



## Special Executive Report

**DATE:** March 23, 2018

**SER#:** 8122

**SUBJECT: Industry Survey Regarding Amendments to the Calculation of the CME Feeder Cattle Index and the Feeder Cattle Futures Contract**

Chicago Mercantile Exchange Inc. ("CME" or "Exchange") is soliciting feedback from market participants regarding amendments to the calculation of the CME Feeder Cattle Index® (the "Index") in connection with the Feeder Cattle Futures contract ([Rulebook Chapter 102](#); CME Globex Code: GF/Clearing Code: 62) (the "Contract"). The deadline for the Exchange to receive such feedback is Monday, April 9, 2018.

Specifically, the Exchange is in the process of determining the potential benefits of including fancy, thin, fleshy, gaunt, or full feeder cattle from the sample of transactions used to calculate the Index.

### **Background**

USDA Livestock, Poultry and Grain Market News ("LPGMN") reporters are responsible for compiling a comprehensive record covering all facets of feeder cattle trade, including direct trades, livestock auctions, video and internet auctions, and board sales. Factual data should relate to supplies, demand, trading activity, and price trends on represented weights, grades, and classes of livestock. Reporters recognize and maintain confidentiality of this information and establish unbiased reports for trade members. LPGMN reporters have established a wide range of reliable contacts, which are used on a daily/weekly basis for compiling market information. All information is evaluated by the reporter before issuing the respective report to ensure the report accurately reflects actual market conditions at that time.

In addition to frame size and muscling, descriptive terminology or other price determining factors such as flesh condition, fill, etc. are sometimes necessary to help explain price differences or to narrow price ranges. These factors end up as "comments" in end reports. For example, using the "calves" or "yearling" comment is used to differentiate between calves and yearlings even when similar weights and grades are selling at or near the same price level. At times thin, full, fleshy, or other approved comments may be more appropriate to describe price differences and should be used in place of calves or yearlings.

The Index, calculated daily, is based on a sample of transactions from these weight/frame score categories: 700 to 899-pound Medium- and Large-Frame #1 feeder steers and 700 to 899-pound Medium-and Large-Frame #1-2 feeder steers. The sample contains all feeder cattle for which the number of head, weighted average price, and weighted average weight are reported in auctions, direct trades, video sales, and Internet sales transactions within the 12-state region of Colorado, Iowa, Kansas, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas and Wyoming. All direct trade reports are considered Friday transactions. Reports that are designated as "preliminary" are not be included in the sample, and no transactions from that location are used until a final report is issued. Cattle identified in the report as fancy, thin, fleshy, gaunt, full or having predominantly dairy, exotic or Brahma breeding are excluded from the sample. Cattle reported as having an origin outside of the United States are also excluded from the sample. Direct, video, and Internet transactions must be quoted on an FOB basis, 3% standing shrink or equivalent, with pickup within 14 days to be included in the sample.

The Index is a seven-day weighted average, which is used in final settlement of the Feeder Cattle Futures contract. Specifically, the seven-day weighted average is the total dollars sold during the previous seven-

days divided by the total pounds of feeder steers sold during the same seven-days. Every pound of feeder steers sold during the seven-day period has the same impact on the seven-day price of the Index.

Additional information regarding the Index may be found [HERE](#).

### **Summary**

The number of feeder cattle placements in the monthly Cattle on Feed (“COF”) report compiled by the USDA have been rising since 2013 (see **Exhibit 1** below), while the total number of head included in the Index price has been declining (see **Exhibit 2** below).

The Exchange recalculated the Index totals for each Feeder Cattle futures expiry from January 2016 through November 2017 to include cattle identified in the report as being fancy, thin, fleshy, gaunt or full, while keeping all other provisions in the sample unchanged. The results show that, on average, the inclusion of these commented cattle, which were previously excluded, added 887 head to the Index sample size and had no effect on price (see **Exhibit 3** below).

Based on discussions with market participants and with the USDA, the Exchange is in the process of determining the potential benefits of including fancy, thin, fleshy, gaunt, or full feeder cattle from the sample of transactions used to calculate the Index as noted in the proposed amendments to CME Rule 10203.A. of the Contract as follows:

CME Rulebook  
Chapter 102  
Feeder Cattle Futures

### **10203. SETTLEMENT PROCEDURES**

#### **10203.A. Final Settlement**

There shall be no delivery of feeder cattle in settlement of this contract. All contracts open as of the termination of trading shall be cash settled based upon the CME Feeder Cattle Index™ for the seven calendar days ending on the day on which trading terminates.

#### **1. The Sample**

The CME Feeder Cattle Index™ is based upon a sample of transactions from these weight/frame score categories: 700 to 899 pound Medium and Large Frame #1 feeder steers, and 700 to 899 pound Medium and Large Frame #1-2 feeder steers.

The sample consists of all feeder cattle auction, direct trade, video sale, and Internet sale transactions within the 12-state region of Colorado, Iowa, Kansas, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas and Wyoming for which the number of head, weighted average price and weighted average weight are reported by the Agricultural Marketing Service of the USDA (USDA-AMS).

All direct trade reports shall be considered to be Friday transactions.

Multiple day sales, for which separate weighted average reports are not issued for each day or it is not evident from the reports issued what cattle sold on which day, shall be included in the sample as if all transactions occurred the final day of the sale.

Saturday and Sunday sales shall be included in the sample as if all transactions occurred on Monday.

Reports that are designated as "preliminary" shall not be included in the sample, and no transactions from that location shall be used until a final report is issued.

Cattle identified in the report as ~~being fancy, thin, fleshy, gaunt or full~~; having predominantly dairy, exotic or Brahma breeding; shall be excluded from the sample. Transactions for cattle that are reported by USDA-AMS as having an origin outside of the United States shall be excluded from the sample. Direct trade, video sale, and Internet sale transactions must be quoted on an FOB basis, 3% standing shrink or equivalent, with pickup within 14 days to be included in the sample.

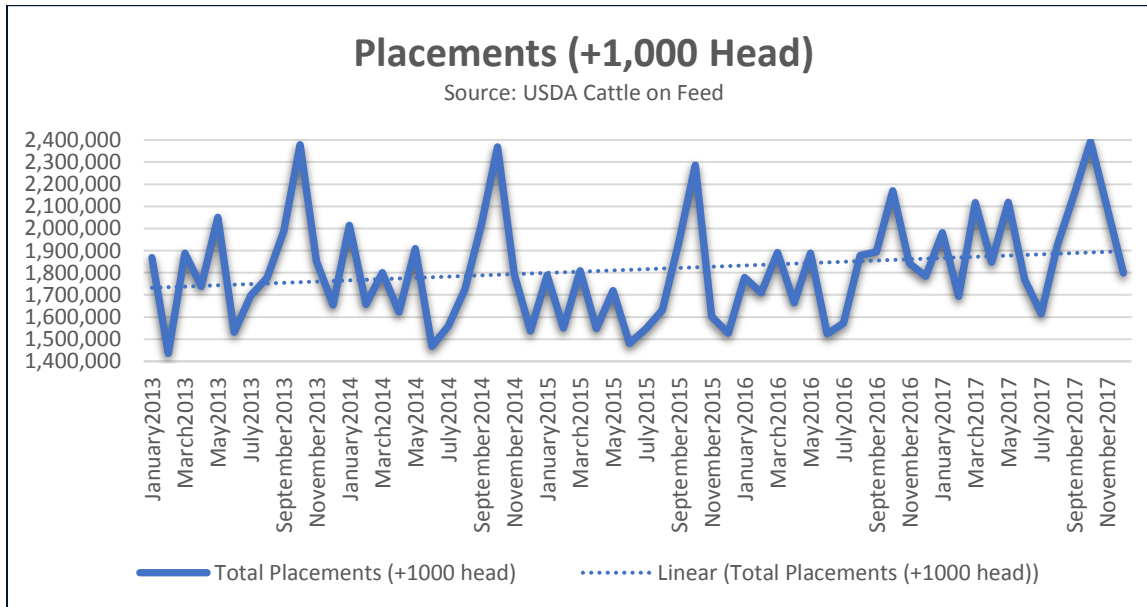
[Remainder of Rule unchanged.]

**Feedback Item:** The Exchange invites comment on the inclusion of cattle with comments of fancy, thin, fleshy, gaunt, or full and whether such inclusion would strengthen the sample of transactions used to calculate the CME Feeder Cattle Index.

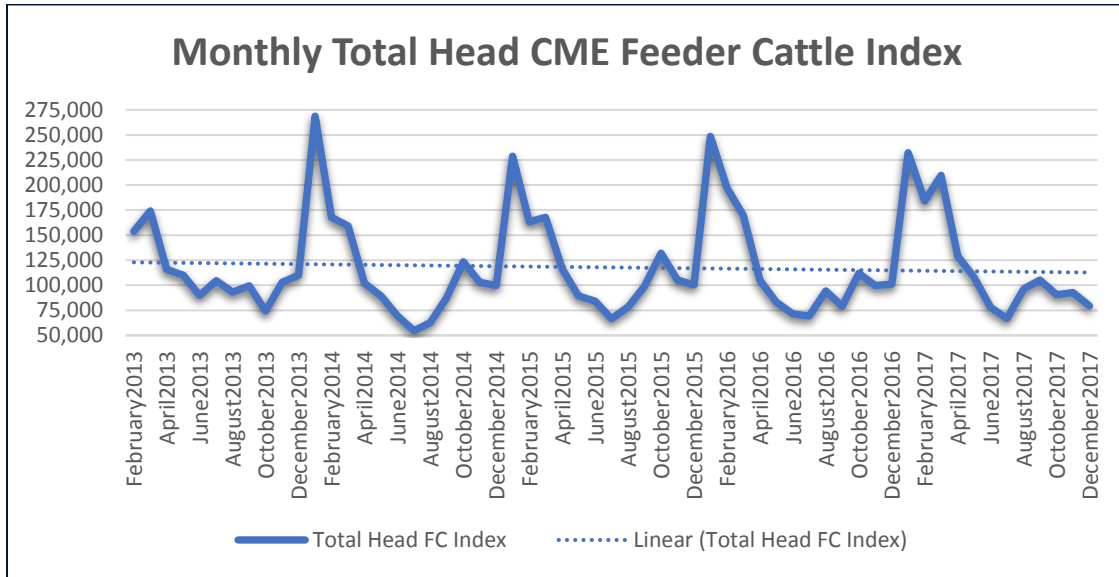
CME welcomes comments and feedback from the cattle industry and from participants in our Feeder Cattle Futures market. The comment period is open through April 13, 2018 and respondents may submit written feedback to the CME contact listed below:

**Jim Sullivan**  
Manager  
Commodity Research & Product Development  
[Jim.Sullivan@cmegroup.com](mailto:Jim.Sullivan@cmegroup.com)  
312-930-2308

**Exhibit 1: Total Placements**



**Exhibit 2: CME Feeder Cattle Index Total Head**



**Exhibit 3: Comparison Data**

SEVEN-DAY TOTALS	CME Feeder Cattle Index				CME Feeder Cattle Index - <u>Commented</u> Included		
	Total Head	Wtd Avg Weight	Wtd Avg Price		Total Head	Wtd Avg Weight	Wtd Avg Price
JAN16	53,387	745.27	\$161.24	JAN16	55,532	745.46	\$161.19
MAR16	35,984	765.49	\$160.67	MAR16	37,606	765.04	\$160.74
APR16	16,839	769.76	\$144.30	APR16	17,483	768.33	\$144.42
MAY16	20,486	756.41	\$146.09	MAY16	21,080	755.76	\$146.11
AUG16	18,755	751.64	\$146.11	AUG16	19,004	751.90	\$146.10
SEP16	24,228	755.80	\$133.95	SEP16	24,384	755.69	\$133.92
OCT16	36,615	730.71	\$121.84	OCT16	37,250	731.19	\$121.93
NOV16	23,992	784.35	\$127.00	NOV16	25,002	784.19	\$126.96
JAN17	56,561	783.82	\$131.71	JAN17	58,688	784.00	\$131.76
MAR17	36,849	803.15	\$132.77	MAR17	37,628	802.82	\$132.76
APR17	32,988	804.70	\$141.38	APR17	33,913	804.36	\$141.46
MAY17	19,625	814.17	\$143.89	MAY17	19,832	814.19	\$143.91
AUG17	19,328	795.48	\$143.08	AUG17	20,011	795.77	\$143.02
SEP17	20,898	796.48	\$152.96	SEP17	21,557	796.95	\$152.94
OCT17	22,457	776.64	\$155.12	OCT17	23,155	776.21	\$155.27
NOV17	26,409	773.01	\$157.54	NOV17	27,465	773.73	\$157.18
<b>AVERAGES</b>	<b>29,088</b>	<b>775.43</b>	<b>\$143.73</b>		<b>29,974</b>	<b>775.35</b>	<b>\$143.73</b>

	DIFFERENCE		
	Total Head	Wtd Avg Weight	Wtd Avg Price
JAN16	2145	0.18	(\$0.05)
MAR16	1622	(0.45)	\$0.07
APR16	644	(1.42)	\$0.12
MAY16	594	(0.65)	\$0.02
AUG16	249	0.25	(\$0.00)
SEP16	156	(0.10)	(\$0.02)
OCT16	635	0.48	\$0.09
NOV16	1010	(0.16)	(\$0.04)
JAN17	2127	0.19	\$0.05
MAR17	779	(0.33)	(\$0.01)
APR17	925	(0.35)	\$0.09
MAY17	207	0.02	\$0.02
AUG17	683	0.29	(\$0.07)
SEP17	659	0.47	(\$0.02)
OCT17	698	(0.43)	\$0.14
NOV17	1056	0.72	(\$0.36)
<b>AVERAGE</b>	<b>887</b>	<b>(0.08)</b>	<b>\$0.00</b>