



Understanding the CME Feeder Cattle Index

ICA Fact Sheet

June 2016

USDA-AMS Feeder Cattle Reporting

The USDA Agriculture Marketing Service (USDA-AMS) Feeder Cattle Report is based on the sales of feeder cattle that take place and are reported from local auctions, video/internet auctions and direct trade sales. Direct reporting the sale of feeder cattle is different from that of fed cattle in that it is strictly voluntary for all parties. Information is collected and reports are listed by state and by region. Additionally, it is important to note that all direct trade reports are released on Fridays and contain information gathered throughout the week. Summaries and sale report are available on the USDA webpage: <https://www.ams.usda.gov/market-news/livestock-poultry-grain#Cattle>.

CME Feeder Cattle Index

The CME Index utilizes USDA-AMS Feeder Cattle Reports to create an index that provides investors with a reliable and publicly available benchmark for investment performance in the feeder cattle market. The CME index was designed to use USDA-AMS Feeder Cattle Reports from 12 major feeder cattle producing states: Colorado, Iowa, Kansas, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, and Wyoming.

Cattle Included in the Index

The CME Feeder Cattle Index is based upon a descriptive sample of transactions from the USDA-AMS Feeder Cattle Reports. Cattle included in the CME Index must meet the following criteria:

- 650 to 849 pound Medium and Large Frame #1 and #1-2 feeder steers o Beginning in November 2016, the index will include 700 to 899 pound Medium and Large Frame #1 and #1-2 feeder steers.
- Have been sold via feeder cattle auction, direct trade, video sale, or Internet sale transactions within the 12-state region.

Cattle identified in the USDA-AMS Report as being fancy, thin, fleshy, gaunt or full; having predominantly dairy, exotic or Brahma breeding; are excluded from the Index. Transactions for cattle that are reported by USDA-AMS as having an origin outside of the United States shall be excluded from the Index, along with all heifers.

Direct trade, video sale, and Internet sale transactions must be quoted on an FOB basis, 3% standing shrink or equivalent, with pickup within 14 days to be included in the sample for the Index.

Index Calculation

The Index is a seven-day weighted average defined as the total dollars sold during the seven-day period divided by the total pounds of feeder steers sold during the same period. Saturday and Sunday sales are included in the sample as if all transactions occurred on Monday. The index always reflects lagging data because that is the only data available. Daily index calculations are published every business day here: <http://www.cmegroup.com/market-data/reports/cash-settled-commodity-index-prices.html>.

Index Volume

Keeping in mind, the index excludes heifers, commented cattle and lightweight calves, roughly 7,500 head of total direct trade volume is represented through the weekly Index. This value typically represents less than 5% of cattle placed on feed per month. When looking at specific regions of the index, Northern volume represents only 35-40% of the total Index volume. This would include calves sold from CO, IA, MO, MT, ND, NE, SD, & WY. Additionally, direct trade volume only represents 15-45% of total Index volume. Direct trade volume in the North has an annual average of only 10% of total direct trade volume.

CME Feeder Cattle Index and Futures Relationship

Each Feeder Cattle futures contract is valued at 50,000 pounds times the CME Feeder Cattle Index. Each Feeder Cattle futures contract is valued at 50,000 pounds times the CME Feeder Cattle Index. Delivery of feeder cattle in settlement of the contract is not an option. All contracts open as of the termination of trading are cash settled based upon the CME Feeder Cattle Index for the seven calendar days ending on the day on which trading terminates.

Data collected by the CME and USDA show that southern cattle are sold at a discount when compared to northern cattle. Because a higher volume of cattle sales is reported from the south, this lowers the average price of the Index. Due to this imbalance, the Feeder Cattle Index has a weighted average closer representing the south, while the Index is lower than cash cattle in the north.

Feeder Cattle Index		
State	Premium/Discount over Index	Composition
SD	5.18	11.5%
NE	4.37	9.9%
MO	2.57	10.8%
IA	2.37	5.2%
WY	1.00	1.2%
MT	0.41	1.2%
ND	0.24	2.2%
OK	-1.52	18.0%
KS	-1.79	8.7%
TX	-6.88	19.4%
CO	-8.56	2.1%
NM	-9.11	4.7%
Video	-	5.1%

Direct Trade Reporting Process

To make the Feeder Cattle Index more accurate, there needs to be an increase in the number of direct trade sales reported. At this time USDA-AMS Market News Reporters contact feedlots, producers and order buyers to collect pertinent information about any direct trades that have occurred. This includes grade, head count, base weight, price and delivery period. USDA LPGMN reporters will assist contributors in applying USDA livestock standards and grades.

Cattle producers that incur a transaction on feeder cattle (buying/selling) can participate in direct trade reporting. Typically the purchaser of the livestock will be contacted by a USDA-AMS Market News Reporter. Information regarding the price and type of cattle purchased as mentioned above, must be shared. To maintain accuracy of the USDA-AMS report, the buyer and seller of the cattle needs to be

listed, allowing to USDA to verify the transaction. All information remains confidential and is only released in the report format shown.

The information collected is evaluated and then published. Reporting of direct trades can occur via phone call, or weekly email submission. New contributors to the direct report must participate for 30 days, before any of their data is utilized in the report. A contributor must be a regular participant of the report to be included. Producers interested in participating in direct trade reporting should contact a USDA Market News Reporter at 405-232-5425.

ICA's Role

The Iowa Cattlemen's Association Feedlot Council is conducting an initiative to increase awareness of Feeder Cattle Reporting and the Index to encourage producers to strengthen the data by participating in price reporting. If you have questions, contact our office: 515.296.2266.