CME Group

CME Group Request for Market Feedback on Proposed Changes to Live Cattle Futures Contract Specifications

Extension: based on industry feedback, on Monday, March 14, CME Group notified customers it will extend the deadline for submitting feedback to Monday, April 4, 2016.
View March 14 Extension Notice

Recommendation
Discussions with Live Cattle futures market participants have prompted CME Group to consider amending the Live Cattle futures rules. The proposed change would add a seasonal discount of $1.50/cwt on deliveries tendered to Worthing, SD for the October contract month in order to facilitate a more orderly delivery process.

After extensive interaction with a wide number of industry participants and comprehensive analysis of the available data, CME Group is seeking feedback from additional stakeholders to gather comments and input prior to making a final decision and submitting a contract change to the CFTC. The comment period will remain open through April 4, 2016 and respondents may submit written feedback to the CME contacts listed at the end of this document.

Background
The Sioux Falls Regional Livestock stockyard, located in Worthing, SD became an active CME-approved delivery point stockyard for the Live Cattle futures contract beginning in August of 2009. CME data indicates:

- Since August 2009, 50.9% of all delivered loads of cattle were originally tendered to Worthing, SD.
- 61.3% of the delivered loads of cattle associated with Worthing, SD have been delivered to close out October futures contracts.
- Since 2009, 71.7% of delivered loads of cattle to close out October futures contracts were originally tendered to Worthing, SD.

In a futures contract with geographically diverse delivery points – which is the case with CME Live Cattle Futures and its thirteen delivery point stockyards spread between New Mexico and South Dakota – the contract should experience a broader distribution of deliveries between the delivery points than what we have seen since 2009. Given the cointegrated relationship of CME Live Cattle futures prices with fed cattle spot cash prices, CME believes that it is in the best interest for the marketplace to attempt to achieve a more equal distribution of cattle deliveries across multiple delivery points. Geographically dispersed deliveries will help ensure that expiring month prices reflect supply and demand factors across all delivery regions during all contract months, and prevent congestion at individual stockyards for USDA graders and stockyard personnel. Also, a discount applied to the Worthing, SD stockyard would not be indicative of the quality of the cattle in the region, or of the quality of the stockyard itself, but rather of a localized seasonal supply/demand imbalance.

Based on the cash price data represented in Figure 1, it appears that prices in the Iowa/Minnesota region during the October delivery month are consistently below cash prices in the remainder of the five area regions. CME believes that this price seasonality is due to a mix between a counter-seasonal cattle marketing schedule relative to the other 5-area regions, represented in Figure 2, and tight regional capacity based on market feedback. These factors are likely influencing the disproportional number of deliveries being tendered to Worthing, SD in October. Only 7.5% of Worthing deliveries have been tendered against a December contract, and so CME is not currently proposing to also discount the December contract month.

CME welcomes comments and feedback from the cattle industry and from participants in our Live Cattle Futures market. Comments may be sent to:

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Figure 1: Fed Cattle Price Seasonality

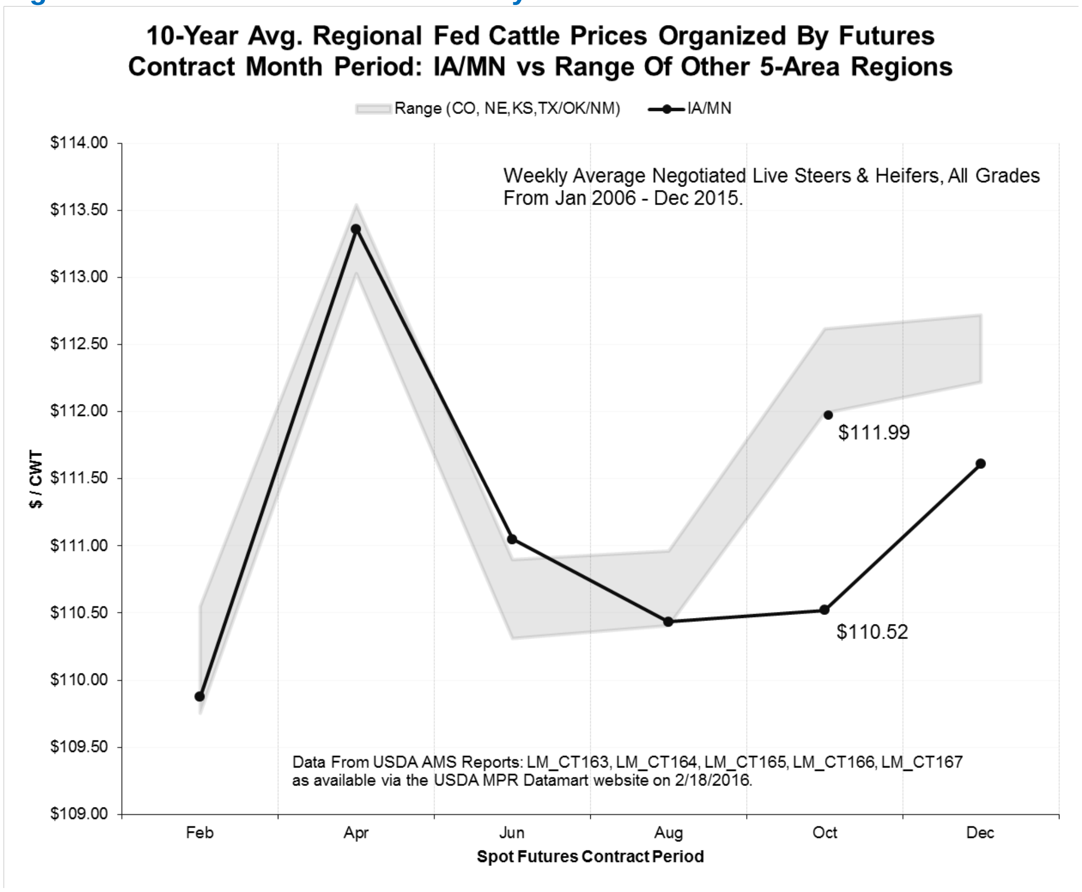

Figure 2: Fed Cattle Marketing Seasonality