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HERMAN DINKLAGE INC.

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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 cattle feeder from Wisner, Nebraska. My family has been in the cattle feeding business for four generations. As you are aware, the last several years have been tough ones in our business. I feel that the CME proposal now before you would be a step in the absolute wrong direction. I have attached an analysis put together by a group of Nebraska cattle feeders for you to review.

Thank you for your attention on this matter.

Sincerely,

Jeff Dinklage

Enclosure

The Committee for Equitable Cattle Pricing

An Open Letter to the Beef Cattle Industry of the United States
October 21, 2002

The Beef Cattle pricing system in our country is obviously broken.

Sadly, the governance of the Chicago Mercantile Exchange cattle futures market is a part of the problem. Hopefully in the future it could become a part of the solution.

It's very simple: On the basis of value added calculations, the fed cattle hedgers represent about 4% of the national steer and heifer beef production process (see Exhibit A, page 2). These shorts in the futures market, through their undue influence over the CME governance process, are effectively making rules, which negatively bias the pricing of the production of the other 96% of the industry. Those damaged are the longs in the cash fed cattle, feeder cattle and calf markets. The back room meeting at the CME on 10-17-02 dictating a last minute rule change for the December '02 contract clearly favored short hedgers. Hopefully it was a final, albeit classic, example of old regime bias. The CME action caused fed cattle, yearling, and calf prices to be at least $1/cwt lower than they would have been otherwise. This cost unhedged producers roughly $10 million in this one week alone.

Anyone who is at all familiar with the cattle industry recognizes the heavy influence that futures prices have over live prices, particularly in the delivery month. If futures are down, that is all cattle feeders in the cash market will hear about. All feeders can then do to defend themselves is to bid lower for feeder cattle and calves. Let's set the record straight once and for all. Only hedgers, packers and chain stores want futures to liquidate on weakness. The vast majority of the industry wants futures to liquidate on strength. The domination of rules making for the delivery process by short hedgers and packers must come to an end.

Hedgers are a vocal minority who manipulate the regulatory process to the distinct detriment of the vast majority of the industry. Hedged cattle represent about 13% of the fed cattle inventories. On the basis of total value added, the feeding industry creates about 32% of steer and heifer beef production. Therefore, hedged cattle represent only about 4% of the nation's production of steer and heifer beef (13.2% x 32% = 4.2%). How many votes on a twelve-man committee can a 4% minority duly expect to control? Allow us to elaborate.

Exhibit A

ESTIMATED NUMBER OF FED CATTLE HEDGED AT CME (SEP '01 - AUG '02)

A	AVERAGE MONTH END CFTC COMMITMENT OF TRADER'S SHORT COMMERCIAL POSITION:	42,742
B	AVERAGE MONTH END CFTC COMMITMENT OF TRADER'S NON-REPORTABLE SHORT POSITION (@ 60%):	14,021
C	AVERAGE MONTH END ESTIMATED NUMBER OF SHORT HEDGED OPEN CONTRACTS (A+B):	56,763
D	AVERAGE NUMBER OF HEAD PER CME CONTRACT (40,000 lbs / 1220 lbs):	32.5
E	NUMBER OF HEAD ESTIMATED TO BE HEDGED AT ANY GIVEN TIME AT CME (C x D):	1,844,798
F	ESTIMATED ANNUAL TOTAL HEAD HEDGED AT CME- ASSUMING AVG ANNUAL TURNOVER RATE OF 2.1 (E x 2.1):	3,874,075
G	ANNUAL STEER AND HEIFER SLAUGHTER:	29,329,000
H	ESTIMATED NATIONAL PERCENTAGE OF SLAUGHTER STEERS AND HEIFERS THAT ARE HEDGED AT CME (F / G):	13.2%

ESTIMATED PERCENTAGE OF THE TOTAL VALUE PRODUCED BY THE U.S. CATTLE INDUSTRY THAT THIS HEDGED 13.2% OF SLAUGHTER STEERS AND HEIFERS REPRESENTS (SEP '01 - AUG '02)
TOTAL STEER AND HEIFER SLAUGHTER WAS 61% STEERS AND 39% HEIFERS. ALL PRICE AND WEIGHT DATA IS WEIGHTED AS SUCH.

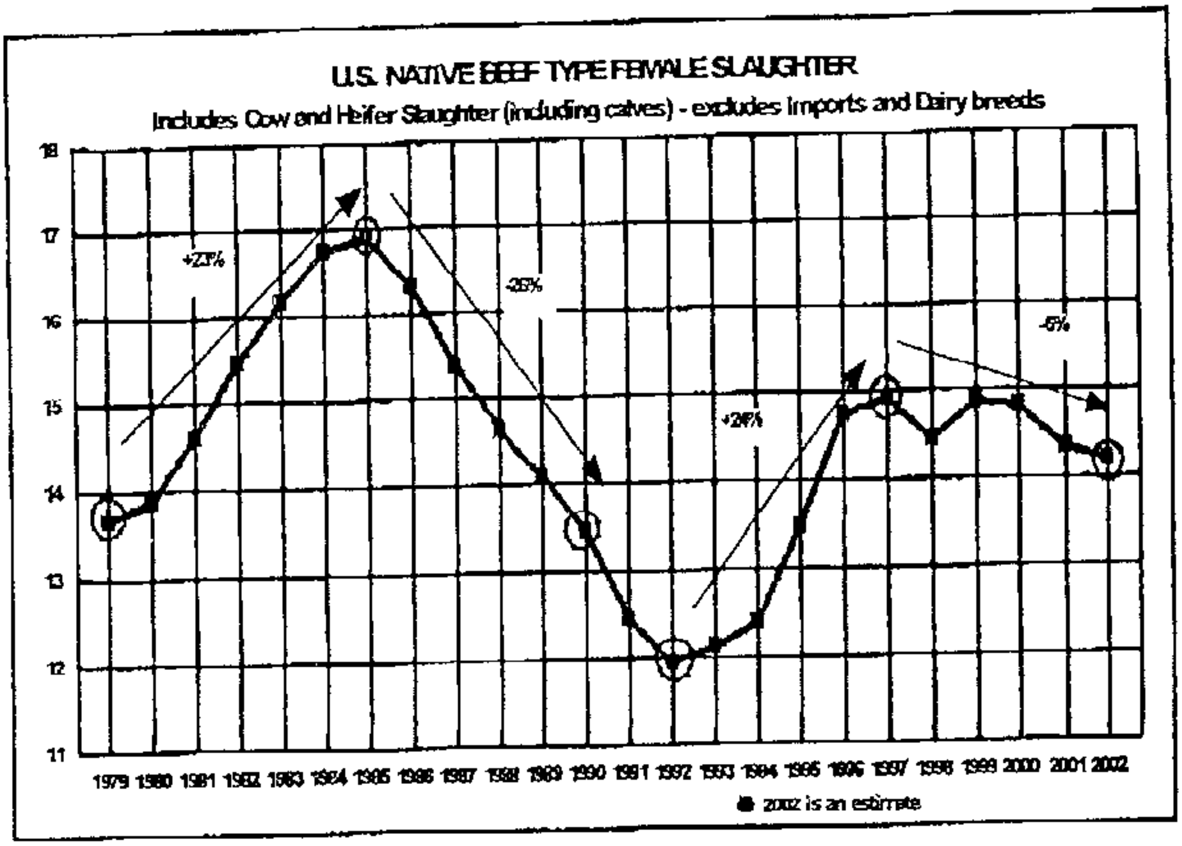
I	ANNUAL STEER AND HEIFER SLAUGHTER.	29,329,000
J	ANNUAL WEIGHTED AVERAGE STEER AND HEIFER SLAUGHTER PRICE (CENTS PER LIVE POUND):	0.6630
K	WEIGHTED AVERAGE STEER AND HEIFER SLAUGHTER WEIGHT (lbs):	1229
L	ANNUAL TOTAL VALUE OF SLAUGHTERED STEERS AND HEIFERS (I x J x K):	$23,898,061,083
M	ANNUAL NUMBER OF CATTLE PLACED INTO FEEDLOTS WEIGHING LESS THAN 700 lbs: *	13,403,353
N	ANNUAL WEIGHTED AVERAGE 550 lb STEER AND HEIFER PRICE (CENTS PER LIVE POUND):	0.9058
O	ANNUAL VALUE OF CATTLE PLACED IN FEEDLOTS WEIGHING LESS THAN 700 lbs (M x N x 550):	$6,677,416,431
P	ANNUAL NUMBER OF CATTLE PLACED INTO FEEDLOTS WEIGHING MORE THAN 700 lbs: *	15,925,647
Q	ANNUAL WEIGHTED AVERAGE 750 lb STEER AND HEIFER PRICE (CENTS PER LIVE POUND):	0.8070
R	ANNUAL VALUE OF CATTLE PLACED IN FEEDLOTS WEIGHING MORE THAN 700 lbs (P x Q x 750):	$9,638,997,847
S	TOTAL ANNUAL ESTIMATED VALUE OF STEERS AND HEIFERS PLACED INTO FEEDLOTS (O + R):	$16,316,414,278
T	TOTAL ANNUAL ESTIMATED VALUE PRODUCED BY THE FEEDLOTS (L - S):	$7,581,646,805
U	ESTIMATED PERCENTAGE OF TOTAL VALUED PRODUCED IN CATTLE INDUSTRY BY FEEDLOTS (T / L):	32%

ESTIMATED PERCENTAGE OF THE TOTAL VALUE PRODUCED IN THE CATTLE INDUSTRY THAT WAS COVERED BY SHORT HEDGES AT THE CME SEP '01- AUG '02 (U x H):	4.2%

* USDA 12 STATES USED AS PROXY FOR ENTIRE FEEDLOT SYSTEM

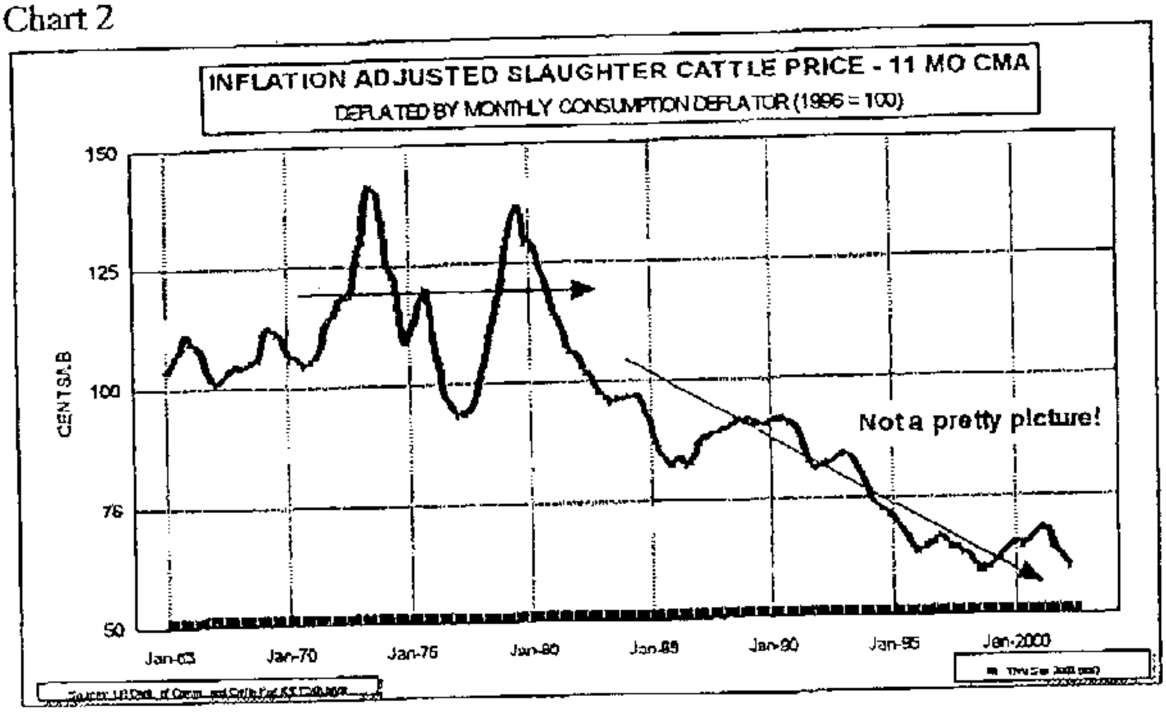
If anyone ever deserved a helping hand instead of another kick in the seat, it is the 96% of the beef industry who are the longs in the cash markets for fed cattle, feeders and calves. We are now in the seventh year of the longest liquidation of the cow herd in recorded history. The cattle cycle is most clearly observed through the long recurring waves of female slaughter. It moves up in liquidation, down in expansions.

Chart 1



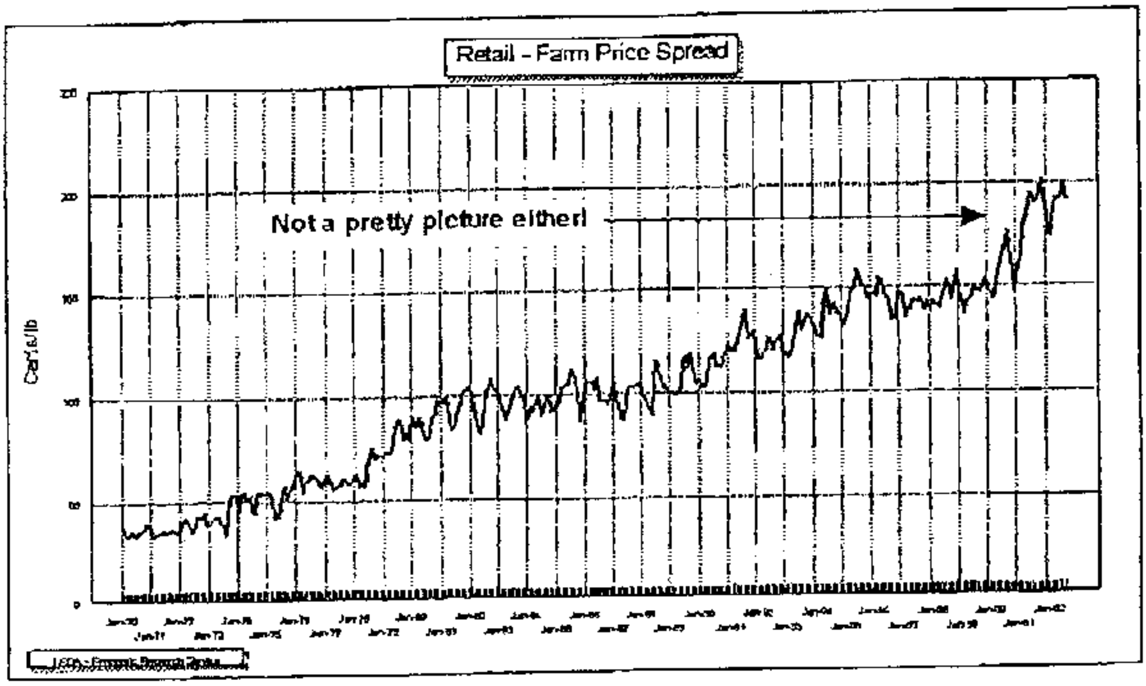
Typically female slaughter peaks in the second or third year of liquidation and then declines dramatically. Notice the 26% decline over the subsequent five years from the previous peak in 1985. In comparison, this time the female slaughter remains near its cyclical peak after a record seven years of liquidation. This is a depression, not a recession. Several things must be seriously wrong. One of those things is obviously the price of fed cattle. After adjusting for inflation it is ridiculously low.

Chart 2



Certainly the retail – farm price spread on beef, which has spiraled out of control, is one culprit.

Chart 3



Obviously the U.S. beef cattle industry has a massive price problem. The system is broken. Retail price problems, live price problems, and futures price problems are all integral components of the broader morass. Wal-Mart's rapidly expanding market share is finally reducing retailer margins. There is a small army working on live price setting problems. In the meantime there are several things that can be done to address futures price problems. Here is some food for thought:

1. The governance of the CME cattle futures contract must be completely restructured to properly represent a balance of industry interests.
2. For every short there must be a long, and the two groups should have absolutely equal rights to a level playing field. Favoring shorts imparts a systemic and poisonous downward bias to the overall price discovery process. <u>The 96% unhedged cash longs want strong longs in the futures market to at least counter balance the impact of large shorts. Most importantly, these longs must not be discriminated against during the delivery period so as to prevent downward bias during contract liquidation</u>.
3. The deliverable supply of cattle can be doubled overnight by simply listing a delivery contract for every month, rather than every other month.
4. The basis, or the spread between the cash and the nearby futures contract, should not be considered in isolation from a reference to the spread between the spot futures contract and the next deferred futures contract. The interests of the long rolling his position forward should be considered side by side with the interest of the hedger in lifting his hedge. No market participant deserves for any reason a privileged position relative to any other market participant. A contract in each month would ease the burden on longs needing to roll forward at the same time it doubles the deliverable supply for the short hedger. A contract each month would provide for a smoother more orderly curve of prices over the relevant time spectrum.
5. Under no conditions should the futures contract permit the delivery of undesirable cattle, for example too big or too fat. This makes futures a dumping ground, which in turn poisons the cash markets for fats, feeders and calves. Under this condition, the 4% short hedgers benefit at the direct expense of the remaining 96% of the industry. The difference between the pickup by the 4% and the loss by the 96%

goes directly into the pockets of the packers and the retailers. Don't let anyone try to tell you otherwise.

Obviously, we all would like a healthy and vibrant beef cattle industry. Many of us believe that a properly governed futures market could make a meaningful contribution to this objective. Many industry participants no doubt have comments and suggestions, and we encourage you to make them heard through the appropriate channels:

National Cattlemen's Beef Association - Wythe Willey 319-365-5111
Texas Cattle Feeders Association – Scott Keeling 806-357-2261
Nebraska Cattlemen's Association – Jeff Stolle 402-475-2333
Kansas Livestock Association - Dee Likes 785-273-5115
Iowa Cattlemen's Association – Joel Brinkmeyer 515-296-2266
Colorado Cattlemen's Association – Terry Frankhauser 303-431-6422
Chicago Mercantile Exchange – Eric Wolff 312-930-3255
Commodity Futures Trading Commission – Rick Shilts 202-418-5275
U.S. Secretary of Agriculture – Ann Veneman 202-720-4623
Cattle-Fax - 800-825-7525