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COMMENT

secretary

From: dlc@daktel.com
Sent: Friday, February 13, 2004 10:10 AM
To: secretary@cftc.gov
Subject: CME Live Cattle and Feeder Cattle Price Limit Amendments

Dear Secretary Webb,

I am a U.S. cattle producer who opposes the CME's proposal to increase the maximum daily price limit of the live cattle futures market to $3 per hundredweight.

I instead support the recommendations of the National Cattlemen's Beef Association that would increase the daily price limit from $1.50 per hundredweight to $2 per hundredweight with the ability for the CME to expand the daily limit to $3 if the market closes at the limit two consecutive days. NCBA's proposal would allow the weekly market to move $13 which is $2 less than the potential $15 per week move suggested by the CME. The limit of $2 on a daily basis should allow the market to trade more effectively than the current $1.50 limit which has led to an increasing number of days where the market is locked at the limit.

The NCBA proposal strikes a good compromise between the existing limit and the CME proposal.

NCBA engaged thoroughly in an open fashion with CME representatives at NCBA's annual business meeting in Phoenix last month. After hearing all of CME's arguments in favor of expanding the limit to $3 per hundredweight, NCBA members discussed the pertinent issue of having a $3 daily move. In the end it was decided by a majority vote of NCBA members to reject CME's proposal and instead focus on the merits of implementing a $2 daily increase with allowances for expanding to $3 should the market close at the limit on two consecutive days.

North Dakota Stockmen's Association 407 South 2nd St Bismarck, N.D. 58504-5535 February 12, 2004 Dear Sirs: As an organization that represents the cattle producers in North Dakota we want to thank you for the opportunity to comment on the proposal that the CME sent to CFTC to increase the daily price limit on futures contracts from $1.50 to $3.00. We would like to start with some comments on the futures contracts in general before we get into specific comments on the increase of daily price limits. When Cattle contracts were started it was said by instructors that the Futures were designed as a vehicle to mitigate risk for producers and that futures prices followed cash prices. Since that time, the situation has reversed where cash prices follow futures prices. Today the futures market tends to function on rumors and has extreme volatility to those rumors. Rumors, such as the Foot and Mouth rumor from Kansas in 2003 and the May 20th announcement of a BSE cow in Canada with the rumor that the cow was a U.S. born animal, resulted in loss of equity for producers in this country. The expanded limits that were instituted after the December 23, 2003 announcement of the presumptive animal in Washington state caused a 20% loss of equity for producers in this country in 5 trading days. If the $1.50 limit had been in place during that time it would have taken 10 trading days (or a whole extra week) for the market to fall as far as it did in 5 days with the expanded limits. The amount of information that was provided in those extra 5 days (such as the fact that it was a Canadian animal) could very well have stopped the free-fall and the loss of equity to producers in this country would have been reduced. The North Dakota Stockmen's Association is opposed to expanding the daily limit on futures contracts from $1.50 to $3.00. We feel that by expanding the limit the CME would put many more producers at risk of losing to much equity in a shorter period of time. Because of that risk we feel that lending institutions would not be willing to work with producers who wish to purchase animals and then protect them on the board because of the higher margin calls associated with a doubling of the daily limit. We feel that if the reason for requesting such an increase is because of a lack of trade by speculators then the CME should look at other ways of managing contracts to encourage trading. One such way may be to limit hedges to only those that physically own cattle. That would limit the number of contracts traded and bring more value to those contracts. By bringing more value to a contract speculators would then be more willing to bid on those contracts (at least that is how a free market system should work). Again we would like to thank you for the opportunity to comment. Sincerely, Jeff Dahl, President North Dakota Stockmen's Assoc.

Warmest regards,

Jeff Dahl
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