

# Livestock-R-U's / Huron Continental Marketing Survey

## **CME trade Survey; Livestock-R-U's / Huron Continental Marketing PO Box 1337 Huron SD, 57350**

*This is only part of the CME rule book go to [www.Livestockrus.com](http://www.Livestockrus.com) or CME Group web site to see all 10 pages;*

10203. CME SETTLEMENT PROCEDURES \* FOR ALL CONTRACT MONTHS PRIOR TO NOVEMBER 2016

10203.A. Final Settlement: There shall be **no delivery** of feeder cattle in settlement of this contract. All contracts open as of the termination of trading shall be cash settled based upon the CME Feeder Cattle Index™ for the seven calendar days ending on the day on which trading terminates.

1. The Sample; The CME Feeder Cattle Index™ is based upon a sample of transactions from these weight/frame score categories: 650 to 849 pound Medium and Large Frame #1 feeder steers, and 650 to 849 pound Medium and Large Frame #1-2 feeder steers.

The sample consists of all feeder cattle auction, direct trade, video sale, and Internet sale transactions within the 12-state region of Colorado, Iowa, Kansas, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas and Wyoming for which the number of head, weighted average price and weighted average weight are reported by the Agricultural Marketing Service of the USDA (USDA-AMS).

All direct trade reports shall be considered to be Friday transactions.

Multiple day sales, for which separate weighted average reports are not issued for each day or it is not evident from the reports issued what cattle sold on which day, shall be included in the sample as if all transactions occurred the final day of the sale.

Saturday and Sunday sales shall be included in the sample as if all transactions occurred on Monday.

Reports that are designated as "preliminary" shall not be included in the sample, and no transactions from that location shall be used until a final report is issued.

Cattle identified in the report as being fancy, thin, fleshy, gaunt or full; having predominantly dairy, exotic or Brahma breeding; shall be excluded from the sample. Transactions for cattle that are reported by USDA-AMS as having an origin outside of the United States shall be excluded from the sample. Direct trade, video sale, and Internet sale transactions must be quoted on an FOB basis, 3% standing shrink or equivalent, with pickup within 14 days to be included in the sample.

2. The Calculation The procedure for calculating the CME Feeder Cattle Index™ is as follows:

a. For each of the relevant weight/frame score categories in each report:

- i. the number of head is multiplied by the corresponding weighted average weight to obtain the total pounds sold in that weight/frame score category for that report; and
- ii. The number of head is multiplied by the corresponding weighted average weight, and the resulting product is then multiplied by the corresponding weighted average price, to obtain the total dollars sold in that weight/frame score category for that report.

B. For each report:

- i. the total pounds sold in the relevant weight/frame score categories (i.e., the results from 1.a., above) are aggregated to obtain the total pounds sold for that report; and
- ii. The total dollars sold in the relevant weight/frame score categories (i.e., the results from 1.b., above) are aggregated to obtain the total dollars sold for that report.

c. For all reports covering relevant transactions that occurred within the same seven calendar day period:

- i. the total pounds (i.e., the results from 2.a., above) are aggregated to obtain the total pounds sold within the 12-state region during that seven calendar day period; and
- ii. The total dollars (i.e., the results from 2.b., above) are aggregated to obtain the total dollars sold within the 12-state region during that seven calendar day period.

d. The total dollars sold within the 12-state region during that seven calendar day period (i.e., the result from 3.b., above) is divided by the total pounds sold within the 12-state region during that same seven calendar day period (i.e., the result from 3.a., above) to obtain the CME Feeder Cattle Index™.

**Livestock-R-U's survey comment:** Notice it states that there shall be **no delivery** of feeder cattle. Feeder cattle trading is only a money transaction: No matter how high or low the feeder cattle trade, **no deliveries can take place and they are not backed by a physical asset. That is not the definition of futures trading.**

**Futures contract** [en.wikipedia.org](http://en.wikipedia.org) 1. In finance, a futures contract (more colloquially, futures) is a contract between two parties to buy or sell an **asset** for a price agreed upon today (the futures price) **with delivery** and payment occurring at a future point, the delivery date. **Because it is a function of an underlying asset**, a futures contract is a derivative product

**Gambling:** to take a risk in the hope of gaining an advantage or a benefit. The Definition of gambling better fits the feeder cattle trading format better.



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This survey is for all persons related to the livestock industry. Livestock-R-U's is a livestock marketing company based in Huron SD. I Kim Ulmer am President of Livestock-R-U's and am asking for all livestock related producers to take the survey and help bring awareness to the trade issues being surveyed. The destination of the results is for the US Department of Agriculture, CFTC, State Senators, CME group, NCBA, R-Calf and any livestock related groups.

If you choose to help us with the survey, mail your survey to (Livestock-R-U's Survey) at Huron continental Marketing, PO Box 1337 Huron, SD 57350. Mail the original signature form to us and keep a copy for your records. If you wish to help with survey expenses, a free will gift along with your survey letter is welcome.

Livestock producers have experienced over a 500\$ dollar market increase in 2014; and over a 500\$ Decrease in valuation in 2015. Why has that happened? Beef sales at the retail counter are well over 2\$ per pound higher than last year, but live cattle sales are lower. Why is this happening on the production side of the industry?

***I believe, it is due to the changes that have been made in the CME trading rule book and trading procedures.*** Around 1986 they took out the delivery of feeder cattle, requirements. Since then they have slowly expanded the trading amount limits. They do not restrict the volume limits, they trade more livestock then we produce. There is not an asset per contract basis. It is all switching to electronic high frequency trading; this will give the experienced traders another advantage over the producer. Feeder cattle contracts are based on 50,000 lbs., and can move up to 4.50 per hundred wt. per day five days a week. Up to 22.50 per week which can change the value of 1 load of feeder cattle by 11,250\$ per week. **Why are we as a Livestock Industry allowing this to happen?**

Imagine if we could take delivery on those contracts they trade. Then they would have to pay full price, sort, manage and deliver feeder cattle like producers do. I'll bet the prices wouldn't drop so fast when they found out there was more cattle sold than exist, and they have to honor the contract and go find the cattle.

We as an Industry must stop allowing someone to value and trade our livestock Products without accountability. If you're going to future trade a commodity you should have the risk of having to manage and deliver the commodity just like the people in livestock industry or establish a fair settlement method. We need a Rule book approved and set by livestock professionals, not rules set by the self-regulated CME.

It wasn't long ago when about 1/3<sup>rd</sup> of the small hog producers were wiped out of business in about six months, due to the low values created. Are we as livestock producers going to allow that to happen to us? My family was marketing over 100,000 hogs per year through livestock markets. We haven't handled any since that market cycle.

**We the livestock industry, producers, feeders, packers, lenders and Ag sales people must unite soon and get changes made to the CME Livestock rulebook that are livestock industry approved. If we don't, I believe many of us will suffer the same fate as the family farm hog producers did.**

The CME Group promotes itself as a "Risk Management tool". **The CME is self-regulated;** They write their own rule book which allows non asset based trading formats to change, (actual values) of a livestock producers products, by over 30\$ per day and over 100\$ per head per week. As a producer you can assume that the feeder board has reached a low point or a high point and attempt to use it for risk management. The CME feeder board can trade to zero, or to any high amount, and only money would transact. ***Traders understand this and don't need to worry about actual feeder cattle values.*** There is no accountability, they will never have to pay full purchase price, sort, feed, truck or do any livestock management. They simply have to out trade us through the lows and the highs of a money game, and they are allowed to trade 50,000 lbs. of wt. for about 3% of the producers actual purchase price. **The CME trading formats are "Risk Management Tools", for non-producers.**

Take Notice on page 1, of their 12 state feeder index; try figuring out what your settlement price will be.

**Never** in the history of feeder cattle marketing, has a formula like that been used to establish a weight base or actual marketing price for feeder cattle. Feeder cattle have always sold with a simple actual weight base estimate and a price slide up and down as they get lighter or heavier; along with a weight shrink that fits the type of delivery.

**There is a live cattle delivery formula, but the rulebook regulations are 2 ½ pages long. An actual forward contract from a packer is only 1 page.** They have made it so complicated that rarely anyone in the industry delivers live cattle anymore. At times the basis is a 100\$ lower price difference between the actual live market and the board due to the CME regulation guide lines. Change won't happen unless we unite and make the governing bodies help producers get fair trade guidelines established. **Please take time to do the survey.** If you have any questions or corrections for this survey, call me on my cell early mornings, Kim Ulmer, 605-845-8700. Thank You; God Bless

