Daily Livestock Report

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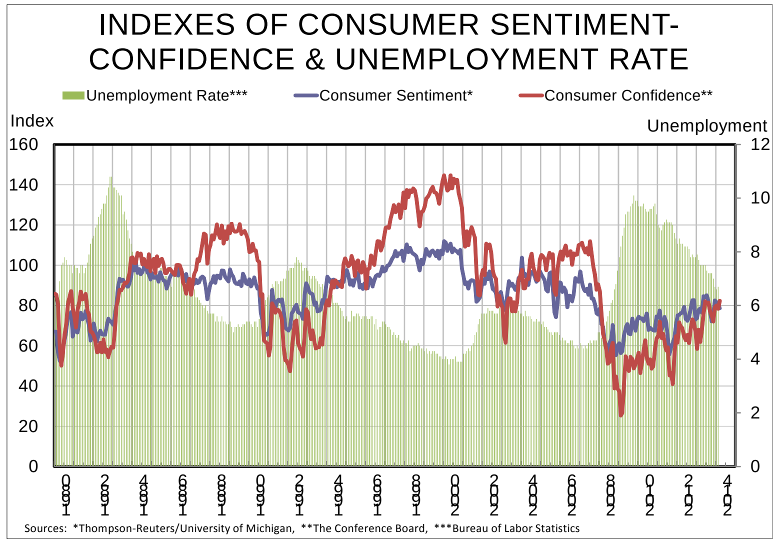
We direct your attention first today to the Request for Comments that appears on page 2. Daily Livestock Report title sponsor CME Group needs your input on a proposal to amend the daily price limit rules on Live Cattle and Feeder Cattle futures contracts. Please read the attached announcement and submit your comments and feedback to CME Group. Contact phone numbers and e-mail addresses are included in the announcement. There is no deadline date but suffice it to say that sooner is better than later!

The outlooks of U.S. consumers continue to trend upward with what we would characterize as some "continuing trepidation" perhaps. Two of the most watched measures of consumer attitude and outlook, the Thopson Reuters/University of Michigan Index of Consumer Sentiment and The Conference Board's Consumer Confidence Index. moved opposite directions last month. That is not unusual, especially when the shift in neither index is dramatic as was the case in March. As can be seen at right, the gradual uptrend for both measure appears to still be intact. We wouldn't call the apparent improvement in consumer attitudes robust but the improvement since the end of the recession is still encouraging. The specifics of March's observations are:

- The Conference Board's Consumer Confidence Index (CCI) improved to 82.3 (1985=100) in March after decreasing 1.7 points in February to 78.3. The Board's March 25 press release cited an improvement in consumers' expectations for the short – term outlook as a primary driver of the rebound as evidenced by a 7 point increase (76.5 in February to 83.5 in March) improvement in the CCI's Expectations Index component.
- In the Conference Board's survey, consumers' overall assessment of current conditions changed little in March with the proportion believing business conditions were good growing at the same time that the proportion believing conditons were bad. The same is true for consumers' overall perception of labor market conditions with those thinking jobs are "plentiful" falling slightly (0.3%) and those thinking jobs are "hard to get" growing slightly (0.6%). The first group still represents only 13.4% while the latter represents 33%.
- The Thompson Reuters/Unveristy of Michigan Consumer Sentiment Index (CSI) fell by 1.6 points to 80.0 in March. That figure is still 1.4 points (1.8%) higher than one year ago. In contrast to the CCI, this months CSI was driven higher by its Current Conditions component which rose by 0.3 points (0.3%) to 95.7. The overall index was negatively impacted by its Index of Consumer Expectations which fell by 2.7 points (3.7%) to 70.0.
- One third of the TR/UM survey respondents indicated that they expected their personal financial situations to improve in the year ahead. That is the highest proportion believing so in nearly 5 years. Gains in personal financial outlook were offset by growing concerns over the U.S. economy. That concern is primarily centered on whether the economy can avoid another downturn over the next 5 years.



We include the unemployment rate in this chart to highlight the pretty clear negative relationship that exists between consumer attitudes and the percentage of the workforce that is not working. Since January 1984, the correlation coefficient for the Consumer Sentiment Index and unemployment is –0.64. The coefficient for the Consumer Confidence Index is –0.79 over that same period. Neither of those suggest certainty in the relationships but we find them compelling give the amount of noise that is in the indexes and the relative "smoothness" of the unemployment data.

We do plead guilty to some potential bias in cutting off the data at January 1984. It is clear that the measures were not negatively related in the four years leading up to that date. In fact, the measures of consumer attitudes were improving even as unemployment climbed to its highest level since the Great Depression — and that post-Depression record of 10.8% in November and December of 1982 still stands today. Whether your were a fan or Ronald Reagan or not, it is pretty clear that Americans' views of their economic and financial situation improved even as the pain of squelching inflation was being seen in long lines of people looking for work. The budget was never close to balanced under the Reaganites but Americans' expectations for themselves and their country improved dramatically.

Since 1984, though, unemployment and consumer attitudes are very negatively related. So does unemployment cause negative attitudes/expectations or do negative attitudes/expectations cause unemployment? It's a good question that can be better answered by people smarter than us but it does appear that consumer attitudes — especially when measured by the Conference Board's apparently more sensitive Confidence Index –- tend to change BEFORE the unemployment rate does. It happened in '89-'90, '00 and, most recently, in '2007. So the current uptrends, no matter how slight, appear, with history in mind, very important and quite reassuring.

CME Request for Marketplace Comments (via Daily Livestock Report) on Rule Changes to Live Cattle and Feeder Cattle Daily Price Limits.

The CME Group is requesting public feedback on a proposal to amend the daily price limit rules on all Live Cattle and Feeder Cattle futures contracts. The CME is recommending the daily price limits be *removed during the final two trading days of the expiring month contract* in order to better facilitate price discovery, position liquidation, and market convergence and to align the Live Cattle and Feeder Cattle rules with those of the Lean Hog futures contract.

Research conducted by the CME Group indicates price discovery and position liquidation during the final two trading days would be improved by removing the daily price limits during this period. During the past 10 years, there have been several cases where the daily price limits have been reached during the last two trading days. There have also been cases where the expiring contract settled at the daily price limit, indicating traders may have been unable to post the bid or offer necessary to liquidate their position. Price discovery in the futures market will also be aided through price limit removal as the expiring futures contract will be able to move as far as needed to converge with the cash market.

Removal of daily price limits for some period before contract expiration has significant precedence in CME Group products. Indeed, the Lean Hog futures contract removes daily price limits for the final two trading days and daily price limits are removed in grains and oilseed futures contracts for the duration of the expiring contract month. Removing the daily price limits for the final two trading days in Live Cattle and Feeder Cattle futures would harmonize these rules with those of other CME products.

The CME Group welcomes comments and feedback from the livestock industry and from participants in our livestock futures markets. Comments may be sent to Matthew Herrington, Manager, Commodity Research and Product Development, 312 338 2787, matthew.herrington@cmegroup.com or to Tom Clark, Director, Commodity Business Line Management, 312 930 4595, thomas.Clark@cmegroup.com.