afternoon a week; usually late in the week. The argument that the hedgers have about the lack of convergence between the futures and cash market is in fact, not right. The hedgers look at the futures price early in the week and compare it to the cash price in the previous week. When in practice, they should anticipate future movement in the cash market. The large hedgers who are in favor of lowering the limits enjoy entering into their hedges with large premiums in the deferred options, but want the rules changed to facilitate their ability to get out of their hedges in an unrealistic, no-risk fashion. As traders, we should all realize and understand the fundamental changes that make up the futures market and deal with those changing fundamentals as the market dictates.

The CME has formed a committee, of which I will be part of, along with people from all aspects of the beef industry, to address all the details concerning the establishment of the December 2003 cattle contract. I believe it is through this committee we should address any changes that need to be made.

Now is not the time to make any change without proper representation from all walks of the cattle industry.

Sincerely,



Michael J. Wharton  
President