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Special Executive Report

S-4144

September 27, 2004

***** REMINDER *****

CHANGES TO USDA PREMIUMS AND DISCOUNTS REPORT FOR LIVE CATTLE FUTURES BEGINNING WITH OCTOBER 2004 DELIVERIES

As you were previously notified in Special Executive Report S-4094 dated June 1, 2004, Live Cattle Futures Rule 10103.A. has been amended to adopt USDA's "5-Area Weekly Weighted Average Direct Slaughter Cattle – Premiums and Discounts" (LM_CT169) report as the source of market-based value differentials for delivered cattle that differ from the par specifications for quality grade, yield grade, and carcass weight. This report includes only cattle slaughtered in the 5-area price reporting region that corresponds to CME's live cattle delivery area, and uses weighted averages instead of simple averages. It will be used instead of the "National Weekly Direct Slaughter Cattle – Premiums and Discounts" (LM_CT155) report **beginning with deliveries on the October 2004 contract.**

The rule amendments are shown below, with additions underlined and deletions bracketed and overstruck:

10103.A. Sources and Calculation of Adjustment Factors

Quality grade adjustments for all delivery units will make use of the live weight equivalent of the Choice-Select boxed beef spread calculated from information reported by USDA (in \$/cwt.) for the day of tender in the National Daily Boxed Beef Cutout and Boxed Beef Cuts report. This is referred to hereafter as the Live Equivalent Choice-Select Spread (LECSS) and is computed by subtracting the "Select Boxed Beef Cut-Out Value" from the "Choice Boxed Beef Cut-Out Value" and multiplying that result by 0.0063. Boxed Beef Cut-Out Values from the 600/750 pound category are used for live-graded delivery units with an average live weight less than 1,190 pounds and for carcass-graded delivery units with an average carcass weight less than 750 pounds. Boxed Beef Cut-Out Values from the 750/900 pound category are used for live-graded delivery units with an average live weight greater than or equal to 1,190 pounds and for carcass-graded delivery units with an average carcass weight greater than or equal to 750 pounds.

The USDA By-Product Drop Value report for the day of tender shall serve as the source of information for calculating the condemned liver factor used in carcass-graded deliveries. The condemned liver factor shall equal the reported liver value (in \$/cwt.) multiplied by -0.01.

In addition, quality grade, yield grade and carcass weight adjustments will make use of factors calculated from values reported by USDA (in \$/cwt.) in the ~~[National Weekly Direct Slaughter Cattle — Premiums and Discounts]~~ 5-Area Weekly Weighted Average Direct Slaughter Cattle – Premiums and Discounts report. The Prime, Standard, Yield Grade 1, Yield Grade 2, Yield Grade 4, Yield Grade 5, 550-600 lbs. 900-950 lbs. and 950-1000 lbs. factors are calculated by multiplying the reported simple average for the corresponding category by 0.0063. If a quality grade or yield grade is broken into subcategories on this report, then the factor for that quality or yield grade shall be the simple average of all reported averages for the subcategories in that category multiplied by 0.0063. The most recently issued report with respect to the day a Certificate is tendered shall be used to calculate the factors for that delivery unit. When a Certificate is tendered on the same day that a new report is issued, that new report shall be used in factor calculation regardless of the time of day that the report is released.

(Remainder of Rule 10103.A. unchanged)

These amendments apply to the October 2004 and subsequent Live Cattle Futures contract months.

If you have any questions regarding this matter, please contact Paul Peterson, Director, Commodity Research & Product Development, at (312) 930-4587.