COMMENT

KANSAS LIVESTOCK ASSOCIATION

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November 13, 2002

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

Delivered via email to: secretary@cftc.gov

RE: Chicago Mercantile Exchange: Proposed Amendments to the Spot Month Speculative Position Limits for the Live Cattle Futures Contract

Dear Ms. Webb:

The Kansas Livestock Association (KLA) appreciates the opportunity to comment on the proposed changes to the spot month speculative position limits for the Live Cattle Futures Contract. We strongly support the Chicago Mercantile Exchange (CME) in its request to reduce the speculative position limit from 600 to 300 contracts for the Live Cattle contract in the spot month.

Speculative position limits is an issue that has been before the Commodity Futures Trading Commission (CFTC) many times. In the past, KLA has opposed proposed increases in speculative position limits and supported reductions in speculative position limits in the spot month. (See CFTC Public Comment File 97-002 and CFTC Public Comment File 00-002.)

In its proposal, the CME states deliverable supplies of live cattle meeting the futures contract's existing weight specifications have been adversely impacted by the "significant increase in slaughter weights of cattle in the U.S." In October 2002, average steer carcass weights exceeded 840 pounds, for a live-weight equivalent of 1,330 pounds. Since current contract specifications exclude delivery of individual steers weighing more than 1,350 pounds, a significant portion of fed steers is ineligible for delivery against the Live Cattle contract.

We believe the proposed changes will improve the overall performance of the contract and improve its standing as a viable risk-management tool for cattle producers. The imbalance between current speculative position limits and the deliverable supply of cattle has led to the following problems:

- Lack of convergence between the futures market and underlying cash market
- Increased basis variability and volatility
- Reduced effectiveness of the Live Cattle Futures Contract as a risk-management tool
- Increased opportunity for market manipulation

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In addition to the proposed changes, KLA also supports other modifications to the Live Cattle Futures Contract. Simplifying the delivery process, heifer delivery and more appropriate weight specifications should be considered by the CME and CFTC to improve the Live Cattle contract. These changes would increase the deliverable supply of cattle and improve market convergence.

The Kansas Livestock Association appreciates the opportunity to provide comments on this important issue. KLA is working with other industry participants, including the National Cattlemen's Beef Association, to identify opportunities to make futures markets more viable as a risk-management and price-discovery tool for cattle producers. We strongly urge the CFTC to approve the proposed reductions in speculative position limits.

Please contact KLA if we can be of further assistance.

Sincerely,

Matt Teagarden

Matt Teagarden
Director of Industry Relations