CME Group

Daily Livestock Report

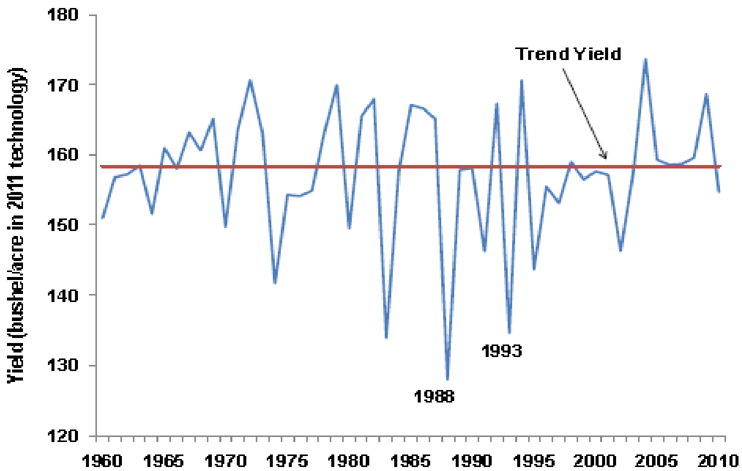
Vol. 9, No. 45 March 8, 2011

Please see pages 3-5 in today's DLR for an important announcement from CME Group regarding recent Commodity Futures Trading Commission approval of changes in non-spot position limits for Live Cattle, Lean Hogs and Feeder Cattle futures and options. The new limits will be effective at the start of business on March 21, 2011.

The University of Illinois released last week a publication entitled "Alternative 2011 Corn Production , Consumption and Price Scenarios" that we believe is a good read for those trying to get a handle — or at least a starting point — in looking at what may transpire in the U.S. corn market. The publication by Drs. Darrel Good and Scott Irwin takes a look at the forces shaping both supply and demand over the coming year. Some highlights are:

- A thorough discussion of 2011 yield scenarios. The authors use a long-term yield based on data since 1960. That trend provides an estimate of 158.4 bushels/acre for 2011. Good and Irwin use 158 in their supply and demand forecasts. They point out that the shorter-term (some back only as far as 1996) yield trends being used by some analysts result in yield estimates that are about 3 bushels/acre higher than those used in the paper. Good and Irwin argue that these more optimistic trends are not actually a new trend but are simply due to " . . . adverse weather being experienced less frequently since the mid-1990s . . "
- Good and Irwin demonstrate yield variability and derive their "good weather" and "bad weather" yields by de-trending the historical yield data so that past years, in essence, reflect 2011 technology. They accomplish this by adding the trending yield gain of 1.89 bushels per acre per year to each lagged year yield. The resulting chart appears at right and clearly delineates the deviations of actual yield from trend yield in past years. Good and Irwin throw out the low yields of 1988 and 1993 from their "bad weather" scenario computations, arguing that the 1993 flood year was a clear anomaly and that the 1988 drought was already developing by March of the year and represented conditions that are not in place at present. Based on these calculations, they choose good and bad weather yields of 169 and 147 bushels/acre, respectively.
- Good and Irwin assume that 92 million acres will be planted to corn this year — a number on the high side of some early forecasts. That planted acreage would imply 84.9 million harvested acres.
- Trend yield of 158 bushels/acre would mean the 2011 crop would be 13.414 billion bushels and total supply would be 14.1 billion bushels — down 0.75 billion from the current crop year. The good weather yield (169 bu/A) would give us a 14.35 billion bushel crop and just over 15 billion in total supply, 860 million bushels more than this year. The poor weather yield of 147 bu./A would mean only 12.48 billion bushels harvested and only 13.176 billion of total supply — 1 billion fewer bushels than this year.
- Good and Irwin provide a thorough discussion of factors that will determine corn usage in the coming year. They point out that exports and non-ethanol industrial (primarily high-fructose corn syrup) usage do not generally change much in response to corn prices. Feed demand is more responsive to corn price but strong livestock prices imply strong feed demand in the coming year. Oil, gasoline and ethanol prices imply very strong corn demand as well. Good and Irwin include "shut-down" corn prices for ethanol plants at various oil and gasoline prices. They estimate the shut-down corn price to be $9.78/bushel at $110/bbl oil and $3/gal wholesale gasoline — prices that are very close to recent levels.
- Good and Irwin forecast an average U.S. farm corn price at $5.75/bu. for trend yield, $4.75/bu. for good weather and $7.00/bu. for poor weather. None of those prices will slow ethanol output if oil and gasoline remain near today's levels.

De-trended U.S. Average Corn Yield, 1960-2010, based on 2011 technology (Good and Irwin)



Good and Irwin's balance sheets for 2010-11 and 2011-12 for the various scenarios appears on page 2. The entire report can be found at http://farmdoc.illinois.edu/marketing/mobr/mobr_11-01/mobr_11-01.html .

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U.S. Corn Balance Sheets for 2010-11 and 2011-12 from Good and Irwin

		2011-12 Yield Scenario			
	2010-11	Trend	Good Weather	Poor Weather	USDA
Supply					
Planted acreage (mil.)	88.2	92.0	92.0	92.0	92.0
Harvested acreage (mil.)	81.4	84.9	84.9	84.9	84.9
Yield (bu/ac.)	152.8	158	169	147	161.7
Production (mil. bu.)	12,447	13,414	14,348	12,480	13,730
Beginning stocks (mil. bu.)	1,708	675	675	675	675
Imports (mil. bu.)	20	10	10	20	20
Total (mil. bu.)	14,175	14,099	15,033	13,175	14,425
Consumption					
Exports (mil. bu.)	1,950	2,000	2,000	1,900	2,000
Feed and residual (mil. bu.)	5,200	5,125	5,300	4,500	5,150
Ethanol (mil.bu.)	4,950	4,900	5,100	4,800	5,000
Other processing (mil. bu.)	1,400	1,400	1,400	1,350	1,410
Total (mil. bu.)	13,500	13,425	13,800	12,550	13,560
Ending stocks (mil. bu.)	675	674	1,233	625	865
Stocks-to-use (%)	5.0	5.0	8.9	5.0	6.4
Average farm price ($/bu.)	$5.40	$5.75	$4.75	$7.00	$5.60

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Special Executive Report

S-5646 **March 8, 2011**

CFTC APPROVES INCREASES IN NON-SPOT POSITION LIMITS FOR LIVE CATTLE, LEAN HOGS AND FEEDER CATTLE EFFECTIVE MONDAY, MARCH 21, 2011

The Commodity Futures Trading Commission has approved the following increases in the non-spot position limits for Live Cattle Futures and Options, Lean Hogs Futures and Options, and Feeder Cattle Futures and Options, effective at the start of business on **Monday, March 21, 2011**.

These increases are based on the growth in open interest experienced in 2010, using a formula established by the CFTC.

The text of the rule amendments is given below, with additions underlined and deletions overstruck:

LIVE CATTLE FUTURES

10102. FUTURES CALL

10102.E. Position Limits

No person shall own or control more than:

a. ~~5,400~~ 6,300 contracts long or short in any contract month;
b. 450 contracts long or short in the expiring contract month as of the close of business on the first business day following the first Friday of the contract month;
c. 300 contracts long or short in the expiring contract month as of the close of business on the business day immediately preceding the last five business days of the contract month.

For positions involving options on Live Cattle futures, this rule is superseded by the option speculative position limit rule.

OPTIONS ON LIVE CATTLE FUTURES

101A01. OPTION CHARACTERISTICS

101A01.F. Position Limits

No person shall own or control a combination of options and underlying futures that exceeds ~~5,400~~ 6,300 futures equivalent contracts net on the same side of the market in any contract month.

For the purpose of this rule, the futures equivalent of an option contract is 1 times the previous business day's IOM risk factor for the option series. Also for purposes of this rule, a long call option, a short put option, and a long underlying futures contract are on the same side of the market; similarly, a short call option, a long put option, and a short underlying futures contract are on the same side of the market.

LEAN HOG FUTURES

15202. FUTURES CALL

15202.E. Position Limits

No person shall own or control more than:

1. ~~4,100~~ 4,150 contracts long or short in any contract month;
2. 950 contracts long or short in the expiring contract month as of the close of business on the fifth business day of the contract month.

For positions involving options on Lean Hogs futures, this rule is superseded by the option speculative position limit rule.

OPTIONS ON LEAN HOG FUTURES

152A01. OPTION CHARACTERISTICS

152A01.F. Position Limits

No person shall own or control a combination of options and underlying futures that exceeds:

1. ~~4,100~~ 4,150 futures equivalent contracts net on the same side of the market in any contract month;
2. 950 futures equivalent contracts net on the same side of the market in the expiring contract month as of the close of business on the fifth business day of the contract month.

For purposes of this rule, the futures equivalent of an option contract is 1 times the previous business day's IOM risk factor for the option series. Also for purposes of this rule, a long call option, a short put option, and along underlying futures contract are on the same side of the market; similarly, a short call option, a long put option, and a short underlying futures contract are on the same side of the market.

FEEDER CATTLE FUTURES

10202. FUTURES CALL

10202.E. Position Limits

No person shall own or control more than:

1. ~~1,600~~ 1,950 contracts long or short in any contract month;
2. 300 contracts long or short in the spot month during the last ten days of trading.

For positions involving options on Feeder Cattle futures, this rule is superseded by the option speculative position limit rule.

OPTIONS ON FEEDER CATTLE FUTURES

102A01. OPTION CHARACTERISTICS

102A01.F. Position Limits

No person shall own or control a combination of options and underlying futures that exceeds:

1. ~~1,600~~ 1,950 futures equivalent contracts net on the same side of the market in any contract month;
2. 300 futures equivalent contracts net on the same side of the market in the spot month during the last ten days of trading.

For the purpose of this rule, the futures equivalent of an option contract is 1 times the previous business day's IOM risk factor for the option series. Also for purposes of this rule, a long call option, a short put option, and along underlying futures contract are on the same side of the market; similarly, a short call option, a long put option, and a short underlying futures contract are on the same side of the market.

If you have any questions regarding this matter, please contact Paul Peterson, Director, Commodity Research and Product Development, at (312) 930-4587 or Jack Cook, Associate Director, Commodity Research and Product Development, at (312) 930-3295.