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secretary

2004 FEB 17 AM 9:09

From: tom.brink@contibeef.com
Sent: Friday, February 13, 2004 7:03 PM
To: secretary@cftc.gov
Subject: CME Live Cattle and Feeder Cattle Price Limit Amendments

COMMENT

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.

From January 1999 through the end of January 2004---266 weeks in total---only twice has the cash fed cattle market moved more than $10 from one week to the next (0.76% occurance rate). One of these two occurances happened at the time a single case of BSE was discovered on U.S. soil. Converesly, the week-to-week price move was less than $5 in either direction a whopping 98.5% of the time, according to USDA fed cattle price data for the 5 major cattle feeding areas. Daily price limits of $2 allow for a $10 price adjustment in cattle futures during a normal business week. Therefore, $2 daily limits allow more than enough flexibility for CME cattle futures to adjust to supply and demand changes. Expanding limits to $3 clearly goes well beyond what is necessary for cattle futures to "keep up" with changing market conditions. Unless it is the goal of the CME to INCREASE cattle market volatility, there is no logical reason to increase daily limits to more than $2.

Warmest regards,

Tom Brinkn
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