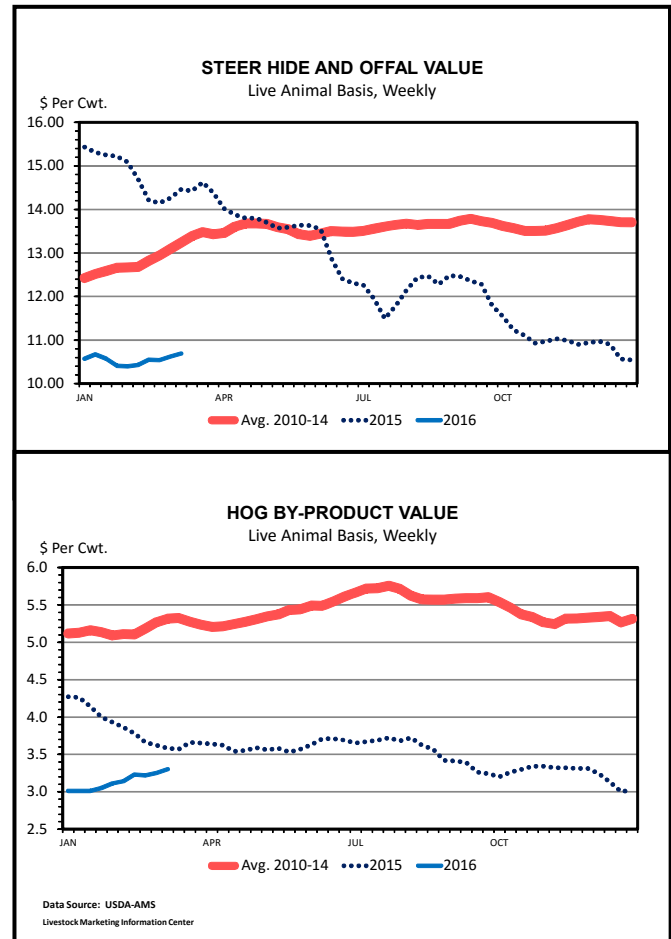


**CME Notice:** CME has once again extended the comment period for a possible amendment to the Live Cattle Futures rules. If instituted, the change would add a seasonal \$1.50/cwt discount on deliveries tendered to Worthing, SD during an October futures contract month. **The new deadline for submitting comments is April 4. See page 2 for details.**

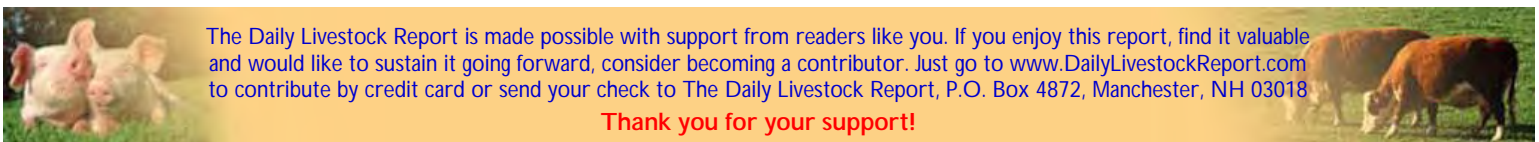
The byproduct value is the total value of all non-meat items produced from an animal such as cheek meat, hearts, livers, tripe, tongue, meat and bone meal, edible and inedible tallow, and hides. These byproduct values are a key factor for packer margins. Exports are a driver of most byproduct values as there is a much higher consumer preference for variety meats in overseas markets including Asian countries and Mexico. On the cattle side, U.S. hides make up a majority of the byproduct value, and most hides are processed overseas.

**Starting off on the cattle side,** during 2015, cattle byproduct values tracked significantly below their past five year average (2009-2013) since mid-summer. A new year has not helped values much, as of the first week in March, steer byproduct values were \$3.77 per cwt. below 2015's and \$2.54 below the five year average (2010-2014). The past four weeks of data have shown some very slight but consistent improvements in these values however. Using the Foreign Agricultural Service's (USDA-FAS), [Global Agricultural Trade System \(GATS\)](#), we can evaluate these byproduct volumes and values on a more specific level. On a volume basis, for the month of January, beef tongues, livers, and frozen offal all posted year-over-year declines in export volume. Fresh/chilled offal posted a slight year-over-year increase in export volume, however it only accounted for around 5% of the monthly export volume. Out of these four categories (tongues, livers, frozen offal, fresh/chilled offal) the most significant contributor volume wise is frozen offal which accounted for 60% of January's export volume for those four products. Hides are a major driver of the overall beef byproduct value, and when evaluating hide prices on a year-to-year basis, according to USDA-AMS weekly data, butt branded steers hides were \$73 per piece last week compared to \$112 a piece one year ago. GATS monthly trade data confirms this value difference. For January, the value of exported hides was 23% below 2015's. The quantity of hides exported was actually up 10% year-over-year, but obviously not enough to overcome the decrease in hide prices. For perspective, the total value of beef tongues, livers, frozen offal, and fresh/chilled offal accounted for 33% of January's beef byproduct export value, while cattle hide and leather exports made up the remaining 77% of the monthly byproduct export value.

Transitioning to **hog byproduct values**, they have seen more of an uptick in prices recently compared to beef. However like beef, hog byproduct values trailed significantly below their five year average value for the majority of 2015. For the second week in March, hog byproduct values were \$0.28 per cwt. below 2015's and \$2.02 below the past five year



average value (2010-2014). Again, using GATS to look more specifically at hog byproduct categories, frozen offal accounted for 91% of January's hog byproduct export volume and 94% of the value. For January, compared to 2015, volume of byproduct exports was up 18% however the value of those exports was 6% below 2015's. Obviously there are many factors affecting the byproduct market including; global economic growth, exchange rates, seasonality and domestic production. Interestingly, and beneficial for export dynamics, the past two weeks have shown a slight decrease in the value of the US dollar relative to a majority of other countries' currencies that we track (South Korea, Mexico, Japan, Hong Kong, China, etc.). While the exchange rate movement has not been huge, it does lend support to our expectations that the US dollar will not outperform 2015 in terms of increasing value relative to other currencies.



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## 2<sup>nd</sup> Comment Period Extension for Proposed Changes to CME Live Cattle Futures Contract Specifications

On February 19, 2016, CME Group opened a public comment period concerning a possible amendment to the Live Cattle Futures rules that would add a seasonal \$1.50/cwt discount on deliveries tendered to Worthing, SD during an October futures contract month. An extension was granted which moved the deadline for submitting comments to March 21<sup>st</sup>, 2016.

After receiving further industry feedback that more time is needed to complete independent studies and reviews of the topic prior to submitting formal feedback, CME Group has decided to once again extend the deadline for submitting feedback to Monday, April 4<sup>th</sup>, 2016.

CME Group would like to encourage all parties considering submitting feedback on the possible rule change regarding the Worthing, SD delivery point to review Appendix C to Part 38 in the CFTC regulations, especially the specific regulations regarding locational differentials in a futures contract:

*"Delivery Points and Facilities:* Delivery point/area specifications should provide for futures delivery at a single location or at multiple locations where the underlying cash commodity is normally transacted or stored and where there exists a viable cash market(s). If multiple delivery points are specified and the value of the commodity differs between these locations, contract terms should include price differentials that reflect usual differences in value between the different delivery locations. If the price relationships among the delivery points are unstable and a designated contract market chooses to adopt fixed locational price differentials, such differentials should fall within the range of commonly observed or expected commercial price differences."

A link to Appendix C to Part 38 can be found on the CFTC's website here:

<http://www.cftc.gov/IndustryOversight/ContractsProducts/ListingProcedures/index.htm>

The original request for feedback can be found on the CME Livestock Market Enhancements site here:

<http://www.cmegroup.com/company/livestock-market-enhancements.html>

As always, CME welcomes comments and feedback from the cattle industry and from participants in our Live Cattle Futures market. Comments may be sent to:

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