Daily Livestock Report

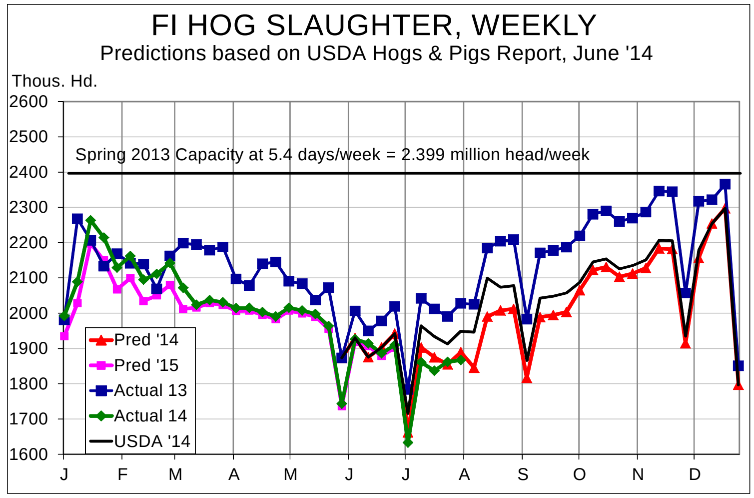
Sponsored by CME Group

Vol. 12, No. 151 / August 5, 2014

A REMINDER: The deadline for public comments on CME Group's proposed changes to the Lean Hogs contract is this Friday, August 8. A copy of the CME Group announcement appears on page 2. The proposed changes are 1) lengthening the averaging period for the CME Lean Hog Index from 2 to 10 business days; 2) moving the expiration date of all Lean Hogs contracts to the last business day of the contract month and 3) adding futures and options contracts for March, September, November and January. **CME Group needs to hear your opinions on these issues!** Addresses for responses appear at the bottom of the CME Group announcement.

Is the worst of the short hog supply situation behind us? The answer to that question is more than likely "Yes," at least after this week. But an affirmative response in no way means that hog supplies will be back to "normal" any time soon. As with most things these days, there are conflicting data on the supply situation that will not be reconciled for a few weeks at least. Let's consider some recent developments:

- Last week marked the sixth week (of the past seven) in which FI (federally-inspected) hog slaughter was below 1.9 million head. One of those was the week of July 4 which normally sees such low slaughter levels but the one that was above the threshold was just barely so at 1.909 million head. Our forecasts suggest that this week will be the lowest non-holiday week of the year before slaughter numbers begin to grow.
- Monday's estimated FI slaughter was a shocking 337,000 head and that comes on top of an equally shocking 263,000 head total for Friday. It is true that some plants are scheduling normal summer maintenance "holidays" but those slaughter totals are very small. Still, the scheduled hog deliveries reported to USDA under the mandatory price reporting system and published each day in the LM-HG-201 report (Prior Day Slaughtered Swine) indicate that numbers are growing. The table at right shows the scheduled delivers for the following two weeks for yesterday (8/4) and the past two Mondays. Note that the colors denote data for the same weeks (the yellow under 7/21 corresponds to the yellow under 7/28 and same for the green blocks). It is clear that the delivery commitments for late this week are larger than last week and that those for next week (the orange block) are larger than corresponding scheduled deliveries the past two weeks.
- BUT — we are not going back to anywhere near year-ago levels of hog supply any time soon! The peak for PEDv case accessions was in late February. That corresponds to late August marketings and slaughter. Hog numbers usually increase rapidly during August and, at least after next week, we think they will this year but the absolute number of hogs coming to plants will remain far lower than "normal". Last week's slaughter was 7.9% lower than one year ago. That figure follows three weeks of 8%-plus declines and one week of –6.4%. Our forecast for this week (and thru the end of September!) is –9% from 2014 levels. That would put weekly totals near 2 million head.
- Weights are still running over 5% higher than last year and, it appears, will continue to do so. But where that growth was once almost completely offsetting the reduction in slaughter, it is now making up only a bit more then half of the decline. Pork production was down 3.3%, yr/yr, last week. Yr/yr declines in hog numbers will keep that number at –3 to –5%, we believe, thru the end of September.



SCHEDULED SLAUGHTER HOG DELIVERIES

	7/21	7/28	8/4
M	362,690	384,599	330,491
T	355,873	362,935	361,688
W	349,375	356,600	354,864
TH	340,980	336,939	351,076
F	223,079	185,630	264,086
S	-	-	20,645
Sun	22,131	8,715	27,381
M	112,906	82,765	141,303
T	118,809	118,221	131,173
W	116,201	114,043	123,762
TH	116,059	115,025	126,373
F	57,806	89,229	107,008
S	-	-	820
Sun	3,935	10,235	16,805

Source: USDA-AMS, LM-HG-201

CME Group

CME Group Request for Marketplace Comments on Proposed Lean Hog Futures Contract Specification Changes

Introduction

Recent feedback from market participants in CME Lean Hog futures has prompted CME Group to consider three changes to the contract specifications: 1) lengthening the CME Lean Hog Index ("Index") averaging period from 2 business days to 10 business days; 2) moving the expiration date of the contract to the last business day of the contract month; and 3) adding March, September, November, and January Lean Hog futures and options contracts to provide 12 contracts per calendar year.

CME Group is requesting public feedback on each of these proposed changes to Lean Hog futures. The comment period will run until Friday, August 8, 2014, after which the exchange will make a final, separate decision on each of the proposed changes. Firms and individuals are invited to provide feedback to CME Group personnel identified at the end of this document.

Brief Summary of Proposed Changes

Research conducted by CME Group shows extending the Index averaging period would decrease the volatility of the Index and would allow prices for a greater number of cash market hogs to be reflected in the Index. This change would essentially lengthen the "delivery period" of the Lean Hog futures contract and may provide producers and packers with added time to "deliver" hogs into the Index and create convergence. Lengthening the Index averaging period to 10 business days would also make the Index less susceptible to "outlier" prices of a small number of cash market transactions. Other cash-settled CME agricultural products use multi-day averaging periods (7 calendar days for Feeder Cattle and one month for Dairy products), providing precedence for index averaging periods greater than one week.

Some CME Group customers have argued moving the expiration date of the Lean Hog futures contract to the end of the month would create greater basis predictability and hedging effectiveness. Others claim this change would simplify accounting practices and make hedging tactics easier to understand for new hedgers. Moving the settlement date to the end of the month would align Lean Hog futures settlement date with that of Live Cattle futures, which would bring further harmony across the CME livestock futures complex and may increase Live Cattle-Lean Hog spreading effectiveness.

Finally, proponents of adding additional contract months suggest this would create a more predictable, stable basis. Theoretically, this would occur as the futures market would be converging to the Index price each month, rather than only in the current 8 months with Lean Hog futures contracts. CME Group research finds slight improvements in basis stability and predictability during the April – August time period when serial contracts are listed versus the September – March period where only bi-monthly contracts are listed. However, there are significant concerns that adding additional contract months would split market liquidity between existing and newly-listed contracts, potentially resulting in less liquid, less efficient markets during all contract months. Listing additional contract months may also place added burden on traders and hedgers to monitor an increased number of contracts and spreads.

CME Group welcomes comments and feedback from the livestock industry and from participants in our CME livestock futures markets. Comments may be sent to:

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