

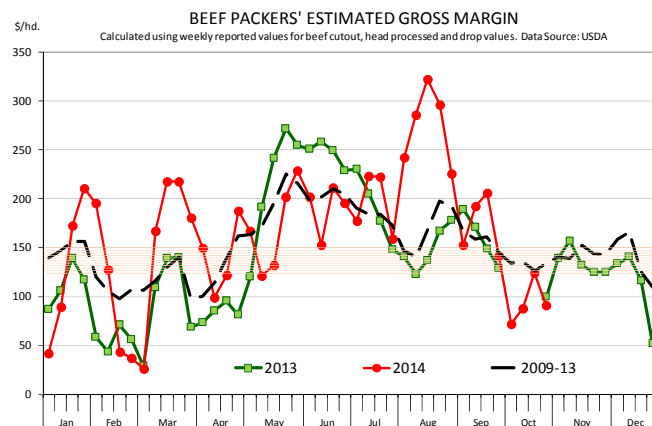
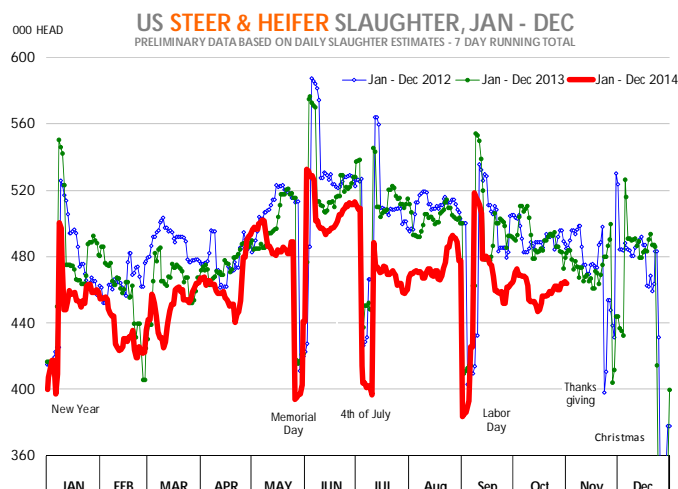
Special CME Notice: Effective on trade date Monday, December 15, 2014, and pending all relevant CFTC regulatory review periods, Chicago Mercantile Exchange Inc. (CME or Exchange) will modify the manner in which settlement prices are determined in CME Live Cattle futures, CME Feeder Cattle futures and CME Lean Hogs futures in an effort to incorporate all relevant bid, offer and trade prices in the calculation of the daily settlement price. Full details of this notice and the methodology used to calculate settlement prices on page 2 as well as by following this link:

<http://www.cmegroup.com/trading/agricultural/cme-livestock-settlement-changes.html>

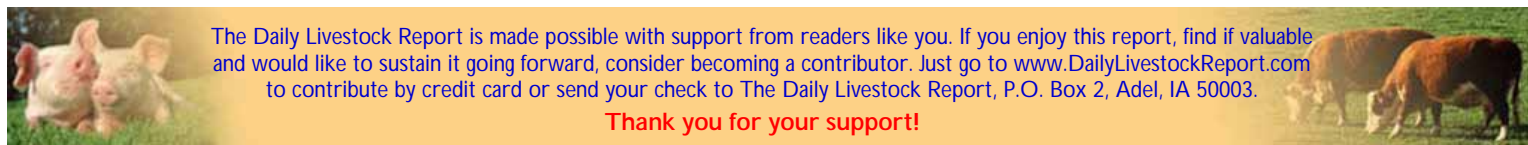
Market Comments

Cattle futures continued to surge higher on Monday even as the cattle on feed report largely came in close to estimates. The pace of feedlot placements accelerated in September and the placement structure showed an increase in the number of heavy yearlings placed on feed. This certainly makes sense given the lower placements over the spring and summer months. It is likely that we will see heavy yearlings placed on feed in October and November as well. For now, however, feedlots appear in no hurry to market cattle, with live trade now pegged at around \$169-170/cwt. According to the USDA 5-mkt report, live steer prices (all grades) were priced at \$169.01 on Monday while the weighted average heifer price was pegged at \$169.85/cwt. Packer margins have certainly taken a hit from the surge in fed cattle values and this will tend to keep fed slaughter numbers well below year ago levels. This week we estimate fed cattle slaughter at 464,000 head, down 4% from a year ago. It is not unusual for packer margins to come under pressure in the last quarter of the year and this year is no different. Despite the dizzying cattle prices, the calculated packer gross margin is relatively close to year ago levels and the five year average. The question is what happens with beef cutout values in November, when seasonally prices for round cuts and chucks tend to decline. Will middle meats be able to carry the carcass going into the holidays? Or are we going to see a repeat of last year when steak cuts only gained traction for a couple of weeks in early December. That will make the difference, in our view, between packer margins holding near year ago levels or getting squeezed even more. Keep in mind that the calculated margin simply reflects the value of the beef cutout and drop credits relative to the price of fed cattle. Plant utilization rates, export market revenue and labor costs play a critical role in terms of true packer margins. Still, the reality is that so far packers have been able to weather the storm and passed on the high price of cattle downstream to customers.

The next six months may prove to be more challenging. Lower prices for pork and chicken will increase competition at retail and foodservice. Lean hog futures for February and April are hovering around \$88/cwt, sharply lower than the \$130+ we saw over the summer. Chicken



breast prices also are seasonally lower, down 50 cents in the last six weeks. More importantly, end users have started to adjust their consumption patterns following the surge in beef prices and expectations for tight beef supplies. Export markets will continue to be a key driver but even there a strong US dollar is making things more difficult. **Cash cattle prices are driving the market in the short term**, with market participants each day trying to guess who will have the upper hand (feedlots so far). Going forward, however, futures are reluctant to add seasonal premiums, largely on concerns that lower competing meat prices and changes in product features will impact beef demand. What is difficult for the market to assess is the change in consumer perceptions with regard to consuming beef, and consumer willingness for high quality protein.



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Special Executive Report

S-7213

October 27, 2014

Modification to Daily Settlement Price Determinations in Certain CME Agricultural Futures

Effective on trade date Monday, December 15, 2014, and pending all relevant CFTC regulatory review periods, Chicago Mercantile Exchange Inc. (CME or Exchange) will modify the manner in which settlement prices are determined in CME Live Cattle futures, CME Feeder Cattle futures and CME Lean Hogs futures in an effort to incorporate all relevant bid, offer and trade prices in the calculation of the daily settlement price. Effective on December 15, 2014, daily settlement prices in those products will be determined pursuant to the following methodology:

- A VWAP of the outright trades executed in the pit for each contract month from 12:59:30 – 13:00:00 Central Time (“CT”) will be calculated.
- A VWAP of the outright trades executed on CME Globex for each contract month from 12:59:30 – 13:00:00 CT will be calculated.
- The two VWAPs will be combined to produce a single VWAP settlement price for each contract month, which will then be rounded to the nearest tradable tick.
- In the absence of any trade activity in a given contract month, the bid that is higher than the last sale or prior day’s settlement price or the offer that is lower than the last sale or prior day’s settlement price in either trading venue from 12:59:30 – 13:00:00 CT will determine the daily settlement price for that contract month.
- In the absence of any trade activity or bid/ask in a given contract month during the current trading day, the daily settlement price will be determined by applying the net change from the preceding contract month to the given contract month’s prior daily settlement price.
- Notwithstanding the foregoing, in the event the aforementioned calculations cannot be made or if CME Group staff determines that anomalous activity yields a result that is not representative of the fair value of the contract, CME Group staff may determine an alternative settlement price based upon other available market information.

Example

Front month – Live Cattle February 2015

Globex: 31 contracts trade at a VWAP of 167.550

Floor: 7 contracts trade at a VWAP of 167.500

The February 2015 daily settlement is the combined VWAP rounded to 167.550, calculated as:

$$((31*167.550) + (7*167.500))/38 = 167.541$$

Second month – Live Cattle April 2015

Globex: No trades occurred.

Floor: 5 contracts trade at a VWAP of 166.075

The April 2015 daily settlement price is the floor VWAP of 166.075, calculated as:

$$((5*166.075) + (0*0))/5 = 166.075$$

Third month – Live Cattle June 2015

Globex: No trades occurred.

Floor: No trades occurred.

The prior day's settlement is 156.325. There is an active offer on CME Globex of 156.250 and an active offer in the pit of 156.225.

The June 2015 daily settlement price is the best available offer of 156.225

Fourth month – Live Cattle August 2015

Globex: No trades occurred and no active bids or offers on CME Globex.

Floor: No trades occurred and no active bids or offers in the pit.

The prior day's settlement was 154.900. The net change for the June 2015 contract (the immediately preceding contract month) is -.100 from the previous day's settlement price.

The August 2015 daily settlement price is the prior day's settlement price minus the net change in the June 2015 contract, or 154.800, calculated as:

$$154.900 - .100 = 154.800$$

All remaining contract months will follow the same methodologies as described above.

Questions regarding this Special Executive Report may be directed to the CME Globex Control Center at 312.456.2391 or in Europe at 44.207.623.4708.

For media inquiries concerning this Special Executive Report, please contact CME Group Corporate Communications at 312.930.3434 or news@cmegroup.com.