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NEBRASKA CATTLEMEN

"Representing the state's largest ag industry"

November 13, 2002

COMMENT

Ms. Jean Webb
Secretary to the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st St., N.W.
Washington, DC 20581

Ms. Webb:

The Board of Directors of the Chicago Mercantile Exchange (CME) announced October 18, 2002, that it had voted to reduce spot-month speculative limits on the Live Cattle futures contract from 600 contracts to 300 contracts. The Nebraska Cattlemen (NC) association questions both the proposed rule change and the process by which the change was announced and will be implemented.

NC and a number of other organizations recently encouraged the CME to take whatever steps possible to encourage long participation in the Live Cattle futures market. This change, however, forces speculative longs from the market at an increased pace in the spot month, and the liquidation of these positions will provide a downward bias in the spot contract.

The change also holds potentially negative consequences for both those who use the contract as a hedging mechanism and the vast majority of cattle producers who do not use the futures market. Forcing speculative long participants from the spot contract earlier has the potential to bring a negative psychological impact for fed-cattle, calf, and yearling prices for unhedged producers. For hedgers, the changes will likely result in a reduction in liquidity in the spot contract and a more volatile environment in which to cover hedge positions as cattle are sold.

NC is also troubled by the immediate implementation plan that the CME has for these changes. The changes will go into effect for the December 2002 contract, effectively changing the rules midstream for market participants currently holding positions. This immediate implementation policy is contrary to the CME's time-honored practice of informing all market participants of impending contract changes well in advance and of soliciting input from all users of the affected contract before changes are finalized.

The Nebraska Cattlemen association realizes that the long-term usefulness of any futures contract is directly tied to maintaining a level playing field for hedgers and speculative players. Part of that level playing field, however, includes sufficient speculative long participation in the marketplace to allow producers to lay off risk efficiently. We ask CFTC to help us ensure that changes to contract specifications or position limits are not made without sufficient debate among all users of the contract and advance notification so that traders do not have to conform to a different set of rules than was in effect when they initially established their positions.

Respectfully,

David Burkholder
President

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