

COMMODITY PRODUCTS

Distillers' Dried Grain Futures (DDG)

A smart alternative to pricing and managing DDGs price risk.

Overview

Distillers' Dried Grains (DDGs) are the dried residue remaining after the starch fraction of corn is fermented with selected yeasts and enzymes to produce ethanol. After fermentation, the alcohol is removed by distillation and the remaining residues are either dried or remain wet. Although DDGs are used primarily as a feed additive for cattle and dairy cows, they are also being incorporated into other livestock feed rations.

Current U.S. DDGs production is over 33 million short tons with a \$4 billion market value and export levels approaching 20%. Supply varies with energy prices, corn prices and the relationship between these two prices. Ethanol production is expected to increase as the U.S. oil industry will be required by the Renewable Fuel Standard Program to blend an increased proportion of ethanol into the gasoline supply.

Completing the Corn for Ethanol Crush

The addition of DDG futures will complete the exchange's product suite for the corn crush for ethanol and bring much-needed price discovery tools and price transparency to the market. These futures complete a risk management portfolio, which allows ethanol plants (sell side) to hedge both their inputs (corn and natural gas) and outputs (ethanol and DDGs) – known as the “corn crush”. Additionally, a DDG futures contract is a hedging tool for the buy side (dairy operations, livestock producers and feed manufacturers), who use DDGs as a feed supplement. Other participants in the DDGs industry who could benefit from the DDG futures contract are the marketers and merchandisers.

DDG Futures Contract Benefits

- Provides market participants with a transparent “benchmark price”
- Provides price risk management opportunities
- Mitigation of counterparty credit risk
- CFTC oversight and regulation
- Allows price risk to be managed separately from physical transaction
- Multiple month listings enable the establishment of a forward price curve
- Relatively seamless, instantaneous straight-through execution, processing and clearing through CME Globex and CME Clearing

CONTRACT SPECIFICATIONS

DISTILLERS' DRIED GRAIN FUTURES	
Ticker Symbol	DDG
Contract Size	100 short tons (approximately 90.72 metric tons)
Deliverable Grades	Protein – Minimum 26% Fat – Minimum 8% Fiber – Maximum 12% Moisture – Maximum 11.5%
Testing Methods	Dry Matter: NFTA 2.2.2.5 (105 °C / 3hr) Crude Protein: AOAC 990.03 or AOAC 2001.11 Crude Fat: AOAC 945.16 Crude Fiber: AOAC 978.10
Delivery	DDG futures are a physically delivered contract. The short (seller of DDG futures, designated as regular for delivery) will issue shipping certificates. The long (buyer of DDG futures) will receive a shipping certificate. If the buyer cancels the shipping certificate for load-out, the seller will deliver the specified quantity and quality of distillers' dried grains to the buyer's facility. The buyer pays the seller the public rail tariff from the seller's designated rail junction to the buyer's facility. Chicago, Illinois is the designated rail junction for "regular for delivery" firms east of the Mississippi River; and Council Bluffs, Iowa is the designated rail junction for "regular for delivery" firms west of the Mississippi River.
Tick Size	Ten cents (\$0.10) per short ton (\$10.00 per contract)
Price Quote	Dollars and cents per short ton
Contract Months	All 12 calendar months
Last Trading Day	The business day prior to the 15th calendar day of the contract month
Last Delivery Day	Second business day following the last trading day of the delivery month
Daily Price Limits	\$20 per short ton expandable to \$30 and \$45
Speculative Position Limits	200 contracts in spot month; 1,000 contracts in any single month; and 1,000 contracts in all months combined
Storage (Premium) Charge	The long (buyer), who takes delivery of a DDG shipping certificate, shall pay a storage charge of 8 cents per short ton per day to the issuer of the shipping certificate until the DDG shipping certificate is cancelled for load-out, sold or redelivered.
Trading Hours	Electronic Only 6:00 p.m. – 7:15 a.m. and 9:30 a.m. – 1:15 p.m. Central Time, Sun. – Fri.

For more information on DDG futures, visit www.cmegroup.com/ddg.

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