**secretary**

**From:** Rob [robj@frontier-risk.com]
**Sent:** Wednesday, November 13, 2002 10:00 AM
**To:** secretary@cftc.gov
**Subject:** CME's Proposed Amendments to Speculative Limits for Live Cattle

02-13
51

To: Jean A. Webb, Secretary
Commodity Futures Trading Commission

From: Rob Johnson
Account Executive
Frontier Risk Management

COMMENT

Re: CME's Proposed Amendments to Spot Month Speculative Limits

I am writing to voice my opinion against the proposed amendments to speculative position limits during the delivery period of the live cattle contract. I am an AP with a clientele that is mostly cattle hedgers, the group that this change is intended to help. I oppose this change for several reasons: 1) loss of liquidity during the delivery period, 2) the failure of this change to improve basis predictability, 3) the existence of other alternatives for increasing the number of deliverable cattle, and 4) making a change to a contract while it is trading.

The reduction in speculative limits prior to first notice day could severely limit the liquidity of the contract during the delivery period. No such scale-down exists for the hedger. Therefore, by forcing the speculator to prematurely scale down positions, a mismatch in order flow is created. The large speculator is first forced to liquidate at a faster rate than the hedger is liquidating. Results of this mismatch in order flow are likely to be higher volatility during the come-down period and delivery period and less liquidity during the delivery period.

Those who favor this change think it will improved basis predictability. I strongly disagree. The basis variability that we have seen over the past two years has been a function of supply fundamentals and a decrease in cash market activity. Cattle placement patterns over the past two years have resulted in major shifts in supply from one period to another. In anticipating these shifts, the market has moved to basis levels at both extremes. Earlier this year, basis levels were record positive during periods of March through May. As placements fell through late spring and summer, basis shifted to negative levels. While this is a normal seasonal shift it has been exacerbated by a continued reduction in placements into the fall. Most analysts are expecting a record supply shift from the 3rd quarter of 2002 to the first quarter of 2003, exactly the type of supply scenario that would create a record negative basis.

There are other alternatives for increasing the number of deliverable cattle. Fed cattle weights have been trending higher for decades. It should be expected that a contract with fixed weight limits would over time become less reflective of the cash cattle market. In addition, heifers could be made deliverable. Heifer prices have not been discount to steers since the 1970's. In fact, over the past month when steer fed weights have made new records, heifers actually traded at a small premium to steers.

Changing the weight specifications has been discussed but only for newly listed contracts. This same thinking, of only changing a newly listed contract, should apply to speculative limits as well. It is very disruptive and unfair to change "the rules of the game" while a contract is trading especially when it is the spot month. I believe that this kind of change would undermine the integrity of the cattle futures market as a whole.

Thank you for considering these comments.