

Daily Livestock Report

Vol. 8, No. 70/ April 14, 2010

Please see pages 2 and 3 of today's DLR for information about CME Group's upcoming launch of the new Distillers Dried Grain (DDG) Futures contract. The contract will begin trading on April 26 and will provide ethanol producers a tool to hedge DDG revenues and livestock producers a tool to hedge DDG costs. Watch for more information in tomorrow's DLR.

Last week's announcement that the United States and Brazil had agreed to postpone Brazilian retaliation against the U.S. in the WTO cotton dispute has the possibility to impact U.S. supplies of beef and pork.

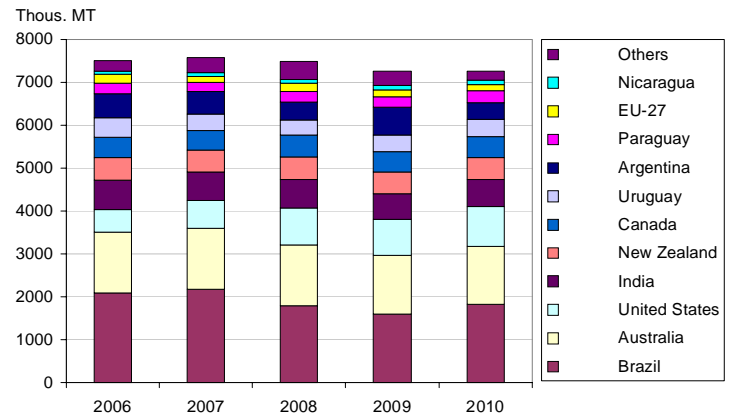
The case stems from Brazil's complaint to the WTO that support programs for U.S. cotton producers violated WTO rules. Brazil won the case and the right to retaliate against other U.S. products. The agreement to postpone that retaliation includes a commitment to recognize Brazil's state of Santa Catarina as free of trade disrupting diseases such as foot and mouth disease and classical swine fever. Such recognition would mean that Brazil could export fresh pork and beef from Santa Catarina to the U.S. Brazil is the world's largest exporter of beef (top chart at right) and the world's fourth largest exporter of pork (bottom chart) if the EU-27 is consider one exporting entity. It should be noted that Brazil exports grass-fed or minimally-fed beef. It is comparable to the product

Regionalization is an important concept for world trade in animal products. It allows countries that have outbreaks of reportable diseases to either eliminate the disease(s) from specified areas in order to export from them or to limit the disease(s) to a given area in order to export from the rest of the country. Brazil has been pushing on trading partners for some time to recognize Santa Catarina's status. This move by the U.S. will likely provide Brazil some bargaining power with Japan — an attractive market for high-value pork products. Brazil cannot compete with the U.S., Canada or Chile in Japan with fresh/chilled product but it can be an effective competitor in the frozen pork market.

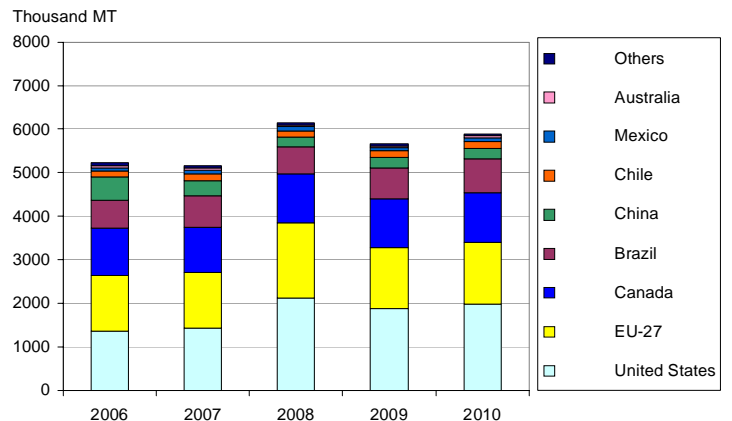
In a letter to U.S. Trade Representative Ron Kirk and Secretary of Agriculture Tom Vilsack, the National Pork Producers Council (NPPC) urged the U.S. government to use this opportunity to push for science-based policies in Brazil as well. Specifically, NPPC stated its continue frustration about Brazil's "unjustified trichinosis-related import restrictions" and plant-by-plant certification of U.S. pork packing plants. Whether U.S. officials can use their current position of leverage remains to be seen.

Trichinosis is caused by trichinella, a parasite that was once common in U.S. pigs. Trichinella is the primary reason that consumers tend to overcook fresh pork: Their mother or grandmother told them there was something in pork that needed to be cooked to death. And indeed there once was. But modern hog production systems have virtually eliminated trichinella from the U.S. hog herd. In fact, a USDA-sponsored monitoring program in the late 1990s had a tough time finding pigs infected with the parasite. They did find a few pigs fed outdoors that had trichinella but suspected that the infection came from wildlife. Trichinella is still relatively common in raccoons and bears and virtually all human trichinosis cases are traced to consumption of wild game. But trichinella remains an issue for U.S. pork exports, primarily to the EU which insists that carcasses be tested before U.S. product will be accepted.

WORLD BEEF EXPORTS BY COUNTRY



WORLD PORK EXPORTS BY COUNTRY



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COMMODITY PRODUCTS

Distillers' Dried Grain Futures (DDG)

A smart alternative to pricing and managing DDGs price risk.

Overview

Distillers' Dried Grains (DDGs) are the dried residue remaining after the starch fraction of corn is fermented with selected yeasts and enzymes to produce ethanol. After fermentation, the alcohol is removed by distillation and the remaining residues are either dried or remain wet. Although DDGs are used primarily as a feed additive for cattle and dairy cows, they are also being incorporated into other livestock feed rations.

Current U.S. DDGs production is over 33 million short tons with a \$4 billion market value and export levels approaching 20%. Supply varies with energy prices, corn prices and the relationship between these two prices. Ethanol production is expected to increase as the U.S. oil industry will be required by the Renewable Fuel Standard Program to blend an increased proportion of ethanol into the gasoline supply.

Completing the Corn for Ethanol Crush

The addition of DDG futures will complete the exchange's product suite for the corn crush for ethanol and bring much-needed price discovery tools and price transparency to the market. These futures complete a risk management portfolio, which allows ethanol plants (sell side) to hedge both their inputs (corn and natural gas) and outputs (ethanol and DDGs) – known as the “corn crush”. Additionally, a DDG futures contract is a hedging tool for the buy side (dairy operations, livestock producers and feed manufacturers), who use DDGs as a feed supplement. Other participants in the DDGs industry who could benefit from the DDG futures contract are the marketers and merchandisers.

DDG Futures Contract Benefits

- Provides market participants with a transparent “benchmark price”
- Provides price risk management opportunities
- Mitigation of counterparty credit risk
- CFTC oversight and regulation
- Allows price risk to be managed separately from physical transaction
- Multiple month listings enable the establishment of a forward price curve
- Relatively seamless, instantaneous straight-through execution, processing and clearing through CME Globex and CME Clearing

CONTRACT SPECIFICATIONS

DISTILLERS' DRIED GRAIN FUTURES	
Ticker Symbol	DDG
Contract Size	100 short tons (approximately 90.72 metric tons)
Deliverable Grades	Protein – Minimum 26% Fat – Minimum 8% Fiber – Maximum 12% Moisture – Maximum 11.5%
Testing Methods	Dry Matter: NFTA 2.2.2.5 (105 °C / 3hr) Crude Protein: AOAC 990.03 or AOAC 2001.11 Crude Fat: AOAC 945.16 Crude Fiber: AOAC 978.10
Delivery	DDG futures are a physically delivered contract. The short (seller of DDG futures, designated as regular for delivery) will issue shipping certificates. The long (buyer of DDG futures) will receive a shipping certificate. If the buyer cancels the shipping certificate for load-out, the seller will deliver the specified quantity and quality of distillers' dried grains to the buyer's facility. The buyer pays the seller the public rail tariff from the seller's designated rail junction to the buyer's facility. Chicago, Illinois is the designated rail junction for "regular for delivery" firms east of the Mississippi River; and Council Bluffs, Iowa is the designated rail junction for "regular for delivery" firms west of the Mississippi River. The buyer may elect truck delivery at a \$7.50/short ton premium.
Tick Size	Ten cents (\$0.10) per short ton (\$10.00 per contract)
Price Quote	Dollars and cents per short ton
Contract Months	All 12 calendar months
Last Trading Day	The business day prior to the 15th calendar day of the contract month
Last Delivery Day	Second business day following the last trading day of the delivery month
Daily Price Limits	\$20 per short ton expandable to \$30 and \$45
Speculative Position Limits	200 contracts in spot month; 1,000 contracts in any single month; and 1,000 contracts in all months combined
Storage (Premium) Charge	The long (buyer), who takes delivery of a DDG shipping certificate, shall pay a storage charge of 8 cents per short ton per day to the issuer of the shipping certificate until the DDG shipping certificate is cancelled for load-out, sold or redelivered.
Trading Hours	Electronic Only 6:00 p.m. – 7:15 a.m. and 9:30 a.m. – 1:15 p.m. Central Time, Sun. – Fri.

For more information on DDG futures, visit www.cmegroup.com/ddg.

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