

**Received CFTC
Records Section**

Webb, Jean A.

11/12/02

From: secretary
Sent: Tuesday, November 12, 2002 9:19 AM
To: Webb, Jean A.; Colbert, Edward W.
Subject: FW: CME proposed spec limit changes in live cattle

02-13

(30)

-----Original Message-----

From: Bar17@aol.com [mailto:Bar17@aol.com]
Sent: Monday, November 11, 2002 11:29 AM
To: secretary@cftc.gov
Subject: CME proposed spec limit changes in live cattle futures

COMMENT

To whom it concerns:

I support the changes in limiting of the spec positions but fear they will have little short term impact on basis swings that we are becoming used to in the industry. I feed cattle in Nebraska and have watched prices average \$4-6 under nearby futures for several weeks, going on months now. This has had a serious impact on my profitability and desire to use the current contract as a risk management tool. I did a regression on Nebraska cash cattle prices versus nearby futures and the r-squared has dropped from about .85 last year to .42 this year. Also the standard deviation of the basis has jumped almost 50% from \$2 to \$3.

I also market cattle on a negotiated choice grid and it used to be that a group of 60% choice cattle would be base priced near the futures price- which makes sense from a carcass delivery point of view. However, the live specs eliminate almost all NE from being deliverable- we're too heavy. So now, even though the carcass market doesn't discount cattle up to about 1500 lb., most choice grids have dropped back to about a \$2-\$3 discount from the nearby futures market even in the middle of the delivery month.

I believe that if live delivery specs matched up with carcass specs that spec limits could be set even higher than any proposal in the past. But for now, even 300 may be too much, although it certainly is a step in the right direction. While southern lots may still be producing some 1300 lb. finished steers we're really at a loss up here to force convergence under current live delivery specs.

In a related matter- If delivery live weights are increased to make this attractive we probably don't have enough capacity at current delivery locations to handle cattle. My experience with the Norfolk auction is that 1)They won't take deliveries every day of the week and 2)Somewhere around 15-20 loads is about their max capacity as each load has generally taken about 30 minutes to handle and the shrink starts to become a factor on those mid to late afternoon deliveries.

Sincerely,

Roger W. Wallace
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 Elkhorn, NE 68022

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