

# Daily Livestock Report

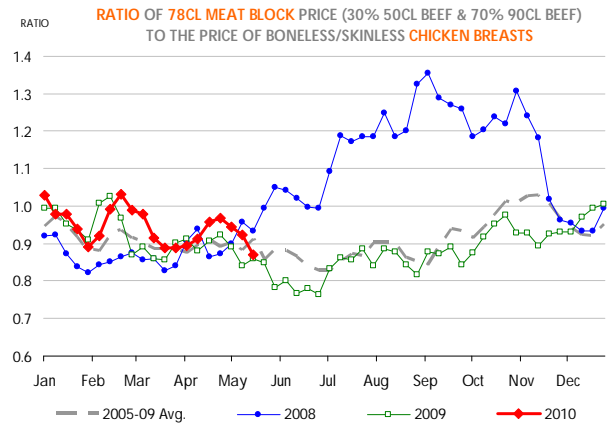
Vol. 8, No. 97 / May 21, 2010

## Market Comments

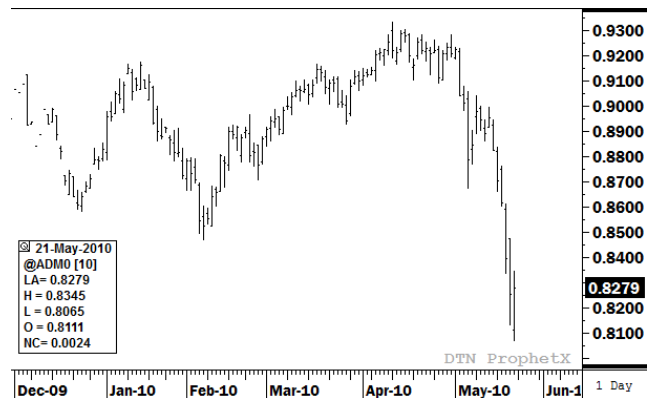
**On page 2 we have included a Special Executive Report on amendments to Live Cattle futures.** Then, on page 3 please find the details of a webinar on the impact of distiller's grains on livestock markets. The webinar can be attended in person (Chicago) or online. It is a topic that has become increasingly important for all involved in livestock markets, especially now that USDA is considering increasing the ethanol blend limits, which could bring even more DDG supplies in the marketplace.

**It was another crushing day in equity and currency markets, prompting broad based selling of livestock futures.** Feeder cattle were impacted the most, with futures for Aug - Oct down by more than 200 points. Nearby hog futures also lost some 177.5 points despite a bit of a bounce in cash markets. Hog cutout values were up 55 cents /cwt from the day before on gains in ham and trim prices. Seasonally wholesale pork prices soften a bit into June so the recent declines have not been that unusual. However, markets remain anxious in light of the panic selling in equities and currencies and have taken a significant premium from hog values.

One topic that made the round in the last two days is the recent increase in the price of grinding beef and how this is impacting fast food restaurants. The Wall Street Journal had a lengthy article on "burger joints flapping over beef," with a number of quotes from company executives. While we have mentioned the rise in grinding beef prices a number of times in this report (as well as the drivers behind it, imported beef, better demand), one thing missing from the piece was that the rise in beef prices cannot be seen divorced from the context of higher prices for most meat items this year. While fast food restaurants may have some options in offering salads or specialty coffees, the two main offerings are beef or chicken based (with a more limited pork offerings). The chart above shows the ratio of the implied price for a 78CL meat block (the rough fat% mix of ground beef used to make a hamburger patty) to the price of chicken breast. For all the talk of escalating ground beef prices, the relative price of ground beef to the price of chicken breast is actually very close the levels seen in the past three years or the five year average. Indeed, with grinding beef prices falling in recent days, as they seasonally do in late May, the ratio looks to be holding up quite well. The value of the Australian dollar has collapsed in recent days, which could prompt more selling to the US market, thus alleviating some of the supply concerns. It is possible that some large chains have favorable chicken contracts on their books, which could lead to more chicken offerings relative to beef. However, those looking to lock in prices at this time will find that chicken is no bargain either.



AUD PER 1 US\$ EXCHANGE RATE - June 2010 Nearby Futures



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**DRIVING FORCES BEHIND THE AG CREDIT MARKET**

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## Special Executive Report

S-5248

May 21, 2010

### **LIVE CATTLE FUTURES AMENDMENTS** **EFFECTIVE WITH THE OCTOBER 2011 CONTRACT MONTH**

**The October 2011 contract month for Live Cattle futures will be listed for trading on Tuesday, June 1, 2010.** Market participants were previously notified of the temporary listing delay of the October 2011 contract in Special Executive Report S-5209 dated April 19, 2010.

**Effective with the October 2011 contract month, the delivery specifications will change as follows:**

- The radius for determining the corresponding CME-approved slaughter plants for each live-graded delivery point will increase from 150 miles to 200 miles;
- The maximum distance between the feedlot from which cattle originate and any other eligible CME-approved slaughter plants will increase from 150 miles to 200 miles;
- The maximum par weight for individual animals in live-graded deliveries will increase from 1,475 pounds to 1,500 pounds; and
- Individual animals in live-graded deliveries weighing more than 1,500 pounds will not be deliverable.

**These changes will apply to the October 2011 and subsequent contract months.**

**No changes are being made to the already-listed June 2010 through August 2011 contract months.**

Rule amendments for these changes are presented on the following pages, with additions underlined and deletions bracketed and overstruck.



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## COMMODITY SEMINAR

### Distillers Dried Grains Impact on Livestock Markets

Join **Darrell R. Mark, Ph.D.**, Assoc. Professor and Extension Livestock Marketing Specialist at the University of Nebraska Department of Agricultural Economics, and **Mr. Steve Meyer, Ph.D.**, founder of Paragon Economics, for a discussion on Distillers' Dried Grains (DDGs). Learn about ethanol production, how DDGs are used as a feed input for livestock and cattle, and how livestock and ethanol producers can manage price risk with DDG futures and options.

[Register today at \*\*www.cmegroup.com/ddgwebinar\*\*](http://www.cmegroup.com/ddgwebinar)

#### WHEN

**Wednesday, May 26, 2010**  
2:00 p.m. CT

#### WHERE

CME Group  
Visitor Center Auditorium  
141 W. Jackson  
Chicago, IL 60604  
**Attend Online or in Person**

#### RSVP

[Click Here to Register](#)

### About CME Group

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## Chapter 7 Delivery Facilities and Delivery Procedures

### 704. APPROVED STOCKYARDS AND SLAUGHTER PLANTS FOR LIVE CATTLE

Deliveries on Exchange contracts of live beef cattle can be made only at public livestock yards and slaughter plants designated and approved for delivery by the Exchange.

A public livestock yard shall not be eligible for deliveries as an approved stockyard unless it is a stockyard within the definition of the Packers and Stockyards Act, 1921 as amended, and has received notice to that effect from the Secretary of Agriculture. Approved stockyards shall be required to keep such records, make such reports and be subject to inspection and regulation by the Secretary of Agriculture, as provided in said Packers and Stockyards Act.

An approved slaughter plant shall, at a minimum, be federally inspected, slaughter primarily fed cattle in the normal course of business, have a fed cattle slaughter capacity of at least 500 head per day, have proper facilities for weighing and grading, and be located within ~~[approximately 150]~~ a 200-mile[s] radius of one or more approved stockyards.

## Chapter 101 Live Cattle Futures

### 10103. SETTLEMENT PROCEDURES

#### 10103.B. Live Graded Deliveries

##### 4. Par Delivery and Substitutions.

- a. Par Delivery Unit. A par delivery unit is 40,000 pounds of USDA estimated Yield Grade 3, 55% Choice, 45% Select quality grade live steers, with no individual animal weighing less than 1,050 pounds or more than ~~[1,475]~~ 1,500 pounds. ~~[deliverable at par.]~~

(remainder of Rule 10103.B.4.a. unchanged)

- b. Weight Deviations. Steers weighing less than 1,050 pounds or more than ~~[1,550]~~ 1,500 pounds shall not be deliverable. ~~[Steers weighing more than 1,475 pounds but less than or equal to 1,550 pounds shall be deliverable at an adjustment equal to 950-1000 lbs Factor described in Rule 10103.A., multiplied by the average live weight of the delivery unit.]~~ The judgment of the grader as to ~~[the number of]~~ such overweight or underweight cattle ~~[in the delivery unit]~~ shall be final. ~~[and shall be so certified on the grading certificate.]~~

#### 10103.C. Carcass Graded Deliveries

##### 1. Conditions.

A buyer assigned a Certificate of Delivery may call for delivery of the cattle to an approved slaughter plant corresponding to the stockyards designated in the Certificate, or to any other approved slaughter plant within ~~[150]~~ 200 miles of the feedlot from which the cattle originate. For the purposes of Chapter 101, a feedlot shall be defined as any location where cattle are confined to a pen and provided access to feed and water including, but not limited to, commercial feeding operations, farmer feeding operations and stockyards.

(remainder of Rule 10103.C.1. unchanged)

5. Par Delivery and Substitutions.

- h. Delivery Points and Allowances. Buyers electing carcass grading must specify an approved slaughter plant enumerated by the Exchange. Eligible slaughter plants include those enumerated for the stockyards to which the cattle were tendered, and any other approved slaughter plant that is within [~~450~~] 200 miles of the originating feedlot.

**10104. PROCEDURES FOR TENDER, DEMAND, RETENDER, RECLAIM, AND ASSIGNMENT OF CERTIFICATES OF DELIVERY**

**10104.A. Tendering a Certificate**

A clearing member representing a short may present a Certificate of Delivery (on a form prescribed by the Clearing House) to the Clearing House no later than 4:30 p.m. on any business day except that Certificates may not be tendered:

1. On or before the first Friday of the contract month;
2. After the third business day after expiration.

A Certificate of Delivery is a commitment to deliver cattle conforming with contract specifications at the delivery point designated in the Certificate, or at a corresponding approved slaughter plant selected by the buyer, if the Certificate is not reclaimed.

A Certificate tendered before the termination of trading requires delivery on the sixth business day that is also a delivery day following the tender of that Certificate, if the buyer elects live grading. If the buyer elects carcass grading, the Certificate requires delivery at the option of the buyer on any day the slaughter plant is in operation between the third business day and the sixth business day, inclusive, following tender of that Certificate.

A Certificate tendered on or after the day trading terminates requires delivery on the fourth business day that is also a delivery day following the tender of that Certificate, if the buyer elects live grading. If the buyer elects carcass grading, the Certificate requires delivery at the option of the buyer on the third business day or fourth business day following tender of that Certificate, or on an intervening day that the slaughter plant is in operation.

A Certificate must include the name, location, business address, and telephone number of the feedlot from which the cattle originate. A Certificate must also include: (1) the distance between the feedlot and the stockyards to which the cattle are tendered for delivery; (2) the distance between the feedlot and the approved slaughter plants corresponding to the stockyards to which the cattle are tendered for delivery; and (3) any other approved slaughter plants within [~~450~~] 200 miles of the feedlot and the distances to such approved slaughter plants.

(remainder of Rule 10104.A. unchanged)

If you have any questions regarding this matter, please contact Paul Peterson, Director, Commodity Research & Product Development at (312) 930-4587.