

Livestock Futures & Price Reporting

**CFTC Agricultural Advisory Committee
August 5, 2010**

**Paul E. Peterson
CME Group Commodity Research & Product Development**

CME offers futures and options on 3 major classes of livestock

Live Cattle: slaughter-weight steers

Feeder Cattle: partially-grown steers destined for a feedlot where they will be fed to slaughter weight

Lean Hogs: slaughter-weight barrows & gilts

CME offers futures and options on 3 major classes of livestock

- Originally, all 3 contracts utilized physical delivery and had similar contract specifications
- Over the years, contract specifications have evolved to reflect the unique needs and differing cash market practices of each commodity
- Today, only Live Cattle is physically delivered, while both Lean Hogs and Feeder Cattle are cash settled
- However, all 3 contracts are highly dependent on USDA-AMS data and personnel

Live Cattle Specifications

Par delivery unit is 40,000 pounds of 55% Choice, 45% Select, YG3 live steers weighing between 1,050# and 1,500# (600-900# carcass weight)

Final settlement via physical delivery:

- Animals may be delivered to one of 13 delivery points (auction facilities), where they are graded by USDA-AMS Market News personnel

or

- Animals may be delivered to one of 15 CME-approved slaughter plants, where the carcasses are graded by USDA-AMS Meat Grading & Certification personnel

Live Cattle Specifications

The value of each animal/carcass is determined using market-based premiums & discounts published by USDA-AMS Market News

- Quality Grade (Prime, Choice, Select, etc.)
- Yield Grade (YG1, YG2, YG3, etc.)
- Carcass Weight (550-600#, 900-950#, etc.)*
- Condemned livers*

Therefore, virtually any steer within the allowable weight range is deliverable

Valuation process consistent with “grid” pricing methods widely used in the cash market

* Applies to carcass-graded deliveries only

Sources of Live Cattle Premiums & Discounts

National Daily Boxed Beef Cutout and Boxed Beef Cuts, LM_XB403

- Choice & Select values

5-Area Weekly Weighted Direct Slaughter Cattle – Premiums & Discounts, LM_CT169

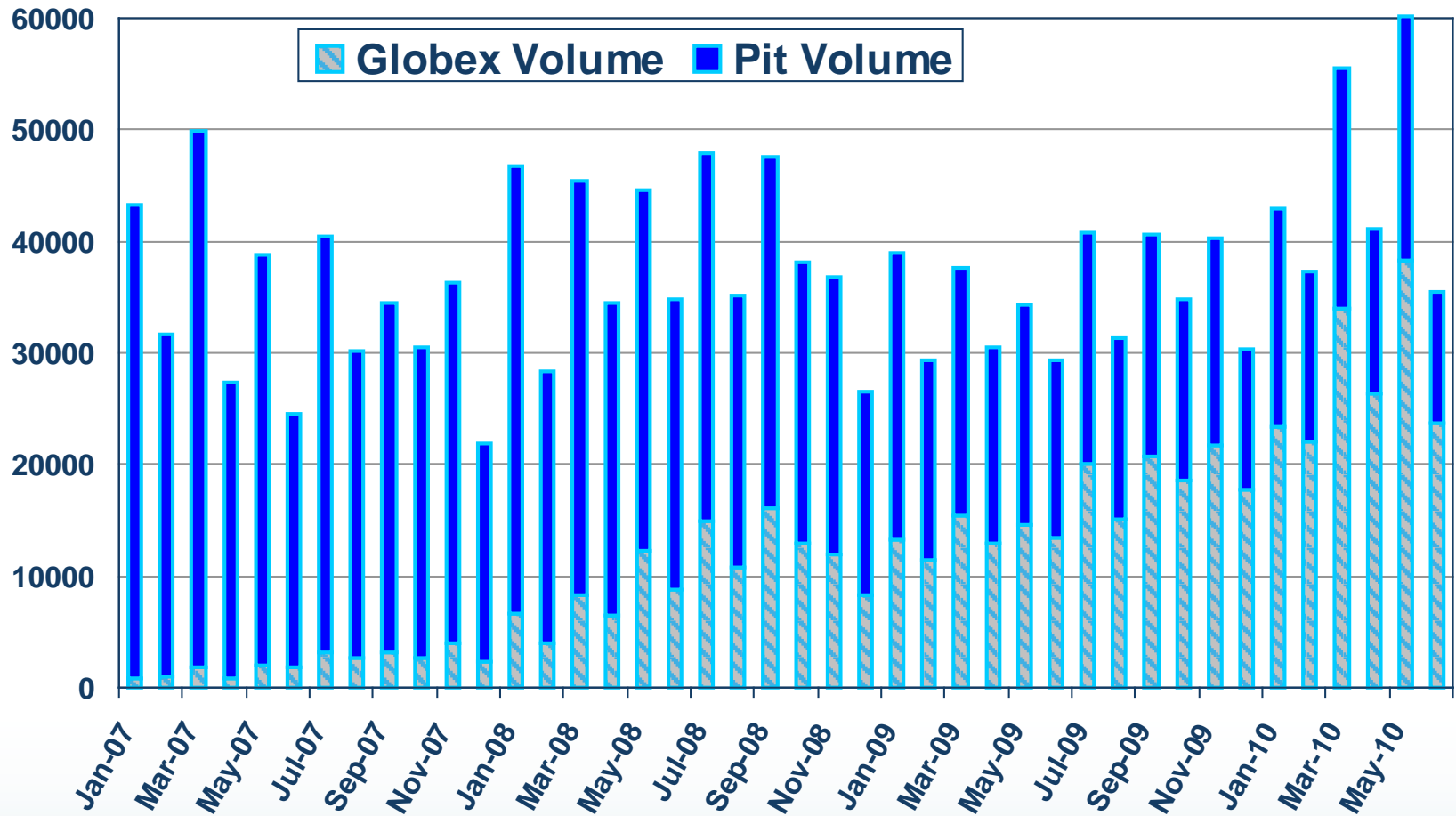
- Premiums for Prime, YG1, YG2
- Discounts for Standard, YG4, YG5, 550-600#, 900-950# and 950-1000# carcasses

By-Product Drop Value, NW_LS441*

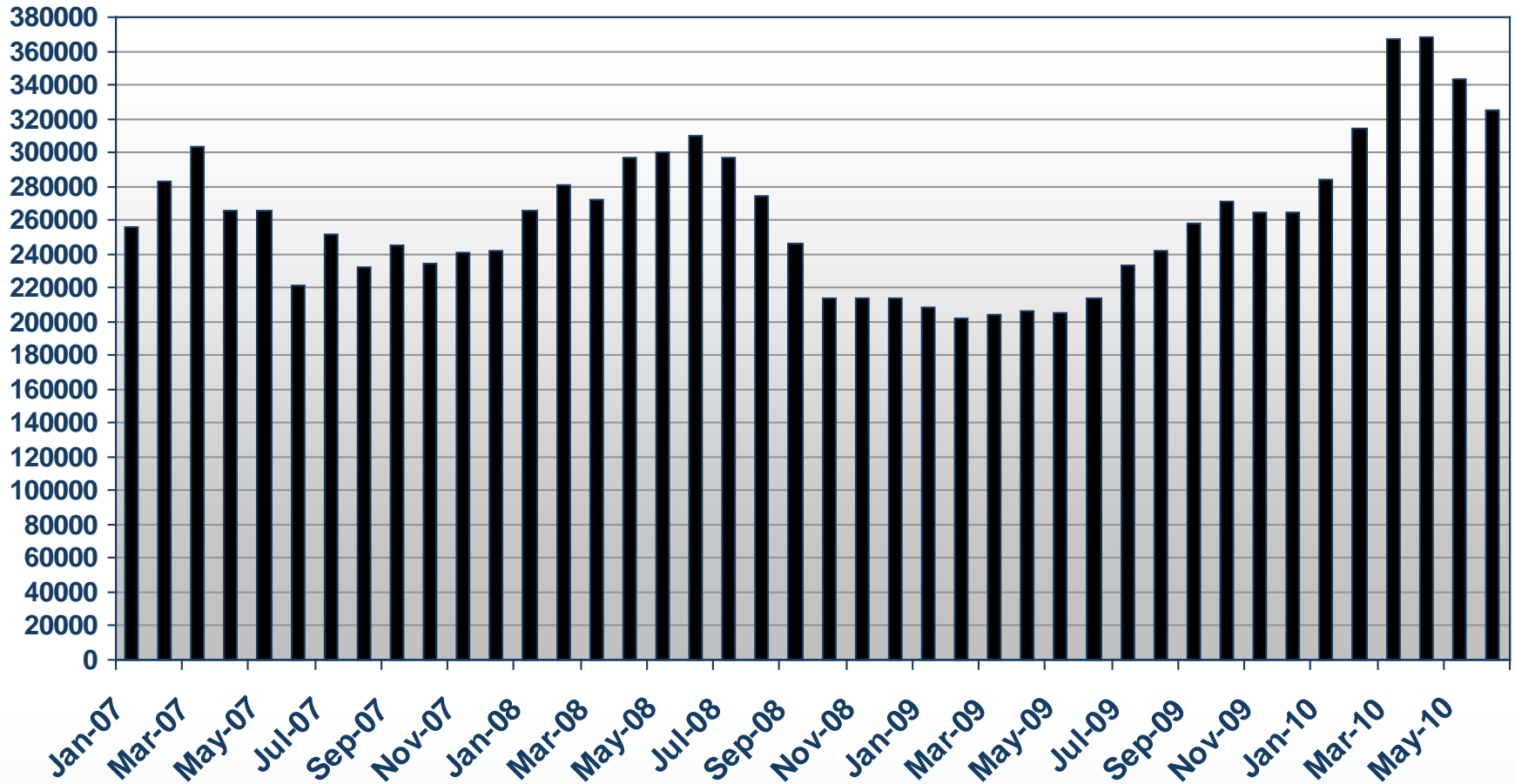
- Discount for condemned livers

* Voluntary report; all others are Mandatory reports

Live Cattle Futures Average Daily Volume



Live Cattle Futures Open Interest (month end)



Feeder Cattle Specifications

Final settlement via cash settlement to the CME Feeder Cattle Index™

- Feeder Cattle futures is the oldest cash-settled agricultural contract
- Converted to cash settlement in 1986 when physical delivery proved unworkable

Feeder Cattle Specifications

Trading unit is 50,000# of feeder steers, Medium & Large Frame #1 and Medium & Large Frame #1-2, weighing between 650# and 849#

- Index is a 7-day weighted average price (total dollars divided by total pounds)
- Calculated from all auction, direct trade, video sale and Internet sale transactions reported as weighted averages by USDA-AMS from 12-state region:

Colorado
Iowa
Kansas
Missouri

Montana
Nebraska
New Mexico
North Dakota

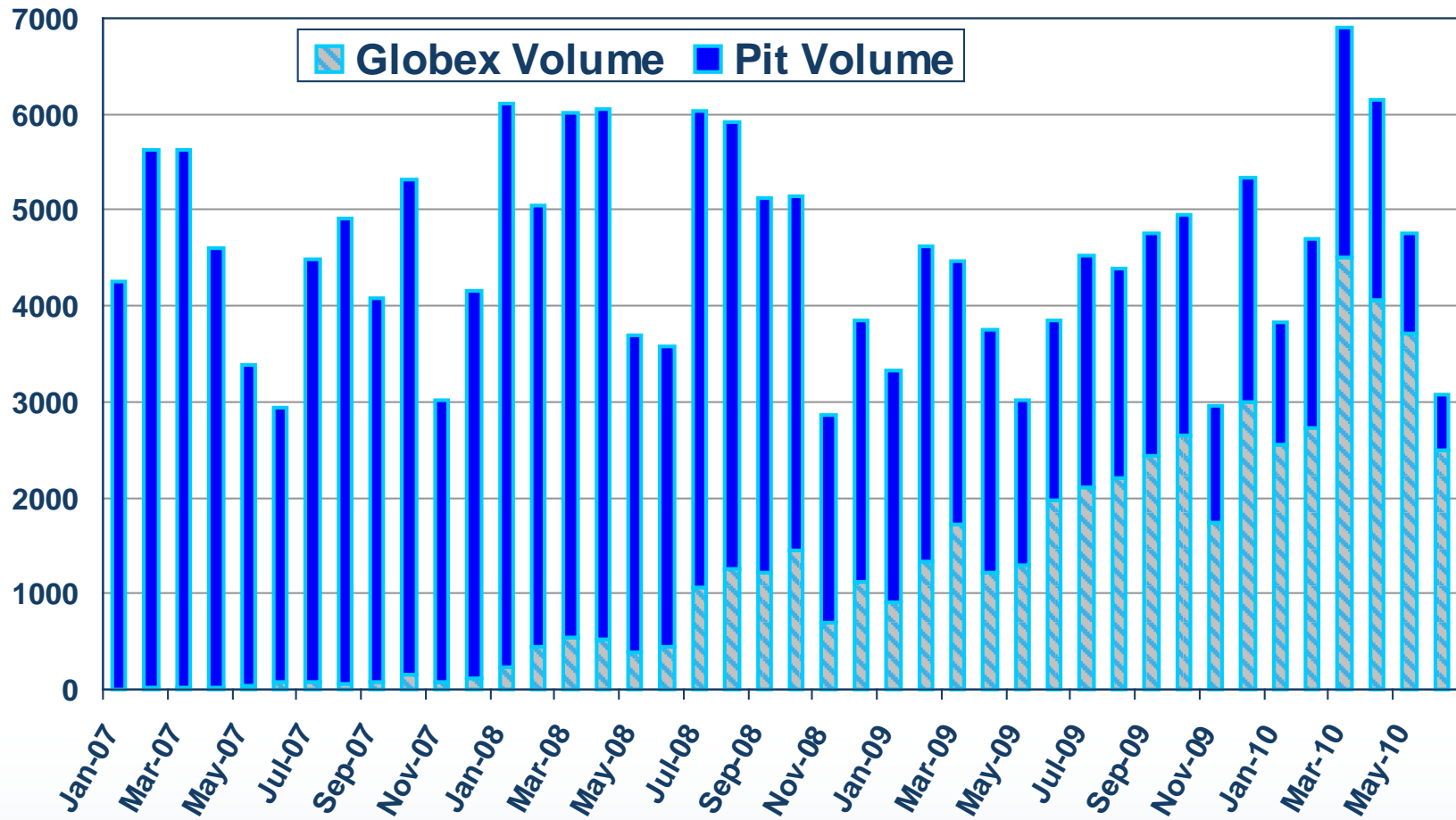
Oklahoma
South Dakota
Texas
Wyoming

Feeder Cattle Specifications

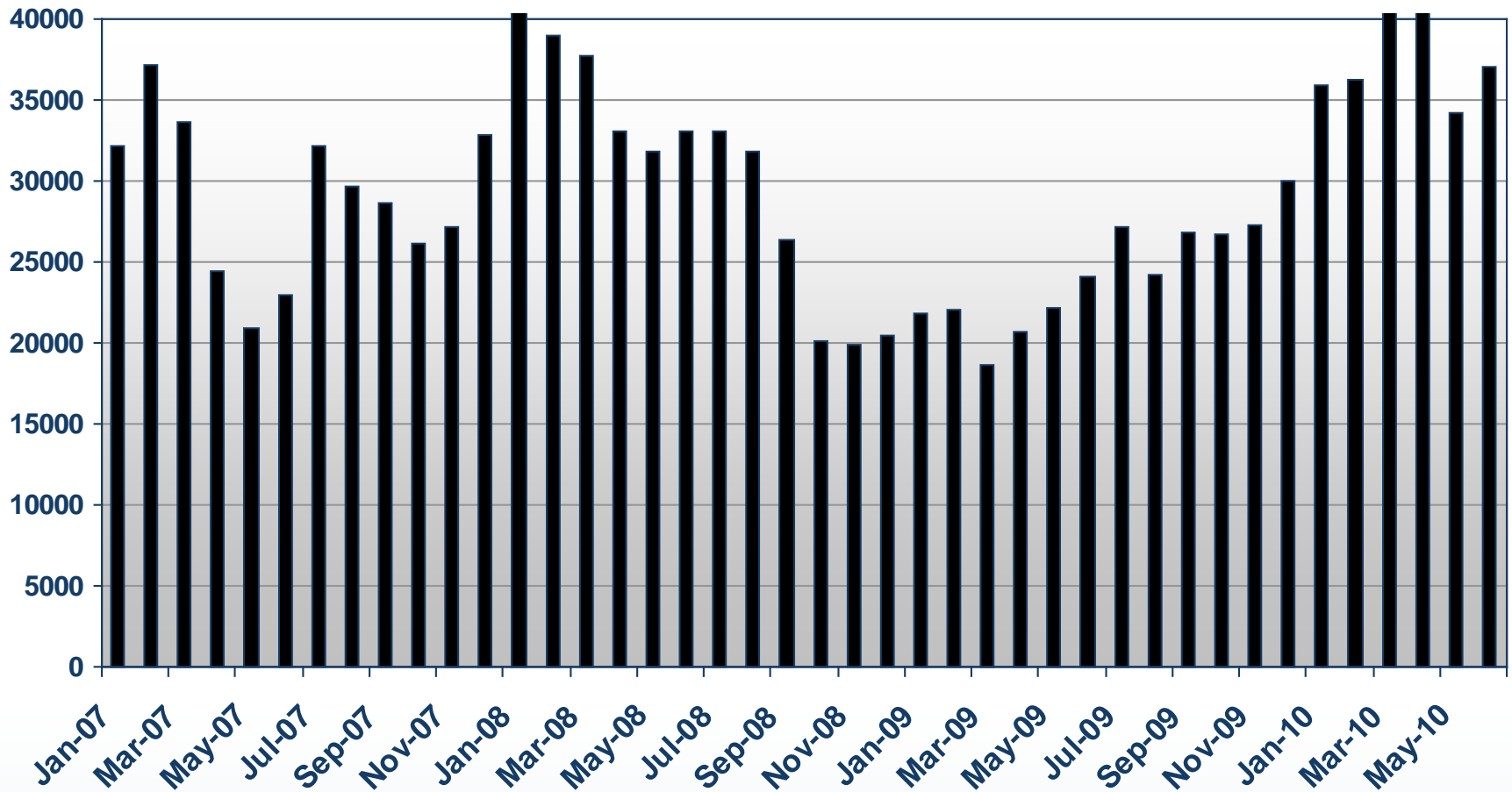
Index designed to reflect a broad cross-section of cash market transactions for feeder steers

- During the Fall and Spring runs, the Index includes reports from approximately 120 locations each week; 1.59 million head used in the calculation in 2009
- Direct, video and Internet transactions must be quoted FOB basis with pickup within 14 days to be eligible for inclusion in the Index
- All data are from Voluntary reports; no Mandatory reporting for Feeder Cattle
- Transparent calculation process performed by CME staff; detailed calculation is posted daily to the CME web site, in addition to archived historical data

Feeder Cattle Futures Average Daily Volume



Feeder Cattle Futures Open Interest (month end)




Lean Hog Specifications

Final settlement via cash settlement to the CME Lean Hog Index[®]

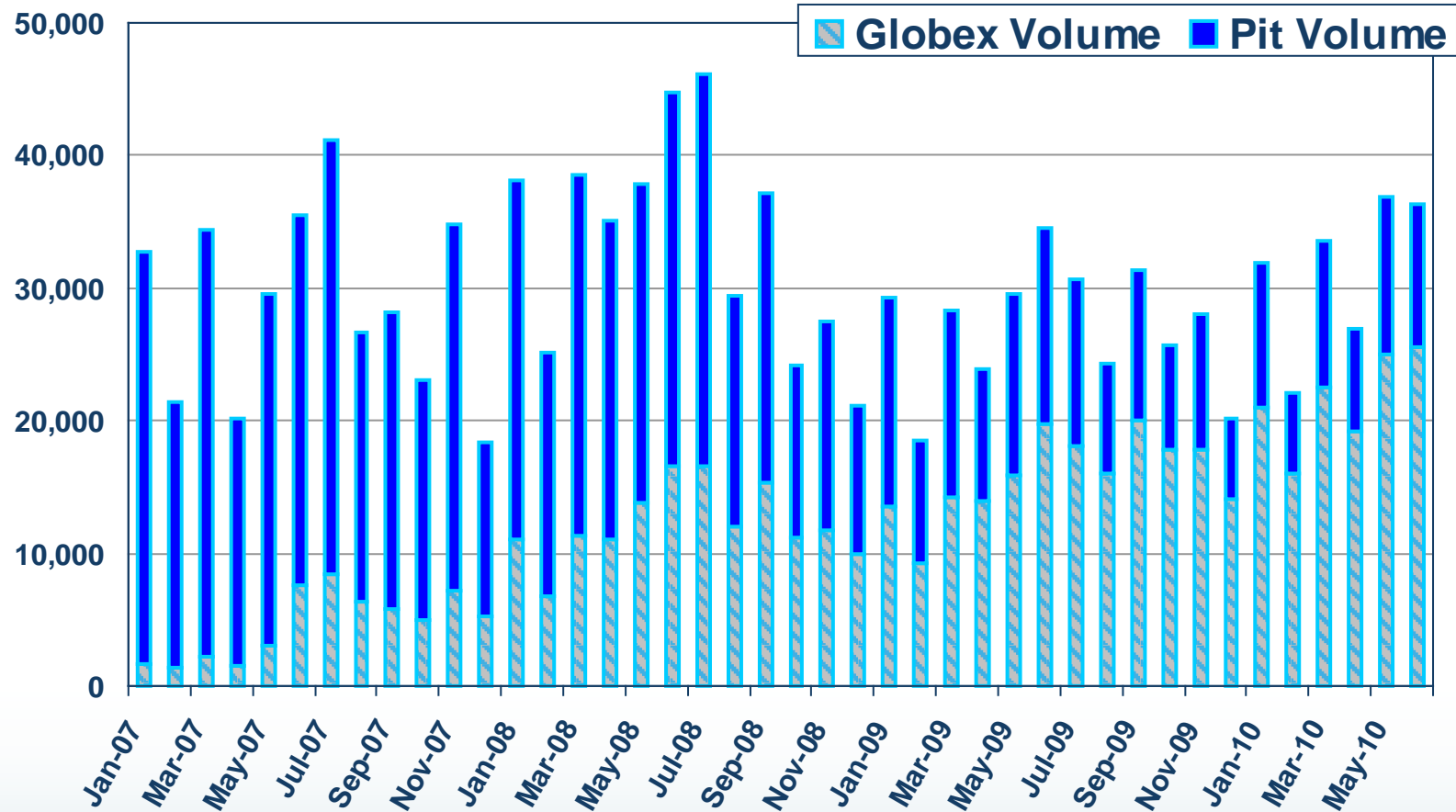
- Lean Hog futures is the largest cash-settled agricultural contract
- Converted to cash settlement in 1997 in response to structural shifts in the hog industry
- CME Lean Hog Index modeled after the CME Feeder Cattle Index, but with several important differences

Lean Hog Specifications

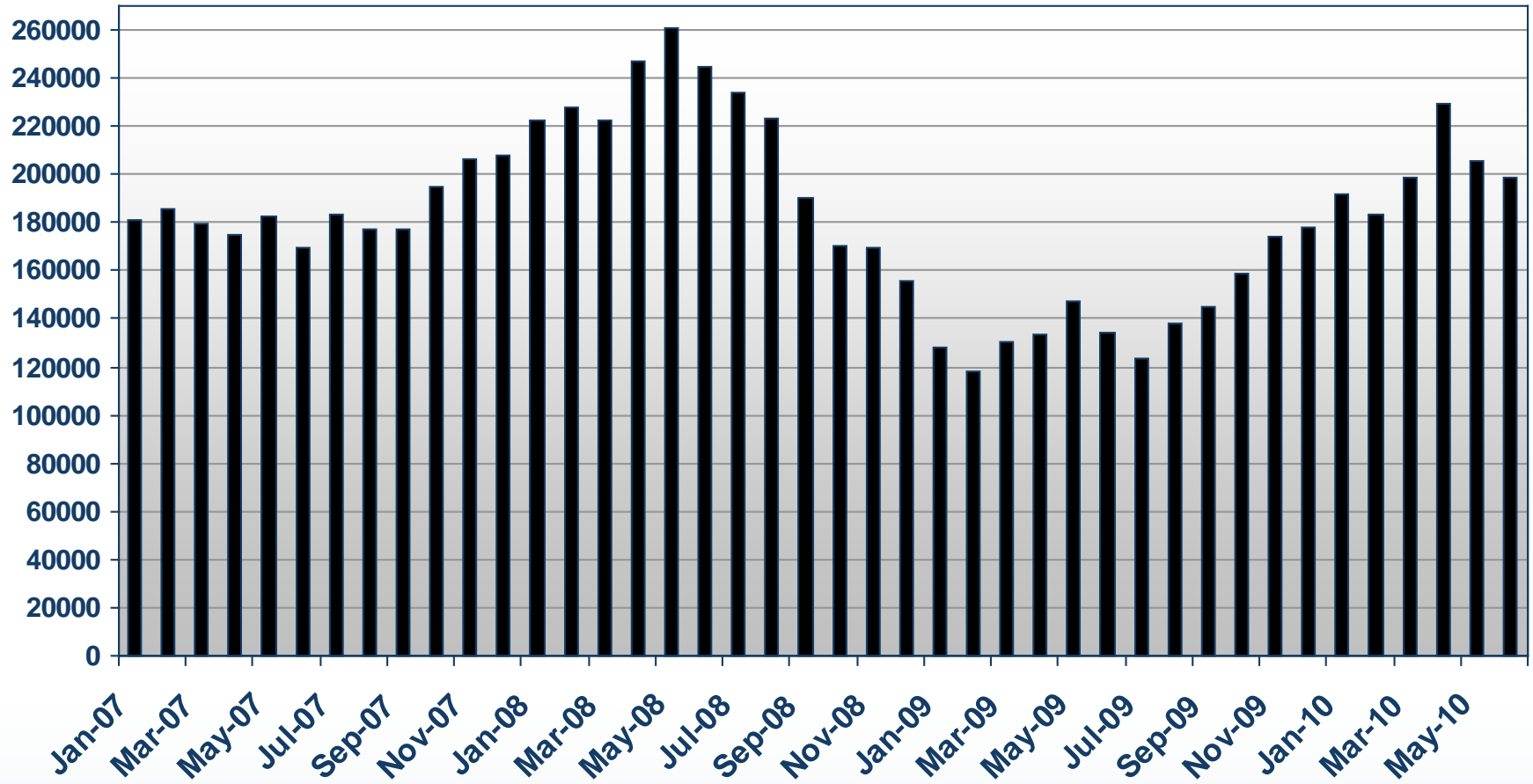
Trading unit is 40,000# of hog carcasses

- Index is a 2-day weighted average of net slaughter prices for barrows & gilts from Negotiated and Swine & Pork Market Formula transactions; 59 million hogs used in the calculation in 2009
 - All data from **National Daily Direct Hog Prior Day Report – Slaughtered Swine, LM_HG201**
 - Index designed to reflect final payments from packers to producers; includes premiums/discounts
 - Transparent calculation process performed by CME staff; detailed calculation is posted daily to the CME web site, in addition to archived historical data
- 

Lean Hog Futures Average Daily Volume



Lean Hog Futures Open Interest (month end)



Summary

- Each livestock contract and final settlement process is different, reflecting the unique needs and differing cash market practices of each commodity
- All are highly dependent on USDA-AMS data and personnel. CME Group is one of many consumers of these data, which are used to create the indexes on which these contracts are based
- Underlying livestock markets have detailed data on actual transactions, which are extremely useful in monitoring contract performance

Futures trading is not suitable for all investors, and involves the risk of loss. Futures are a leveraged investment, and because only a percentage of a contract's value is required to trade, it is possible to lose more than the amount of money deposited for a futures position. Therefore, traders should only use funds that they can afford to lose without affecting their lifestyles. And only a portion of those funds should be devoted to any one trade because they cannot expect to profit on every trade.

The Globe Logo, CME®, Chicago Mercantile Exchange®, and Globex® are trademarks of Chicago Mercantile Exchange Inc. CBOT® and the Chicago Board of Trade® are trademarks of the Board of Trade of the City of Chicago. NYMEX, New York Mercantile Exchange, and ClearPort are trademarks of New York Mercantile Exchange, Inc. COMEX is a trademark of Commodity Exchange, Inc. CME Group is a trademark of CME Group Inc. All other trademarks are the property of their respective owners.

The information within this presentation has been compiled by CME Group for general purposes only. CME Group assumes no responsibility for any errors or omissions. Although every attempt has been made to ensure the accuracy of the information within this presentation, CME Group assumes no responsibility for any errors or omissions. Additionally, all examples in this presentation are hypothetical situations, used for explanation purposes only, and should not be considered investment advice or the results of actual market experience.

All matters pertaining to rules and specifications herein are made subject to and are superseded by official CME, CBOT, NYMEX and CME Group rules. Current rules should be consulted in all cases concerning contract specifications.

Livestock Futures & Price Reporting

**CFTC Agricultural Advisory Committee
August 5, 2010**

**Paul E. Peterson
CME Group Commodity Research & Product Development**