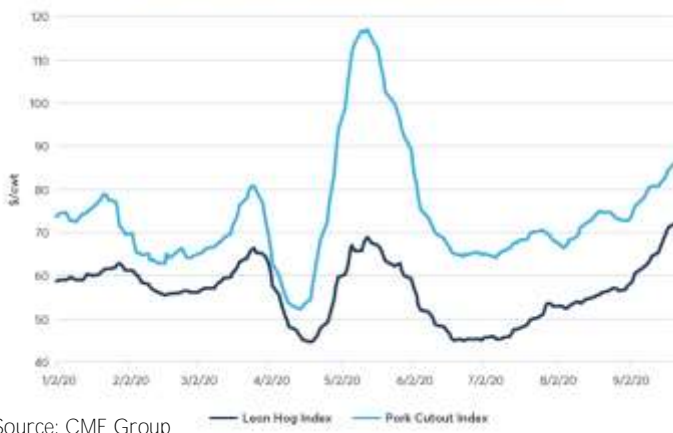


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The CME Group announced yesterday it will launch a new cash-settled pork cutout contract. Here is a link to the Pork Cutout Futures and Options [Factsheet](#). The new contract will mirror the Lean Hog Contract months of Feb, Apr, May, Jun, Jul, Aug, Oct, and Dec. Contract specifications call for 40,000 lbs. contract size and settlement will be off the [CME Pork Cutout Index](#), which is a five-business day weighted average prices as published by USDA AMS in the [“National Daily Pork Report Fob Plant - Negotiated Sales – Afternoon.”](#)

**CME Lean Hog & Pork Cutout Indexes**



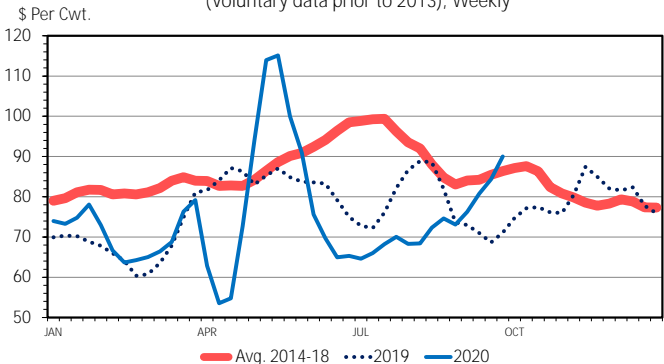
Source: CME Group

The U.S. hog industry has evolved to include pricing mechanisms that price live hogs off USDA reported cutout values. The addition of this risk management tool will help address other marketing arrangements beyond those that are negotiated. As reported by USDA’s Agricultural Marketing Service Market News Division (AMS), currently these cutout based transactions would typically fall in the “Swine or Pork Market Formula” bucket. Transactions of that type (although not all are cutout based formulas) have increased in 2020 (red line on the chart to the right), and were over 30% of total transactions in recent weeks. If hogs start to price off the new CME pork cutout futures contract, that would fall in a different transaction bucket per the [USDA AMS MPR Definitions](#).

Additionally, processors and meat buyers alike could find this contract useful in hedging their marketplace activities. Importantly, though is that the cutout is a blended value that includes specific proportions of cuts and prices of those cuts to determine the cutout value. The USDA AMS definition of how the pork cutout is calculated and yield values can be found [here](#). These yields are based on a standard measure of a 215 lb. pork carcass, 55-56% lean, 0.55-0.70” back-fat on the last rib.

Because of the way it is calculated, a strategic risk management plan may be required for those looking to reduce exposure for specific carcass components. For example, the cutout at different times of the year is driven by different primals/cuts surging or falling. A good example of this

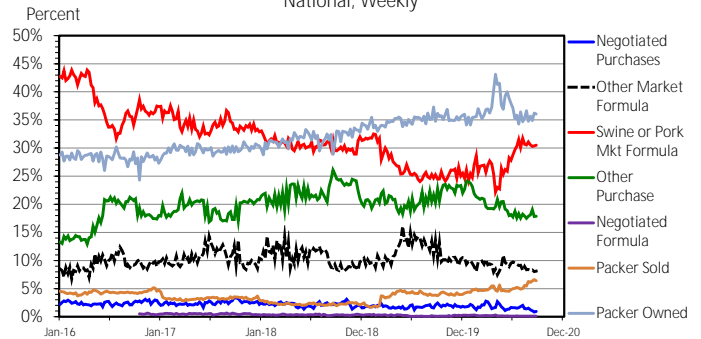
**PORK CUTOUT VALUE**  
(Voluntary data prior to 2013). Weekly



Data Source: USDA-AMS, Compiled by LMIC  
Livestock Marketing Information Center

H-P-10  
09/28/20

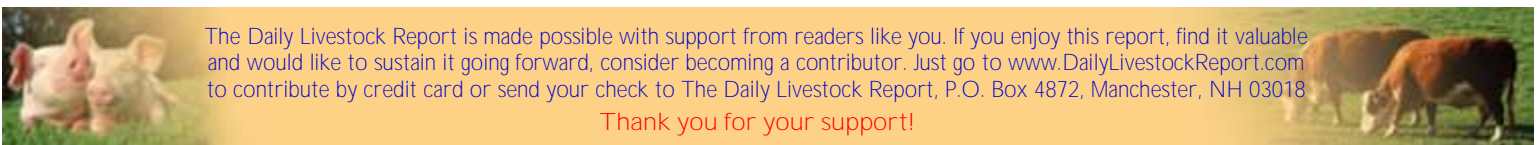
**HOGS SOLD BY TRANSACTION**  
National, Weekly



Data Source: USDA-AMS  
Livestock Marketing Information Center

was the run-up in belly prices in 2017, which elevated the cutout but other primal cuts such as loins and picnics barely adjusted. Still, it offers a better opportunity for those market participants to cross hedge meat items. The national negotiated pork cutout has a long price series available through AMS for back testing different strategies. In its current form, AMS began reporting this series since its inclusion under MPR in 2013 on a daily basis. Prior to 2013, a voluntary pork cutout series was used. Yield factors are adjusted periodically by USDA AMS.

The settlement procedure listed is linked specifically to negotiated (cash) sales. In 2019, USDA AMS began releasing a weekly comprehensive cutout value, which includes all transaction types of pork traded. This is an important point as the weekly average of the negotiated pork cutout compared to the comprehensive pork cutout has varied as much as \$8.44 to -\$5.49 per cwt for the same week.



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