CME Group

Special Executive Report

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EXCHANGE PROPOSES CHANGES IN MILLING YIELD PREMIUMS AND DISCOUNTS IN ROUGH RICE FUTURES

Pending CFTC approval, the exchange plans to implement milling yield premium and discount schedules based on USDA-CCC loan rates rather than fixed percentages effective with the September 2011 contract.

CME Group's Research and Product Development (RPD) Department, working with a broad coalition of market participants, proposes changing the milling yield premium and discount schedule in the CBOT Rough Rice futures contract to be more consistent with cash market practices.

Rough rice trades with premium and discount schedules based on the make-up of whole kernels (head rice) and broken kernels. In the Rough Rice futures contract, premium and discount schedules for head rice and broken kernels are based on fixed percentages. However, in the cash market, head rice and broken kernel premiums and discounts are based on the USDA Commodity Credit Corporation (CCC) loan rates. Sometimes the fixed percentages used in the Rough Rice futures contract can be significantly different from the USDA-CCC premiums and discounts used in the cash market. These differences show up in the basis. Changing the futures contract premiums and discounts to be more consistent with cash market practices will result in a less volatile basis and a more effective hedging tool.

Under current contract rules, each percent of head rice over or below 55 percent receives a 1.5 percent premium or discount respectively while each percent of broken kernels over or below 15 percent receives a 0.75 percent premium or discount respectively. For example, with Rough Rice futures prices at $15.85 per hundredweight, a Rough Rice warehouse receipt for 60 percent head rice and 10 percent broken kernels would be delivered at $16.4444 per hundredweight. Under the proposed revision here, premiums and discounts would be determined from the trimmed mean of USDA-CCC loan rates for head rice and broken kernels over the past five years. Specifically, the trimmed mean from the past five years will be calculated by discarding the lowest and highest values and taking the mean of the three remaining values. Calculating trimmed means in this manner for the 2006 through 2010 USDA-CCC loan rates results in values of $10.02 per hundredweight for head rice and $6.77 per hundredweight for broken kernels. Using this proposed premium and discount schedule on the 60-10 warehouse receipt example above results in this warehouse receipt being delivered at $16.0125. The difference between the current contract milling yield schedule and the proposed schedule is $0.4319 per hundredweight.

Implementation is planned, pending CFTC approval, beginning with deliveries on the September 2011 futures contract.

If you require any additional information, please contact Dave Lehman at 312-930-1875 or via e-mail at David.Lehman@cmegroup.com; or Fred Seamon at 312-634-1587 or via e-mail at Fred.Seamon@cmegroup.com.

Chapter 17
Rough Rice Futures

Deletions are [~~bracketed with strikethrough~~] and additions are **bold and underlined**.

17101. CONTRACT SPECIFICATIONS

All futures contracts shall be for U.S. No. 2 or better long grain Rough Rice as the same is established by standards promulgated by the United States Department of Agriculture (U.S.D.A.) at the time of the first day of trading in a particular contract. No heat-damaged kernels as defined by USDA FGIS Interpretive Line Slide 2.0 are permitted in a 500-gram sample. No stained kernels as defined by USDA FGIS Interpretive Line Slide 2.1 are permitted in a 500-gram sample. A maximum of 75 lightly discolored kernels as defined by USDA FGIS Interpretive Line Slide 2.2 are permitted in a 500-gram sample. No other grade is deliverable. To be deliverable, Rough Rice shall have a milling yield of not less than 65%, including not less than 48% head rice. Each percent of head rice over or below 55% shall receive a [~~1.50%~~] premium or discount, respectively, from the settlement price for long grain Rough Rice and each percent of broken rice over or below 15% shall receive a [~~0.75%~~] premium or discount, respectively. **Head rice and broken rice premiums and discounts shall be determined from USDA-CCC loan rates for rice stored in commercial warehouses. Each spring, following the announcement of new loan rates by the USDA-CCC, a trimmed mean from the last five years of loan rates will be calculated by discarding the lowest and highest values and taking the mean of the three remaining values. The Exchange shall announce and publish the calculated new premium and discount schedules for head and broken rice and they shall be applicable to all Rough Rice futures contracts delivered during the next crop year beginning September 1.** All Rough Rice shall be of a Southern origin or such other origin as the Exchange may approve.