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# NF96-261 Highlights of the New Chicago Mercantile Exchange Lean Hogs Futures Contract

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# Highlights of the New Chicago Mercantile Exchange Lean Hogs Futures Contract

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*by Al Wellman, Extension Agricultural Economist*

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Beginning with the February 1997 contract, the Chicago Mercantile Exchange (CME) has changed the Live Hog Futures Contract to a Lean Hog Futures contract based on lean value (carcass basis) hogs.

The Lean Hog contract is for 40,000 pounds of lean value, the estimated meat produced from 220 hogs. There shall be no delivery of hogs in settlement of this contract. All contracts open as of the termination of trading shall be cash settled based upon the CME Lean Hog Index for the two-day period ending on the day on which trading terminates.

## The Lean Hog Index

The Index is based on a sample of transactions for packer base weight and base cost hogs. The sample is a two-day, three-area weighted average price per pound for packer base weight hogs, 51-52 percent lean with .80-.99 inches of backfat at the last rib or equivalent, 170-191 pound dressed weight.

The sample consists of hogs purchased on a lean value cost basis by cooperating packers located within the Mid-South, Eastern Corn Belt and Western Corn Belt areas, as reported by the USDA, Federal-State Market News Service.

At 11 a.m., a daily estimate of all hogs purchased, and an indicative price will be reported in a Lean Value report by the USDA, and at 2 p.m., an updated estimate of the number of hogs purchased and estimated price will be reported. At 2 p.m. the following day, the actual number of hogs purchased and actual base cost will be released by the USDA. It is this final USDA Base Cost Lean Value report that will be used to calculate the CME Lean Hogs Index.

## Other Contract Specifications

The daily price limits are 1.5 cents per pound above or below the previous day's settlement price, with no limits in the spot month during the last two days of trading. This is to ensure convergence of the future price to the CME Lean Hog Index.

Position limits were set at 1,200 contracts long or short, in each non-spot month, 450 contracts during the last five days of trading in the spot month.

Both futures and options will stop trading on the 10th business day of the spot month.

## Price Conversion

*Table I* converts live hog prices into lean hog value on per hundredweight basis.

**Table I. Live Hog Price vs. Lean Hog Value,[1] per cwt., for February 1997 and beyond, CME Lean Hog Futures Contract.**

| *Live Hog Price* | *Lean Hog Value* | *Live Hog Price* | *Lean Hog Value* |
|---|---|---|---|
| $60.00 | $80.08 | $47.00 | $63.51 |
| $59.00 | $79.73 | $46.00 | $62.16 |
| $58.00 | $78.38 | $45.00 | $60.81 |
| $57.00 | $77.03 | $44.00 | $59.46 |
| $56.00 | $75.68 | $43.00 | $58.11 |
| $55.00 | $74.32 | $42.00 | $56.76 |
| $54.00 | $72.97 | $41.00 | $55.41 |
| $53.00 | $71.62 | $40.00 | $54.05 |
| $52.00 | $70.27 | $39.00 | $52.70 |
| $51.00 | $68.92 | $38.00 | $51.35 |
| $50.00 | $67.57 | $37.00 | $50.00 |
| $49.00 | $66.22 | $36.00 | $48.65 |
| $48.00 | $64.86 | $35.00 | $47.30 |

[1]Lean value is the live price divided by .74.

The Lean Hog contracts will replace the Live Hog futures and options contracts at the CME, but the "LH" symbol will be retained. The new contracts will also retain several key specifications, same contract size, months traded, daily price limits, option strike price intervals and trading hours.

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