

# Commodity INSIGHTS

April 2004

## LIVE CATTLE FUTURES AND OPTIONS

Chicago Mercantile Exchange (CME) offers pit-traded and electronically-traded Live Cattle futures and pit-traded options on Live Cattle futures. The following table compares the specifications of these contracts:

	<b>Futures</b>	<b>Options on Futures</b>
<b>Trading Unit</b>	40,000 pounds	Same as futures
<b>Contract Months</b>	<i>Regular Months:</i> Feb, Apr, Jun, Aug, Oct, Dec <i>Serial Months:</i> Jan, Mar, May, Jul, Sep, Nov	Same as futures
<b>Months Listed</b>	<i>Pit-traded:</i> 7 Regular, 2 Serial <i>Electronic:</i> 3 Regular, 2 Serial	<i>Pit-traded:</i> 6 Regular, 1 Serial
<b>Minimum Fluctuation</b>	\$.025 per cwt.	\$.0125 per cwt.
<b>Price Limits</b>	\$3 per cwt.	None
<b>Options Exercise</b>	NA	On any day that the option is traded
<b>Strike Price Intervals</b>	NA	\$1 per cwt. in first two contracts, \$2 in others
<b>Termination of Trading</b>	Last business day of the contract month	First Friday of the contract month
<b>Trading Hours</b>	9:05 a.m. to 1 p.m. (12 p.m. on last trading day)	9:05 a.m. to 1:02 p.m. (1:00 p.m. on last trading day)
<b>Position Limits:</b> <i>Expiring contract month</i>	<i>Regular Months:</i> 450 contracts, 300 contracts last 5 business days <i>Serial Months:</i> 300 contracts	Aggregated with futures on a futures-equivalent basis
<i>Other contract month</i>	3300 contracts	
<b>Ticker Symbol</b>	<i>Pit-traded:</i> LC; <i>Electronic:</i> LE	<i>Calls:</i> CK; <i>Puts:</i> PK

## Recent Changes to the Live Cattle Contract

In a continuing effort to make the Live Cattle contract more useful to market participants, the following changes became effective with the December 2003 contract:

- **Guymon, Oklahoma and Texhoma, Oklahoma are live graded delivery points.** This brings the total number of delivery points to 12.
- **The upper limits on deliverable live weights have been increased by 25 pounds, to an average weight of 1,350 pounds and an individual weight of 1,400 pounds.**
- **Deliveries are not allowed on days when there are auctions or other activities.** CME will prevent sellers from tendering deliveries that would occur on an auction day, so that deliveries won't interfere with the auction and vice versa. The only exceptions will be Amarillo and Dodge City, which are able to handle deliveries on auction days.
- **Cattle must have access to water in live graded deliveries except between grading and weighing.** All feed must be removed by 9:00 a.m. However, the cattle must have access to water at all times prior to grading, and after weighing. The only time cattle cannot have access to water is between grading and weighing.
- **The USDA grader has discretion to impose penalties on delivering shorts and receiving longs in live graded deliveries if they delay or otherwise disrupt the delivery process.** Sellers must have the cattle sorted and "shaped up" prior to presenting them to the USDA grader, or incur a penalty of \$600 per delivery unit. Likewise, buyers or sellers who disrupt or interfere in any way with the grading process are subject to a \$600 penalty.
- **A uniform USDA live grading fee of \$100 per load applies at all delivery points.** Previously, the seller was charged for the actual costs of a delivery, which varied widely depending on how far the grader traveled and how many loads were graded. A flat \$100 per delivery unit standardizes costs across all locations and situations.
- **Spot month position limits have been increased to 450 contracts between first notice day and the day before the last five business days of the contract month.** This applies to contracts *in the even month cycle only*. Serial (odd-month) contracts continue to have a 300-contract limit beginning at first notice day.
- **There is a new discount category for 950-1000 pound carcasses in carcass graded deliveries.** This replaces the flat 20% discount that previously applied to carcasses weighing more than 950 pounds.

## Other Frequently Asked Questions

### Which USDA reports are used to calculate the market-based premiums and discounts?

- Choice and Select: *National Daily Boxed Beef Cutout and Boxed Beef Cuts* (LM\_XB403)
- Prime, Standard, Yield Grades 1, 2, 4 and 5, and Carcass Weights under 600 pounds or over 900 pounds: *National Weekly Direct Slaughter Cattle – Premiums & Discounts* (LM\_CT155)
- Livers: *By-Product Drop Value* (NW\_LS441)

### How can I find these USDA reports?

- Use the USDA-AMS search engine at [www.ams.usda.gov/search/index.htm](http://www.ams.usda.gov/search/index.htm) and enter the selector code, shown above in parentheses after the title of each report

### Where can I find out how many deliveries have been tendered each day, and at which CME delivery points?

- See *Delivery Notice Served – Live Cattle* at [www.cme.com/dta/hist/delivery.html](http://www.cme.com/dta/hist/delivery.html)

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