

Is it time for a boneless beef trimmings derivative contract?

David Farley

1st March 2012



Why does AAco care?

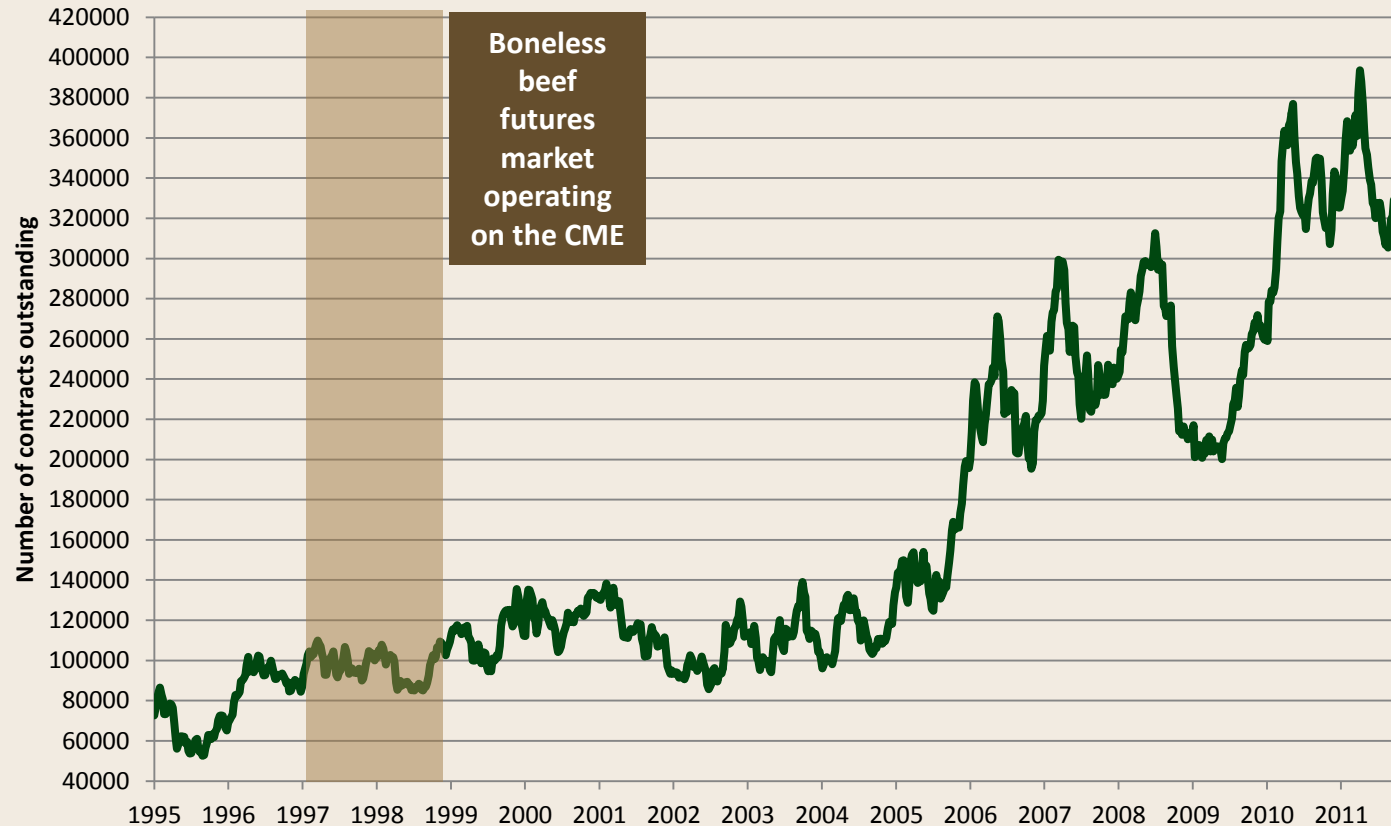
680,000 head of cattle

Substantial price risk over which AAco has limited ability to take protection



Why this is different?

CME Live Cattle Futures Open Interest – the markets have grown!



Chicago Mercantile Exchange (CME), 2011

Key Characteristics of a Successful Futures Contract

Substantial price volatility

Homogeneous product

Large and growing cash market

Large number of buyers and sellers

Little pricing intervention by government

Large deliverable supply

Good information on cash markets



Key Characteristics of a Successful Futures Contract

Substantial price volatility

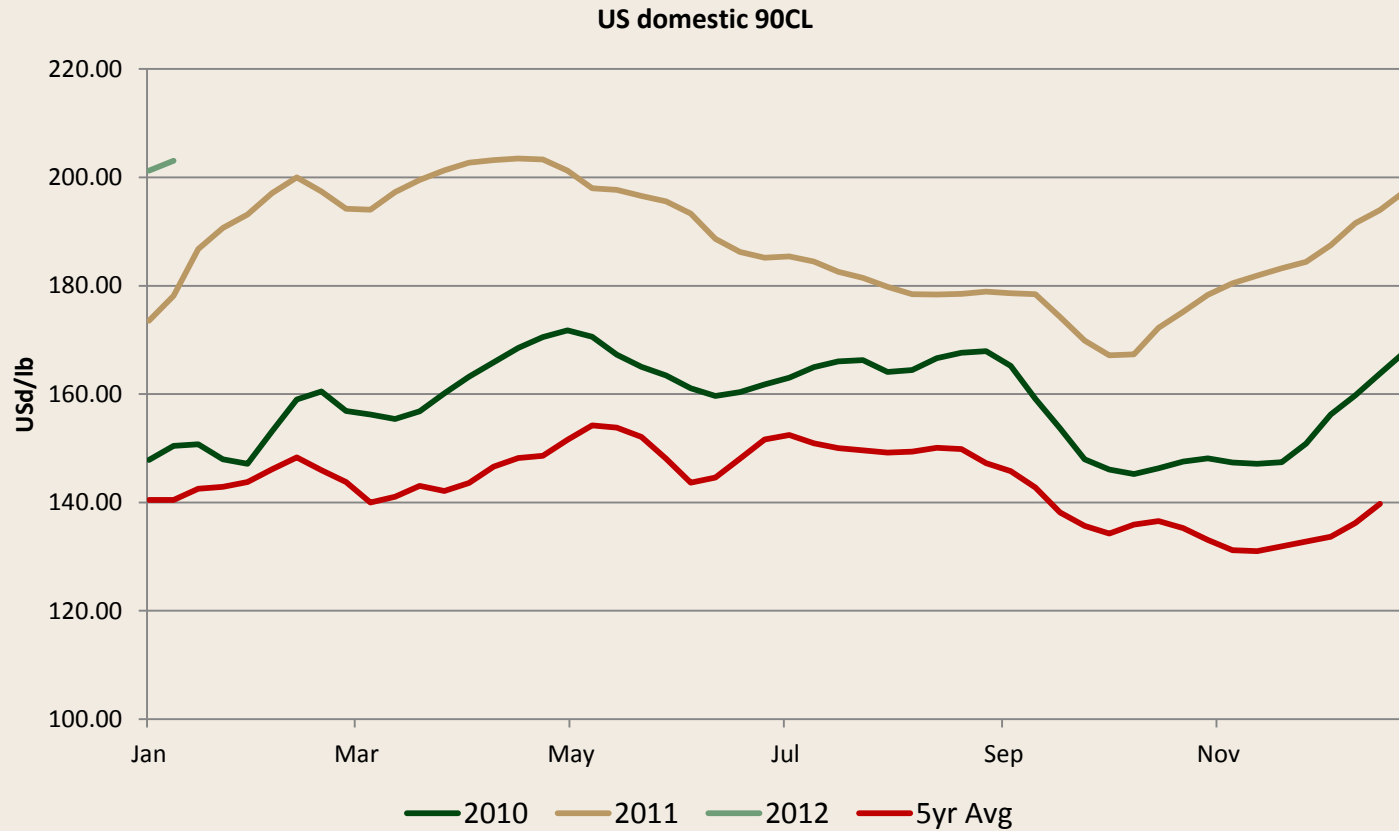
Homogeneous product

Large and growing cash market

Large number of buyers and sellers

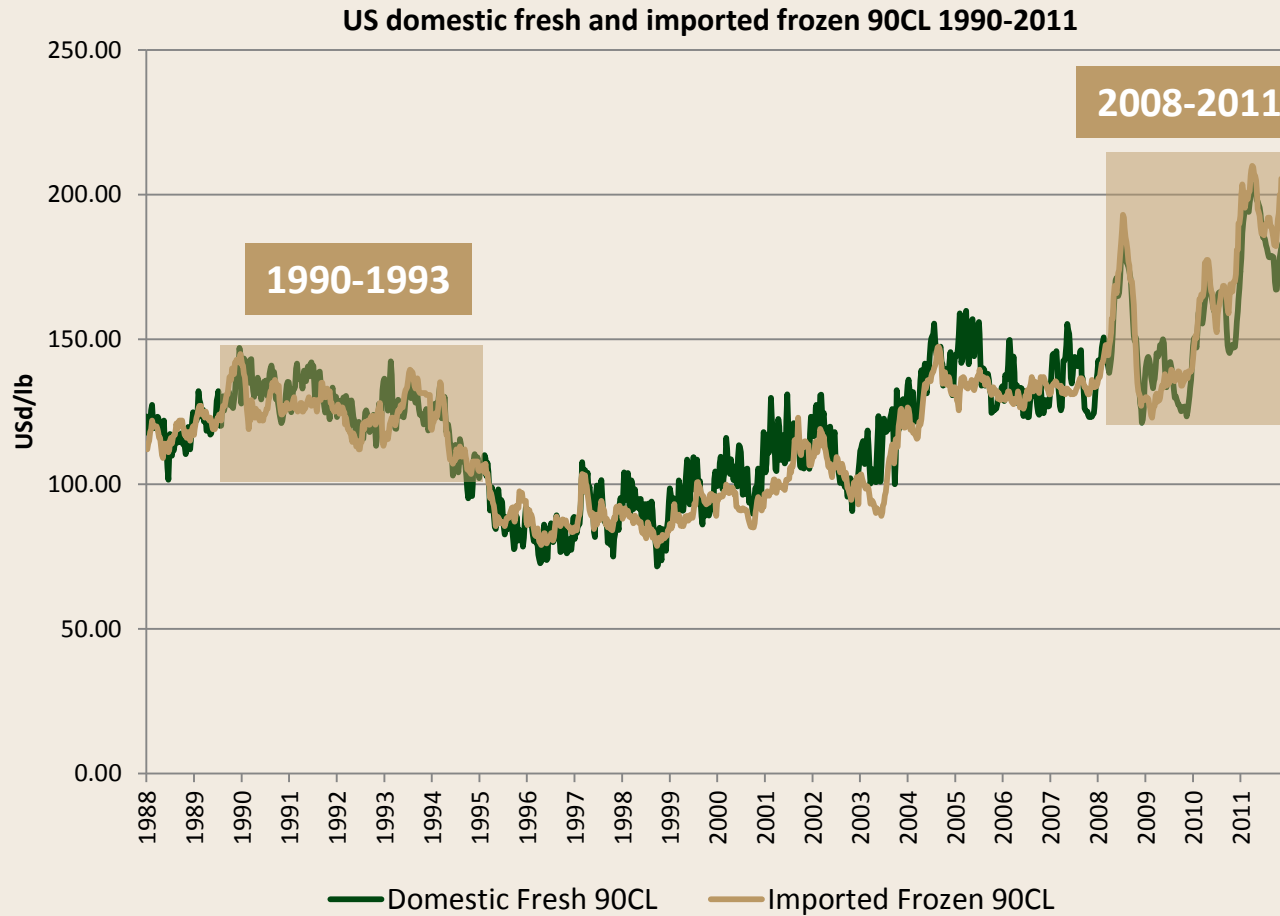


Increasing trim prices



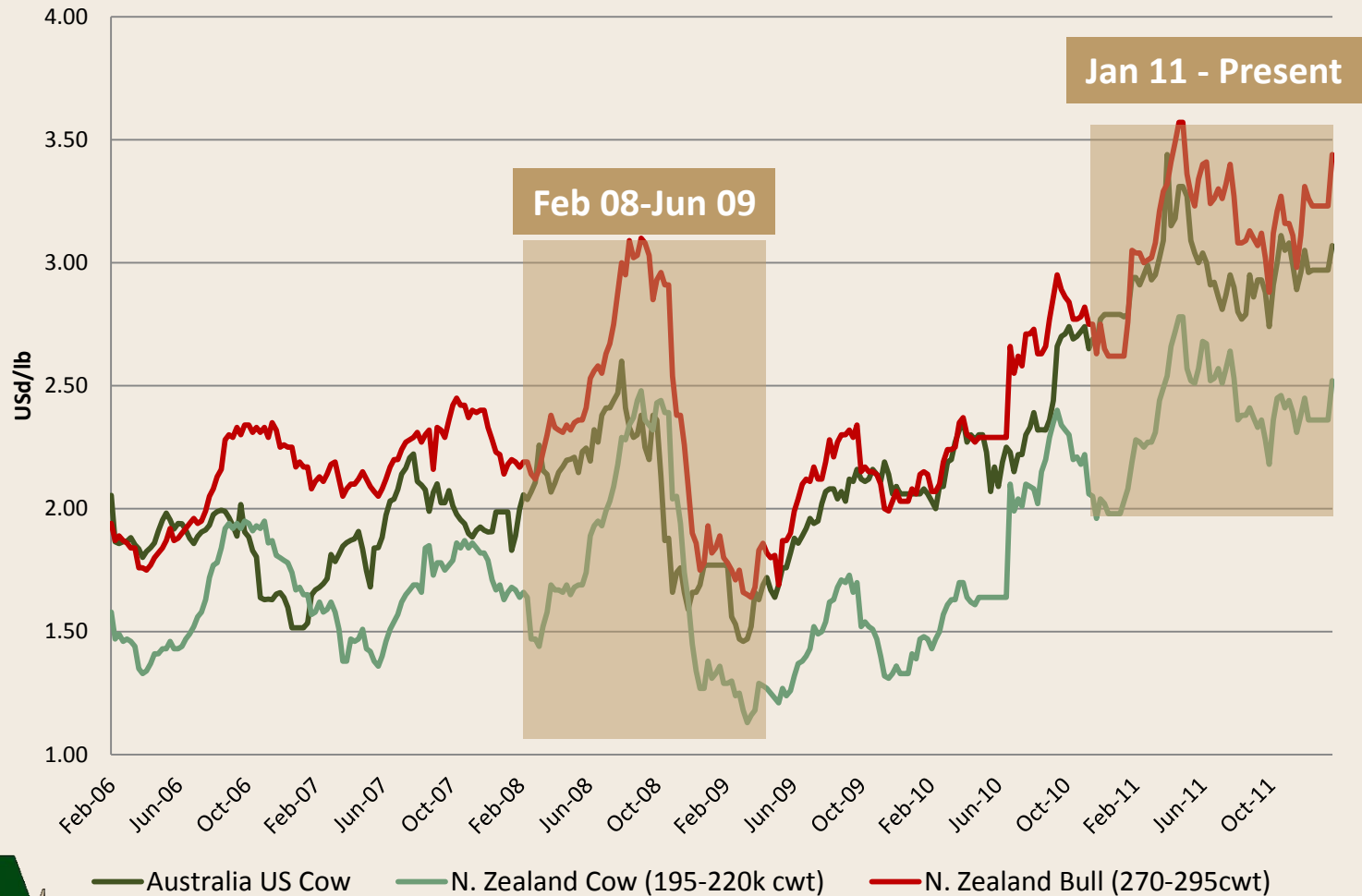
USDA, 2011

Very high volatility in trim markets



Australian and New Zealand context

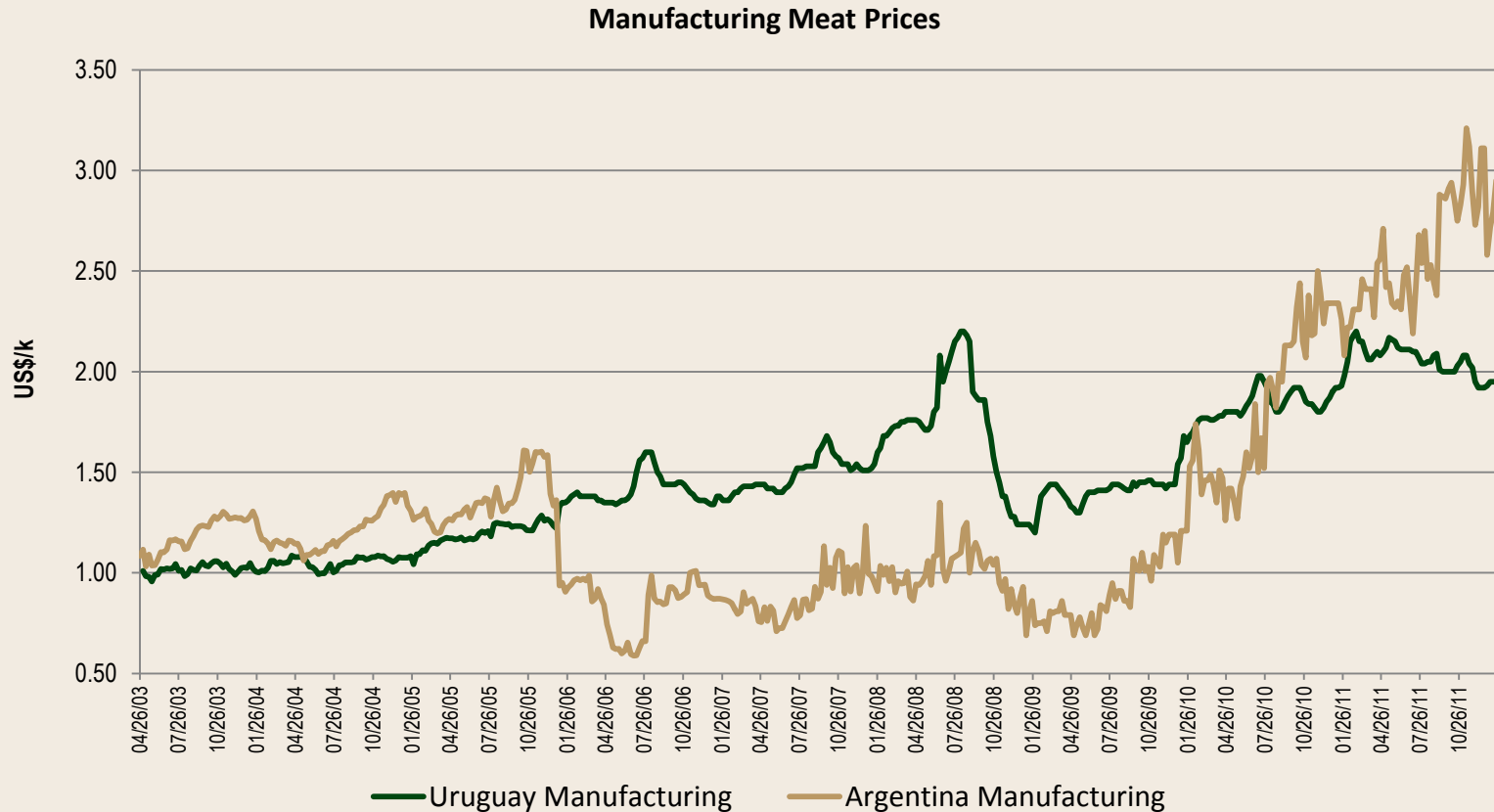
Australian US Cow, NZ Cow and NZ Bull Prices



— Australia US Cow — N. Zealand Cow (195-220k cwt) — N. Zealand Bull (270-295cwt)

AAco, 2012

Increasing volatility in trim markets, the volatility is widespread



Key Characteristics of a Successful Futures Contract

Substantial price volatility



Homogeneous product

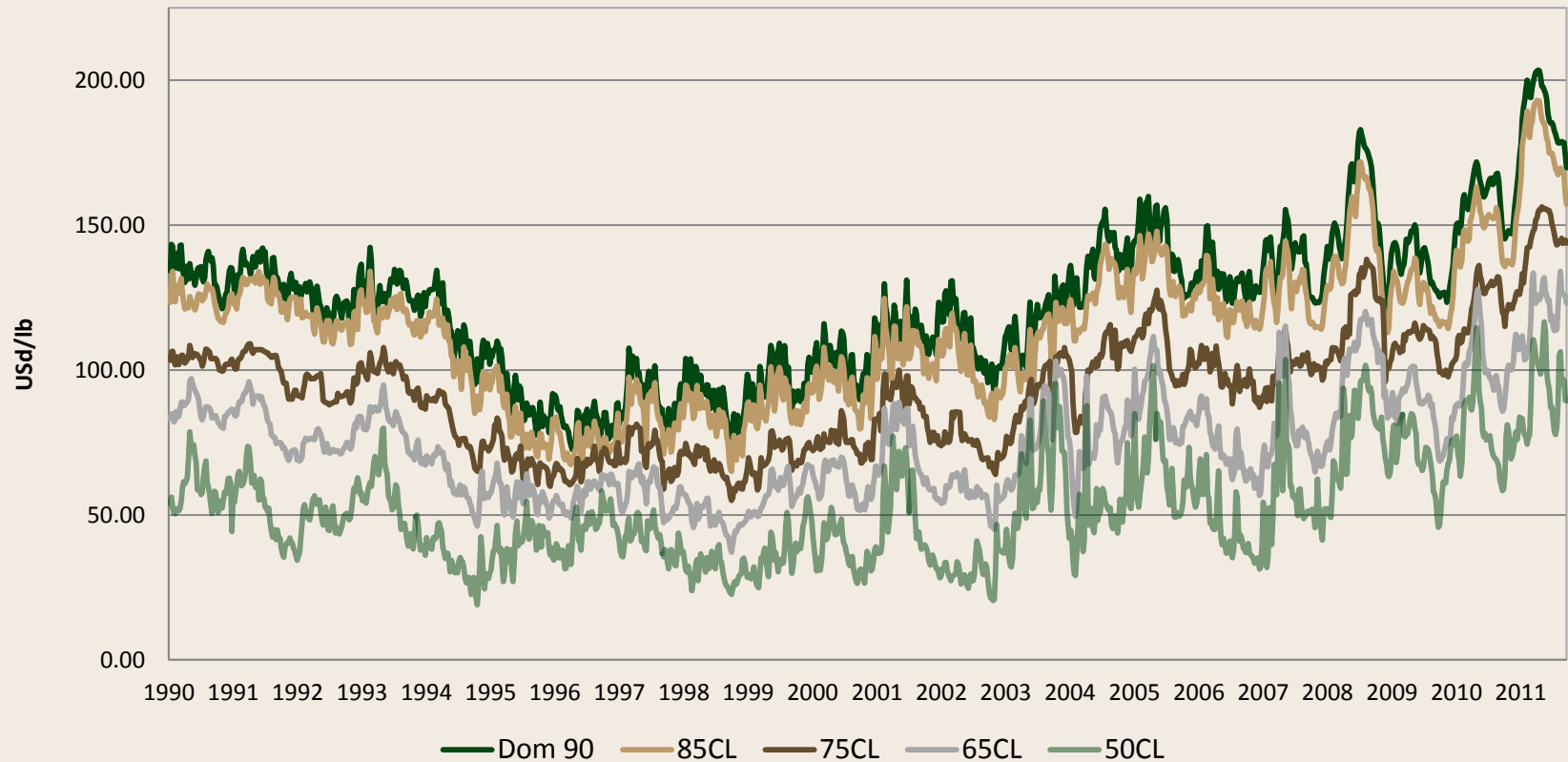
Large and growing cash market

Large number of buyers and sellers

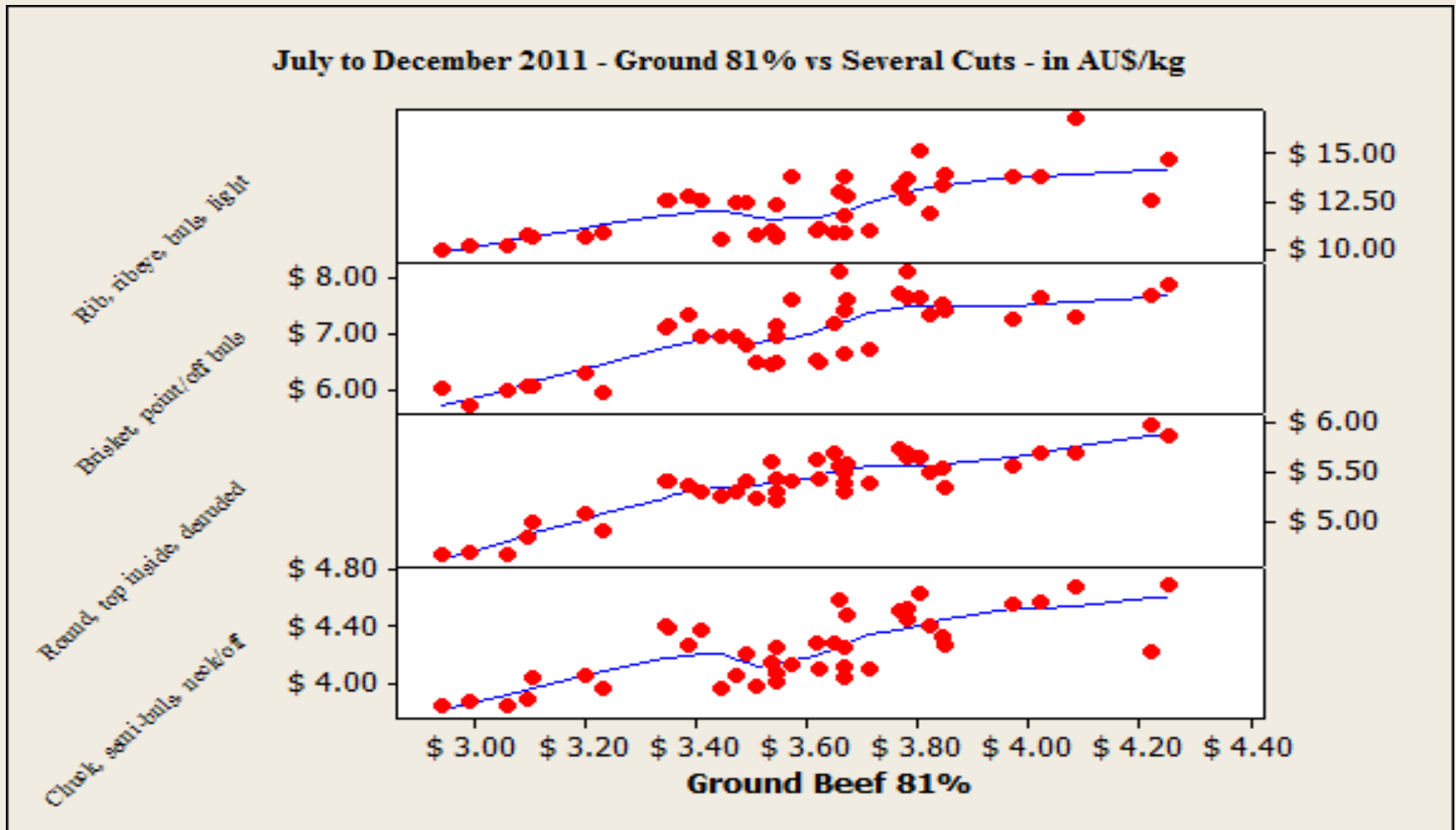


Homogenous product – price relationships

USA Beef Trimmings



But what about primal cuts?



Key Characteristics of a Successful Futures Contract

Substantial price volatility



Homogeneous product

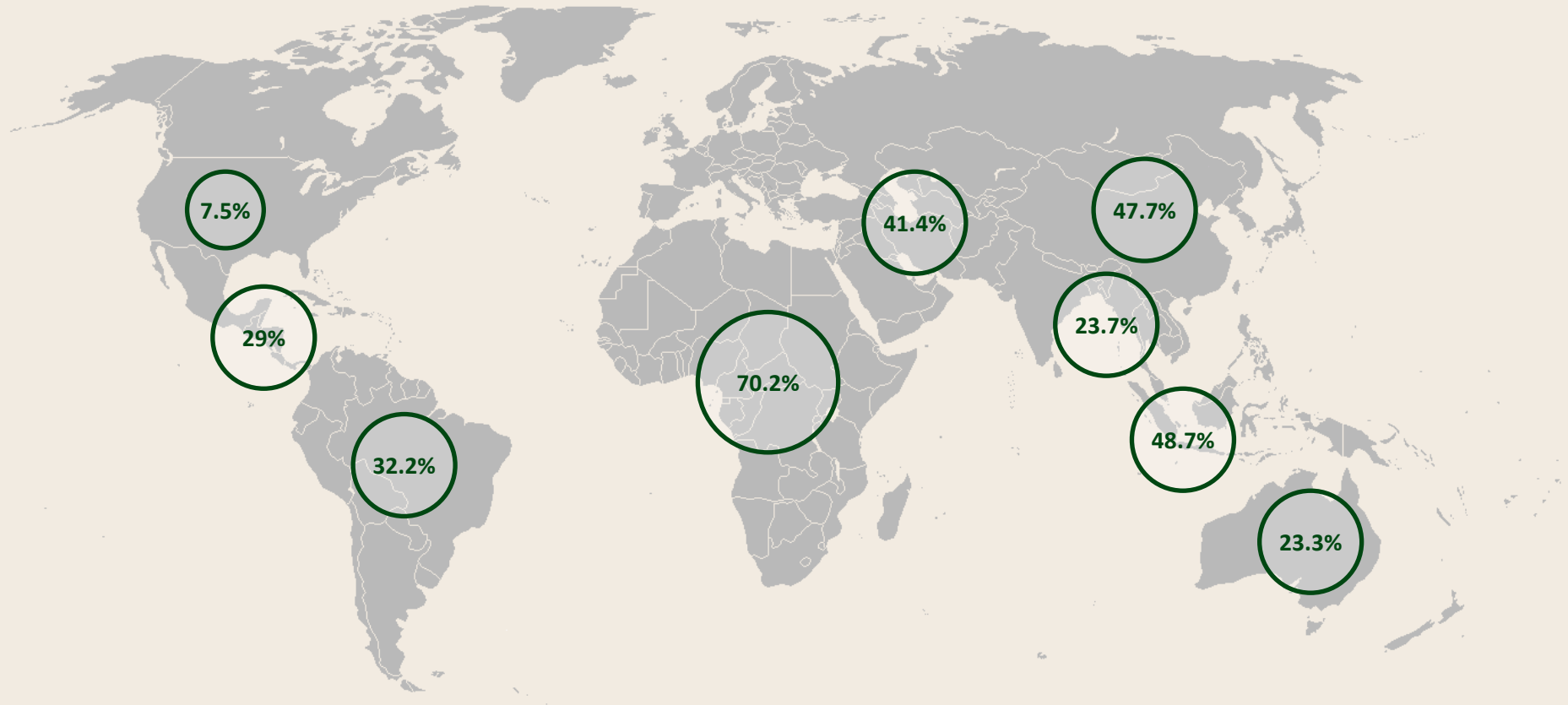


Large and growing cash market

Large number of buyers and sellers



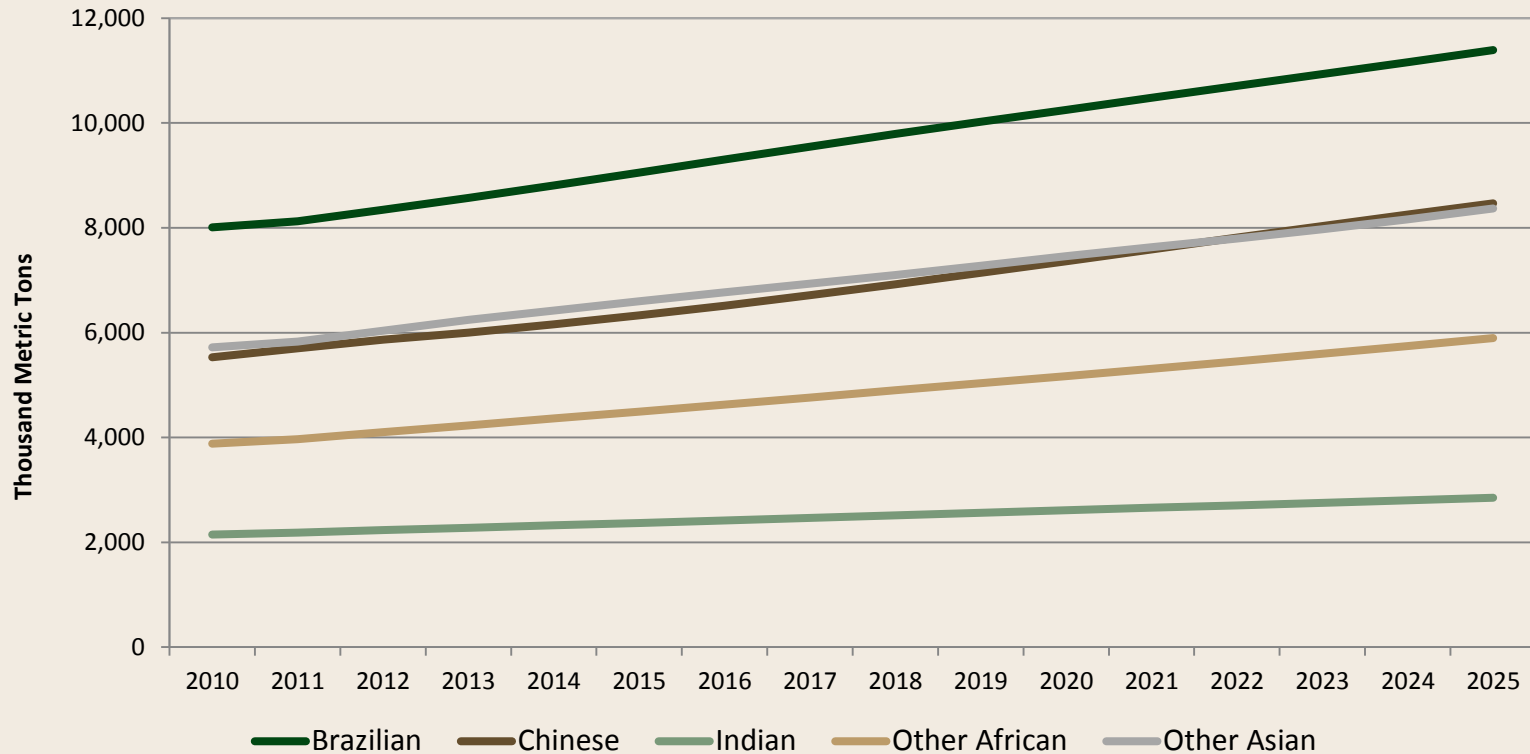
Global protein consumption increasing



Food and Agricultural Policy Research Institute (FAPRI), 2010: Protein consumption over the past ten years

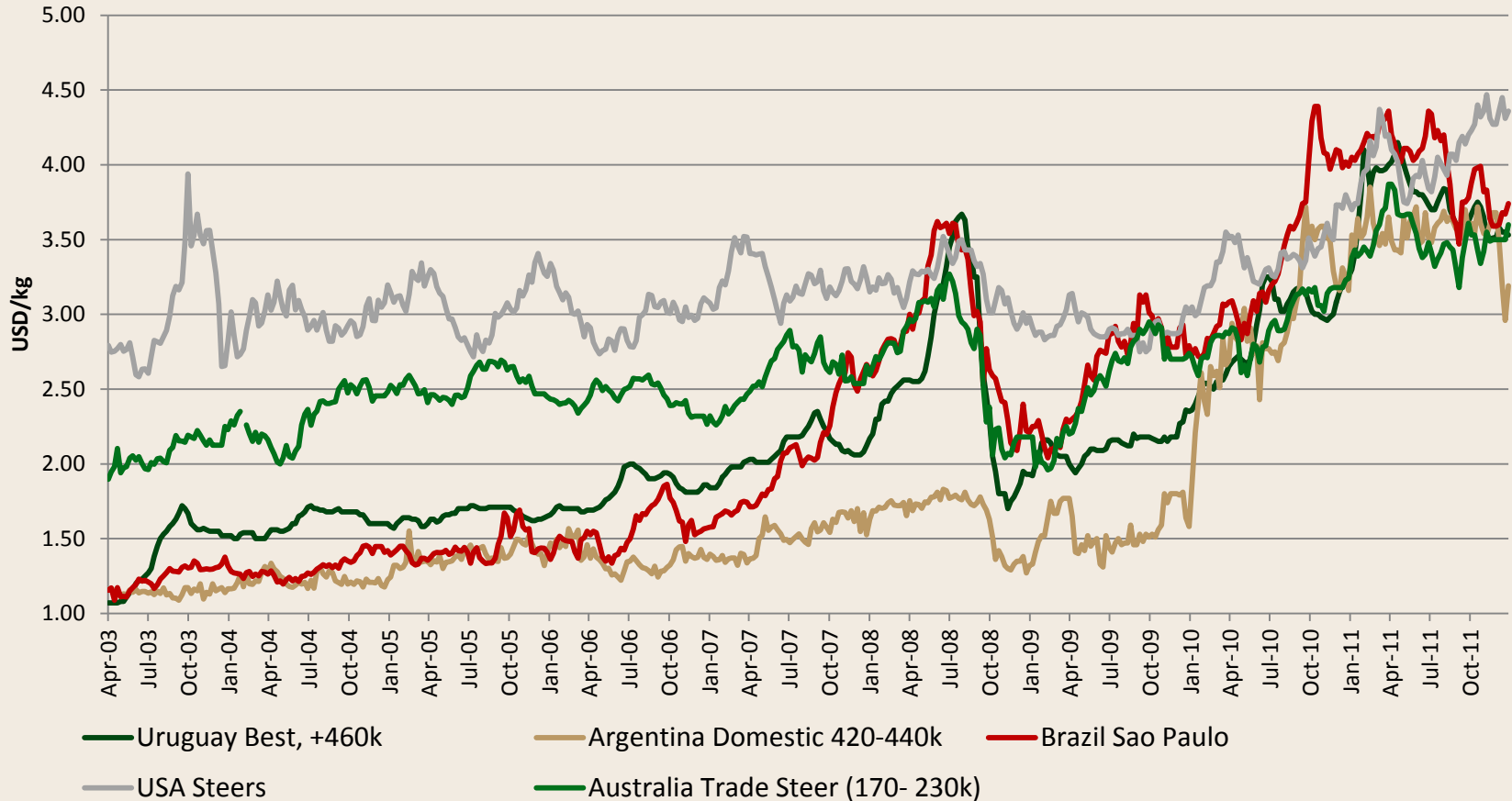
Developing countries increasing consumption

Beef consumption (including veal)



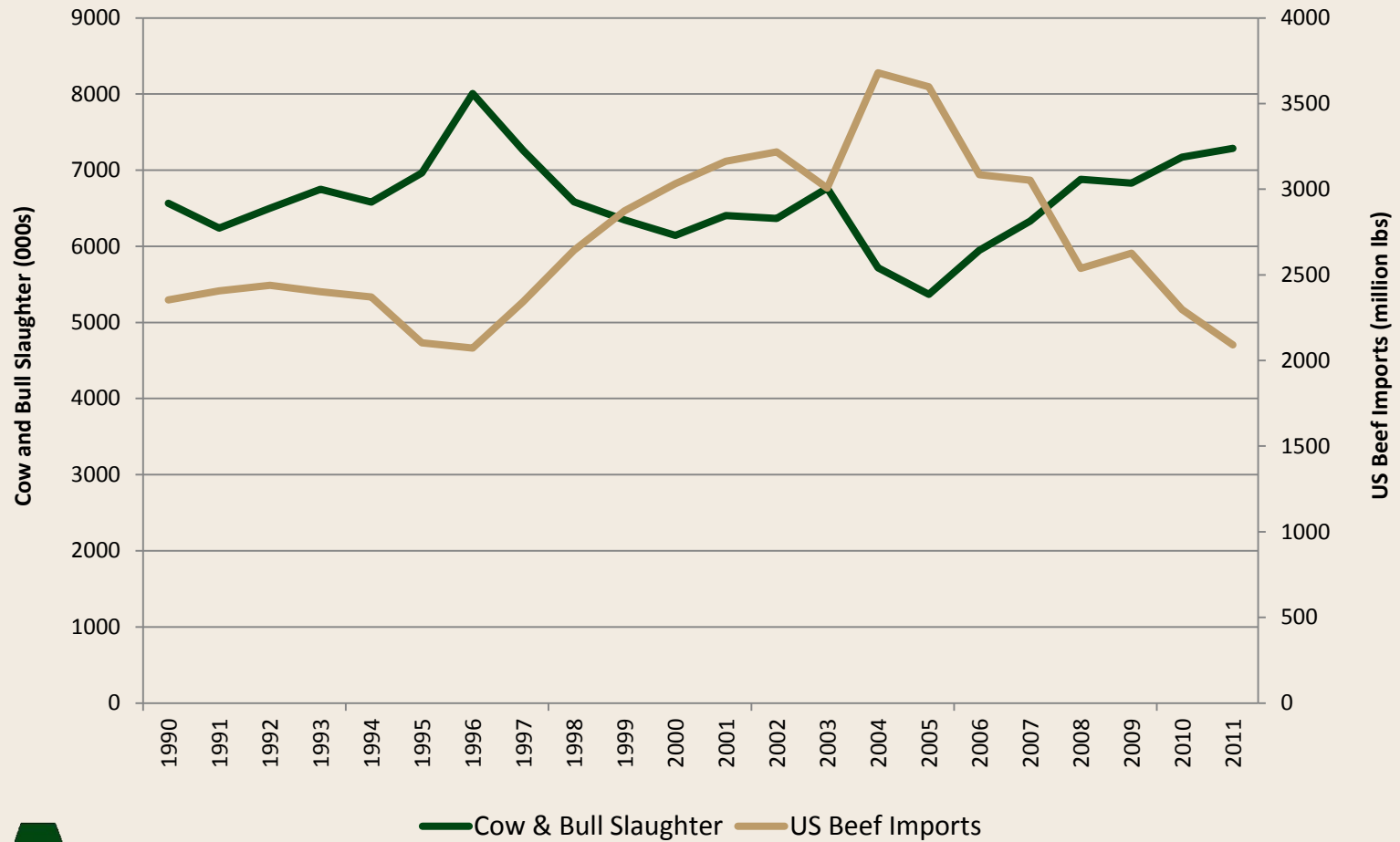
World Steer Prices: Brazil, USA, Australia, Uruguay, Argentina

Global Manufacturing Prices 2003-2012



AAco, 2012

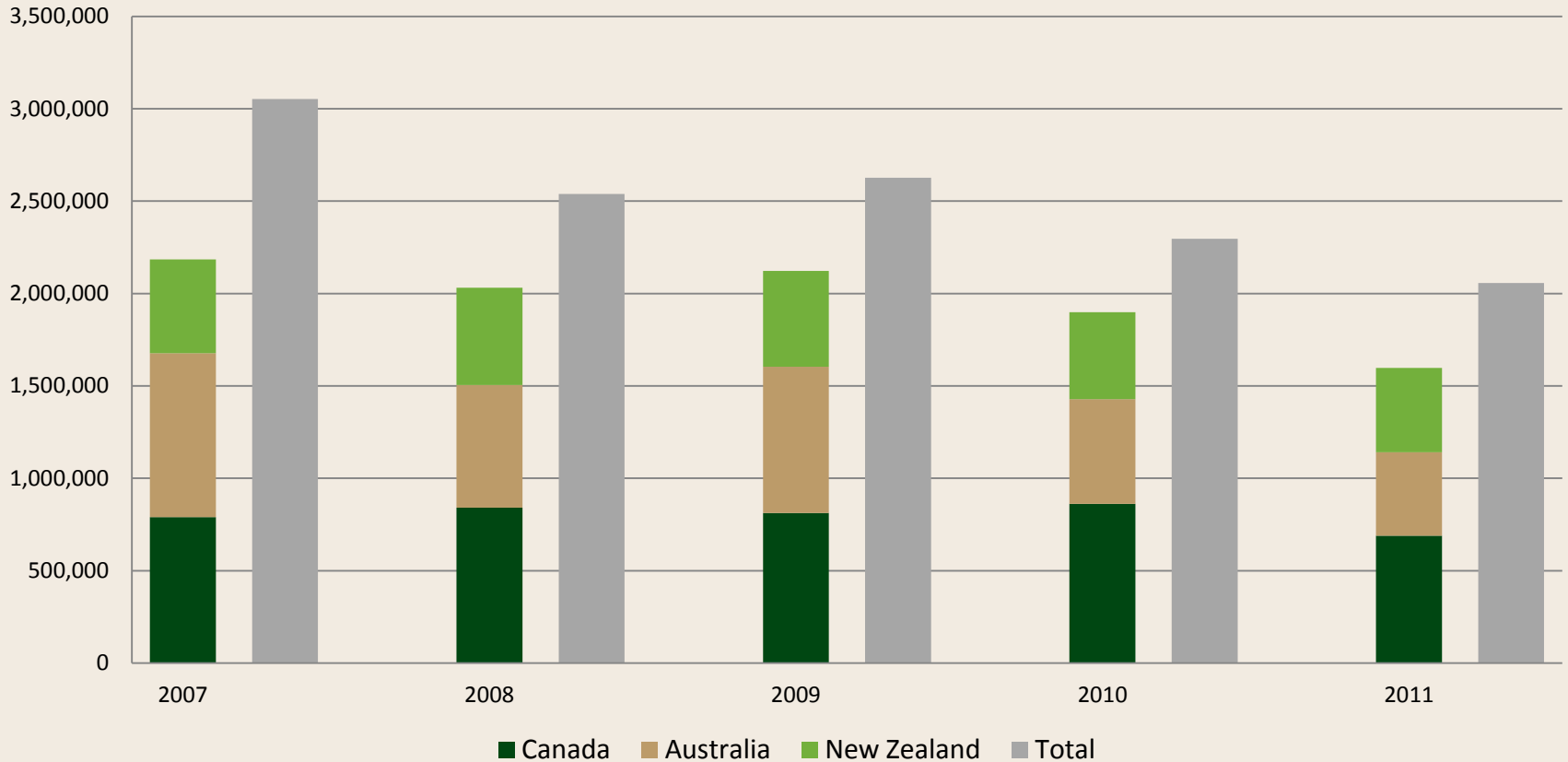
US cow and bull slaughter v imports



USDA, Informa, 2011

Beef and veal imports

US Beef and Veal Imports by Country 000' pounds



Key Characteristics of a Successful Futures Contract

Substantial price volatility



Homogeneous product



Large and growing cash market



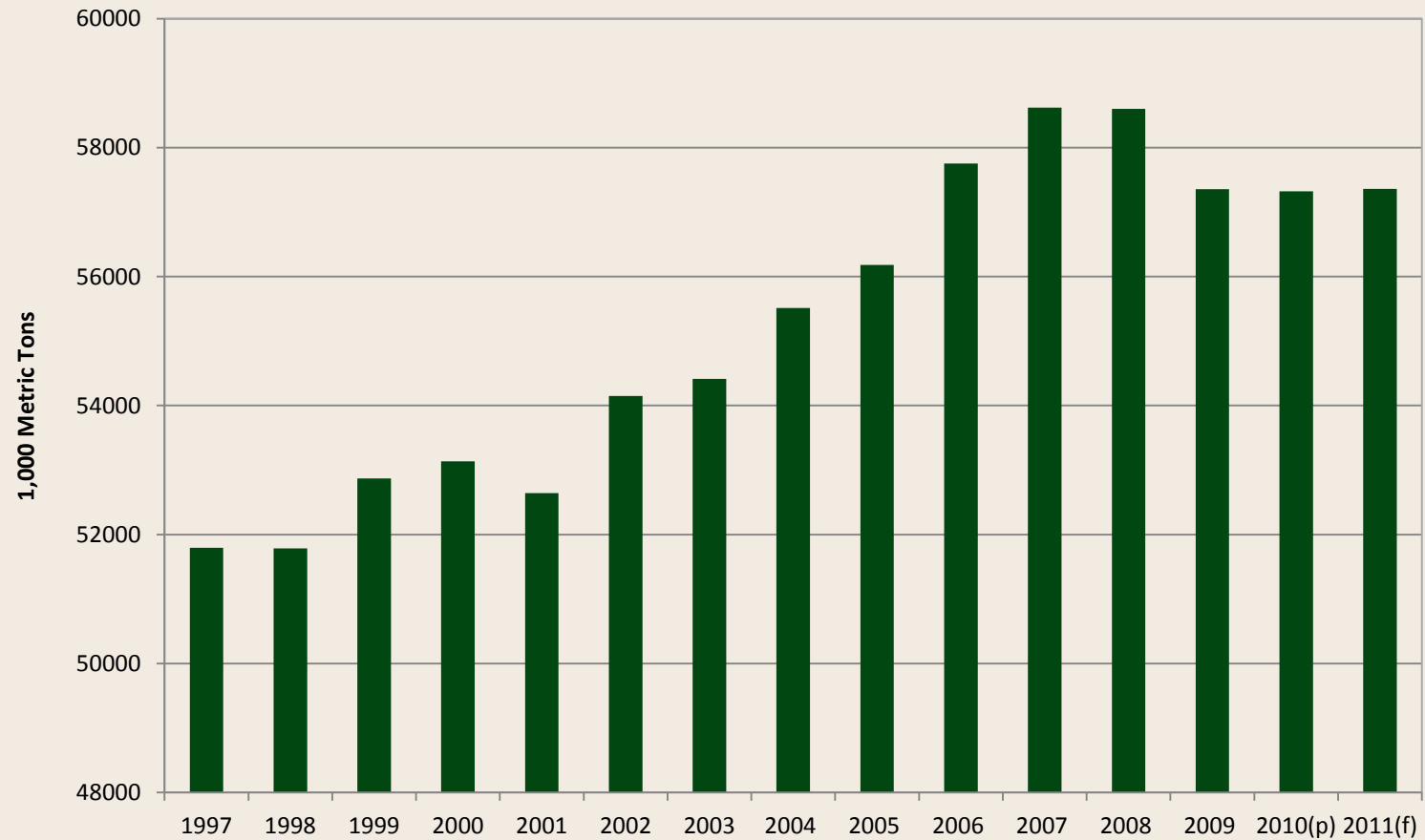
Large number of buyers and sellers



Large number of buyers and sellers



Global beef (including veal) production



USDA/FAS, Informa, 2011

Key Characteristics of a Successful Futures Contract

Substantial price volatility



Homogeneous product



Large and growing cash market



Large number of buyers and sellers





Current reporting mechanisms

USDA Blue
Sheet
(domestic)

USDA
mandatory
pricing

Yellow
Sheet
(imports)

Is this
sufficient?



Key Characteristics of a Successful Futures Contract

Substantial price volatility



Homogeneous product



Large and growing cash market



Large number of buyers and sellers



Is it time for a boneless beef derivative contract?

David Farley

1st March 2012





Scott Hansen

Managing Director - MLA

CME Group Agricultural Products

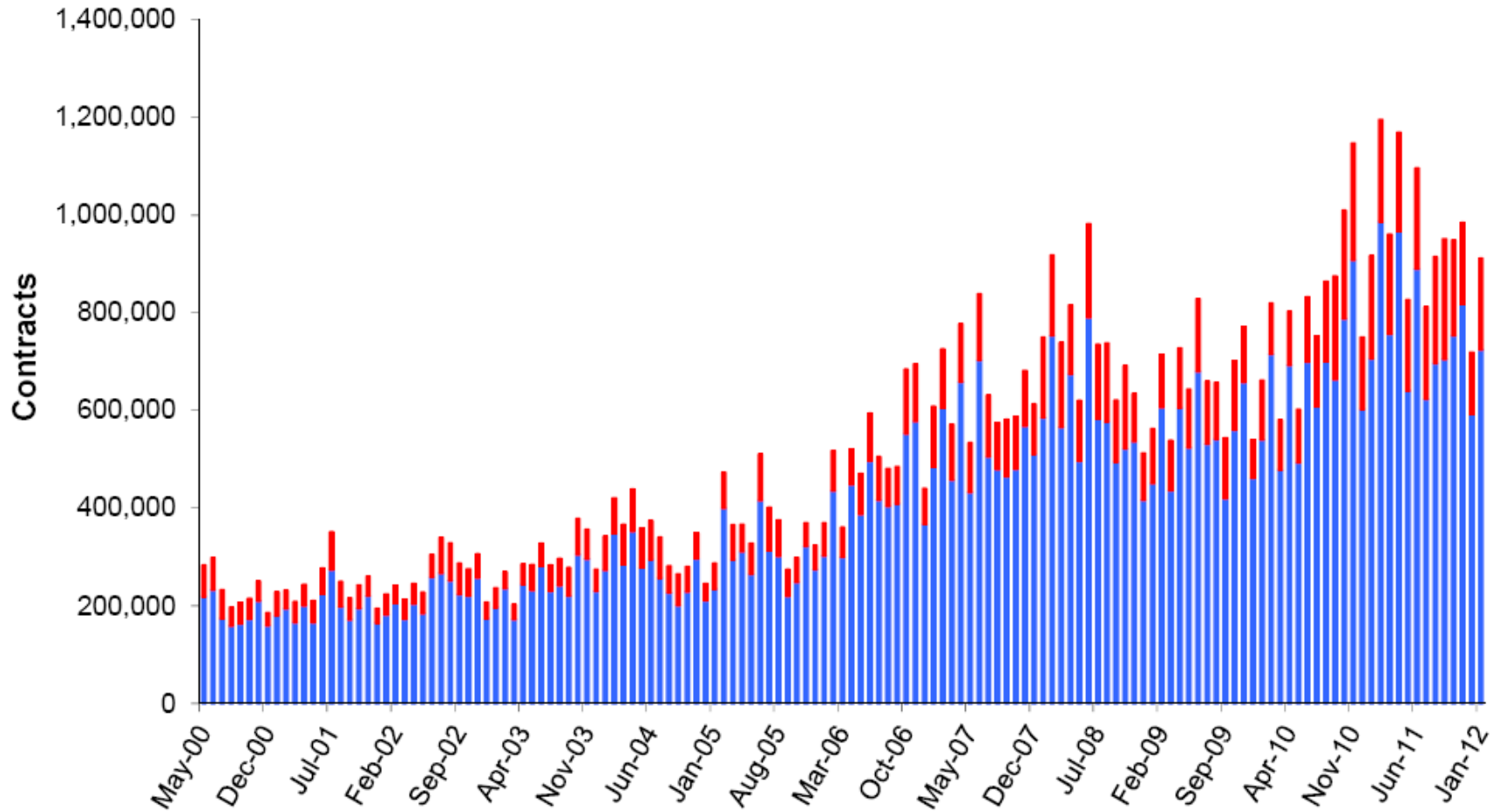
Brisbane, March 2012

CME Group Agricultural Products

- Grains & Oilseeds
- Livestock
- Dairy
- Forestry
- Commodity Indexes
- Weather
- OTC Clearing

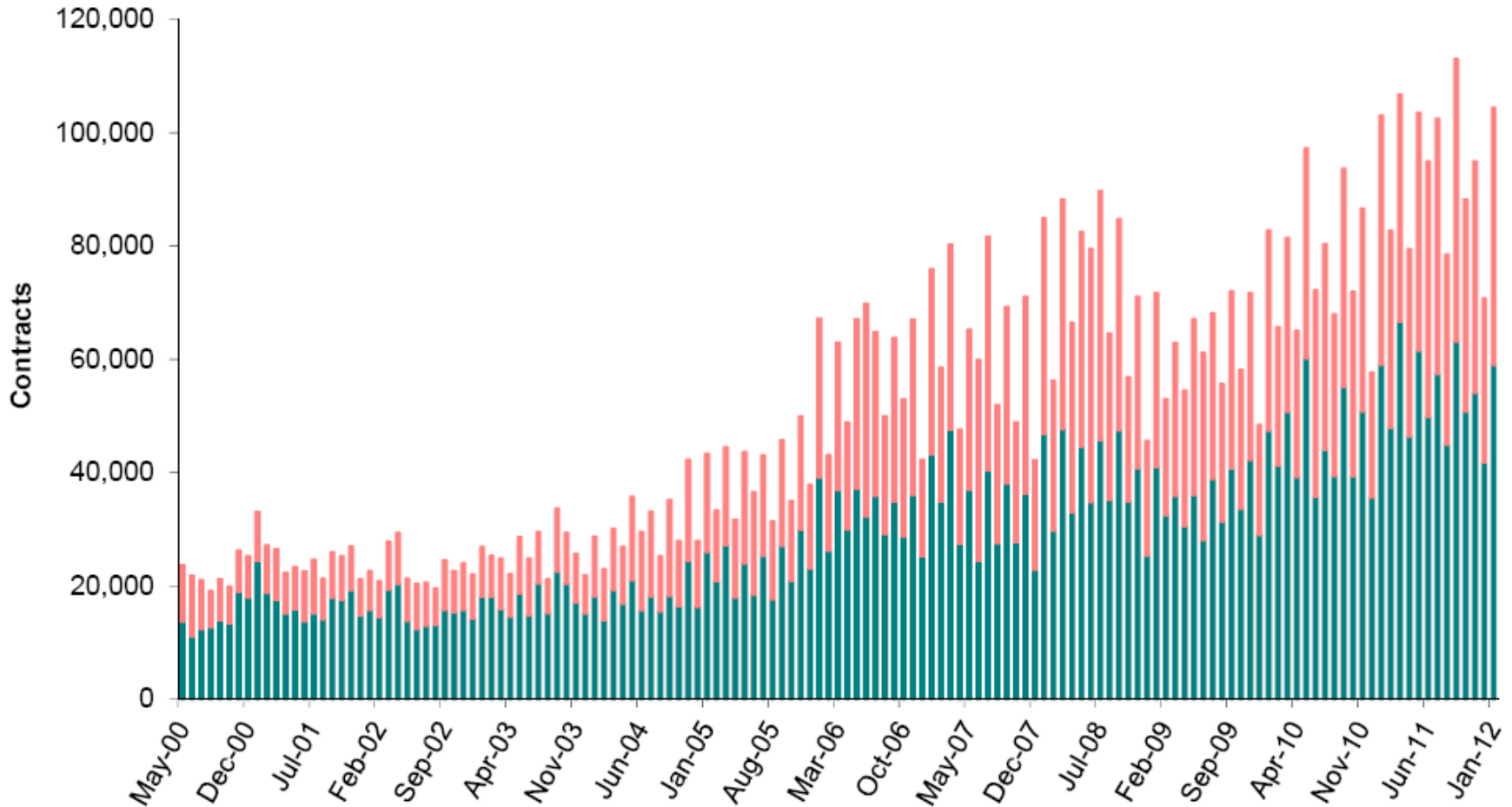
Grain and Oilseed Combined Futures and Options - Average Daily Volume

■ Futures ■ Options



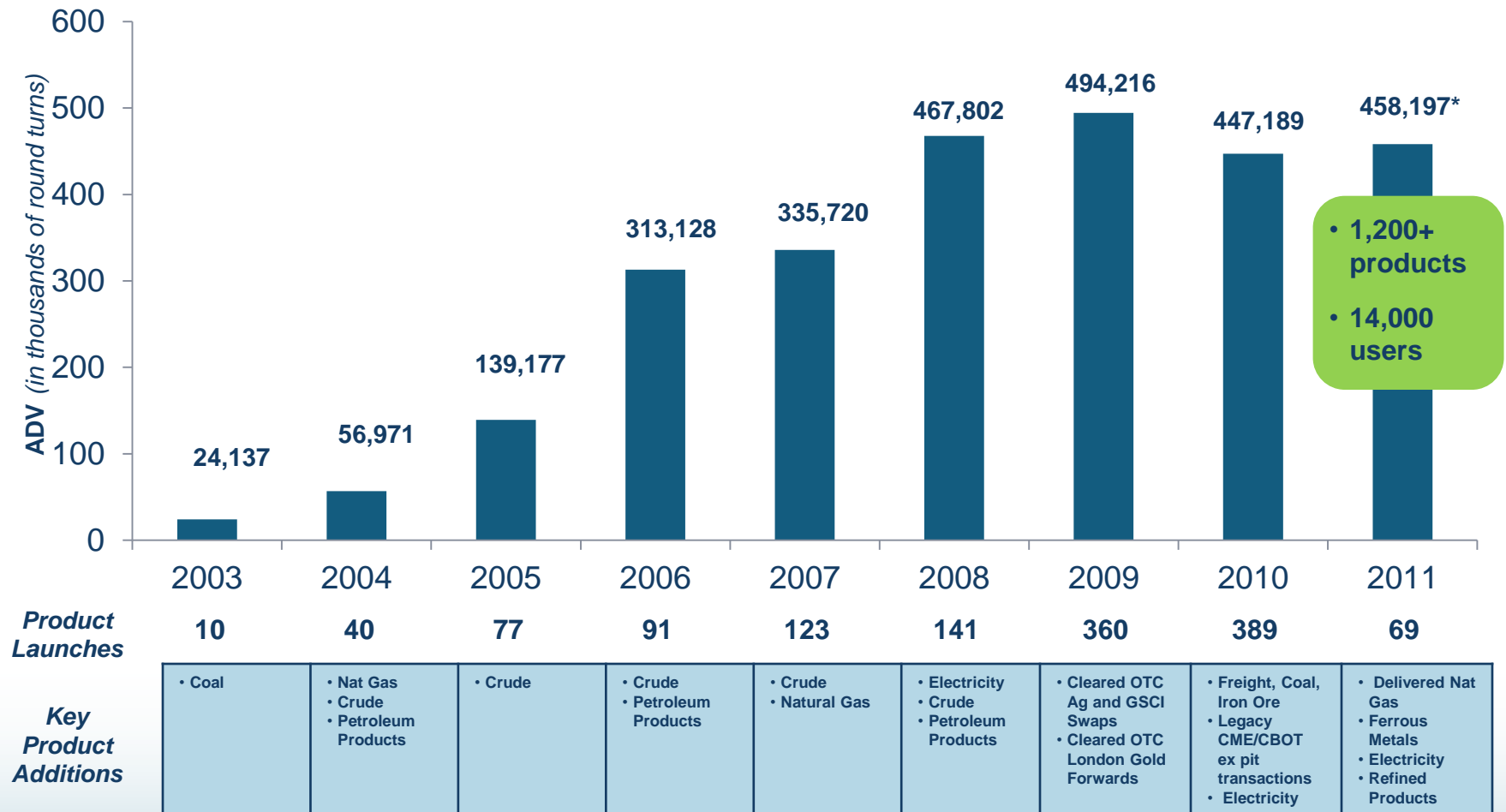
Live Cattle and Lean Hog Futures - Average Daily Volume

■ Live Cattle ■ Lean Hogs



OTC Clearing Services: CME ClearPort

Strong track record in energy markets with deep liquidity in key industry benchmarks

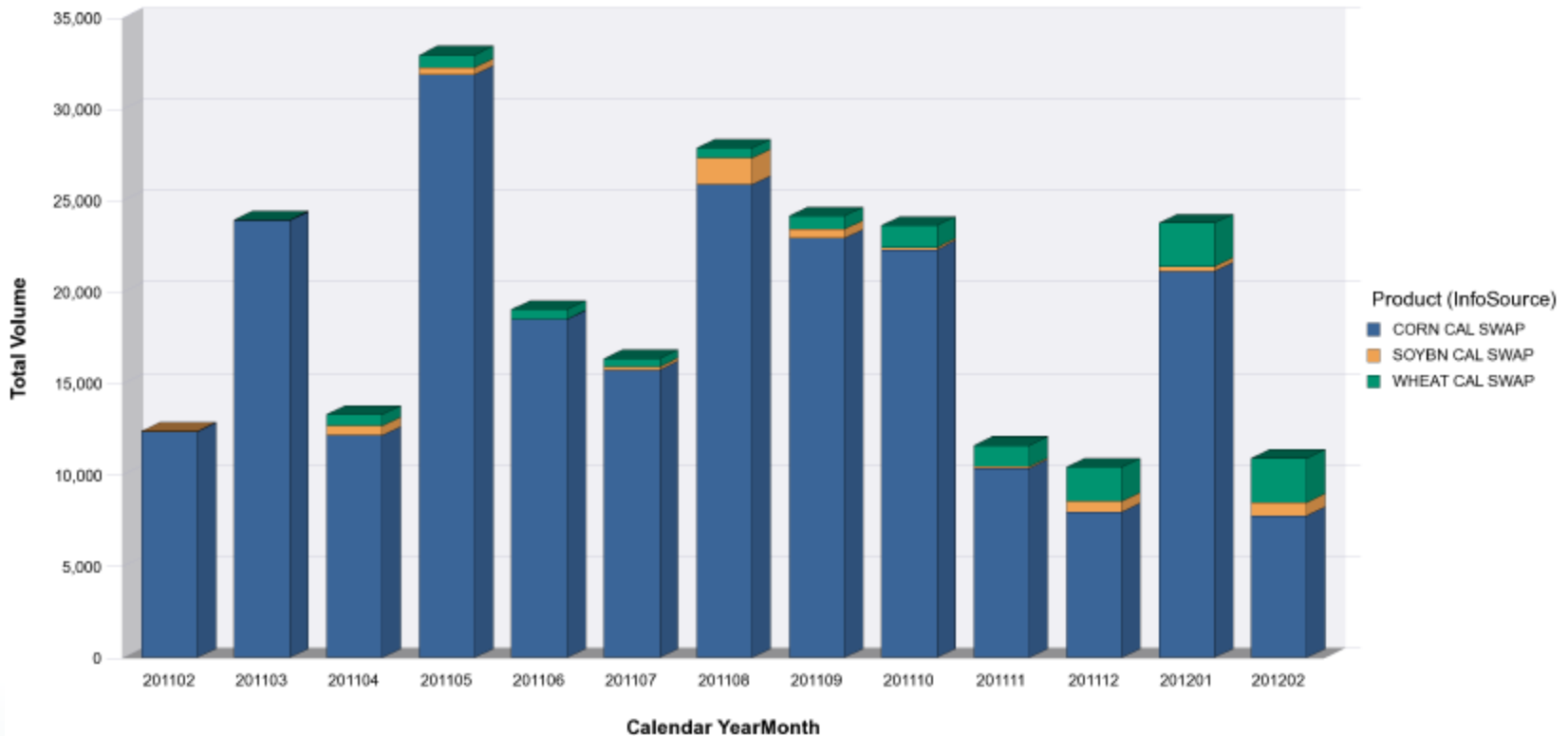


*As of 12/8/11

Bilateral vs. Cleared Swaps

	Bilateral	Cleared
Credit Exposure	Credit exposure to the swap counterparty	Credit exposure is to CME Clearing
Margin Requirements	Depends on the relative credit worthiness of the counterparties	Exchange sets margin with possible offsets against other exchange traded products
Documentation	Swaps trade under an ISDA master agreement and schedule of amendments that can take 4-16 weeks to get in place	For customers with an existing futures account, you can register online
Counterparties	Limited to market makers with whom the swap user has an ISDA and credit line	Open to any swap market maker who will give up the transaction to be cleared on CME
Flexibility	Complete flexibility	Limited flexibility but may be greater than exchange traded futures
Exit Liquidity	May be limited to the original trade counterparty depending on structure	Open to any OTC provider who will give up the transaction to be cleared on CME

Existing Swap Volume Over the past 12 Months



Feb, to date



Disclaimer

Futures trading is not suitable for all investors, and involves the risk of loss. Futures are a leveraged investment, and because only a percentage of a contract's value is required to trade, it is possible to lose more than the amount of money deposited for a futures position. Therefore, traders should only use funds that they can afford to lose without affecting their lifestyles. And only a portion of those funds should be devoted to any one trade because they cannot expect to profit on every trade.

All references to options refer to options on futures.

CME Group is the trademark of CME Group, Inc. The Globe Logo, Globex[®] and CME[®] are trademarks of Chicago Mercantile Exchange Inc. CBOT[®] is the trademark of the Board of Trade of the City of Chicago. NYMEX is the trademark of the New York Mercantile Exchange, Inc.

The information within this presentation has been compiled by CME Group for general purposes only. CME Group assumes no responsibility for any errors or omissions. Although every attempt has been made to ensure the accuracy of the information within this presentation, CME Group assumes no responsibility for any errors or omissions. Additionally, all examples in this presentation are hypothetical situations, used for explanation purposes only, and should not be considered investment advice or the results of actual market experience. The information contained in this presentation represents the views and opinions of the speaker and are not necessarily the views of CME Group.

All matters herein pertaining to requirements for membership and clearing membership, clearinghouse procedures, contract specifications and other matters governed by our rules are made subject to and are superseded by official CME, CBOT, NYMEX and COMEX rules and other governing documents. Current rules should be consulted in all cases concerning contract specifications.

Copyright © 2011 CME Group. All rights reserved.





CME Group

A CME/Chicago Board of Trade/NYMEX Company