CME Group Request for Marketplace Comments on
Proposed Lean Hog Futures Contract Specification Changes

Introduction
Recent feedback from market participants in CME Lean Hog futures has prompted CME Group to consider three changes to the contract specifications: 1) lengthening the CME Lean Hog Index (“Index”) averaging period from 2 business days to 10 business days; 2) moving the expiration date of the contract to the last business day of the contract month; and 3) adding March, September, November, and January Lean Hog futures and options contracts to provide 12 contracts per calendar year.

CME Group is requesting public feedback on each of these proposed changes to Lean Hog futures. The comment period will run until Friday, August 8, 2014, after which the exchange will make a final, separate decision on each of the proposed changes. Firms and individuals are invited to provide feedback to CME Group personnel identified at the end of this document.

Brief Summary of Proposed Changes
Research conducted by CME Group shows extending the Index averaging period would decrease the volatility of the Index and would allow prices for a greater number of cash market hogs to be reflected in the Index. This change would essentially lengthen the “delivery period” of the Lean Hog futures contract and may provide producers and packers with added time to “deliver” hogs into the Index and create convergence. Lengthening the Index averaging period to 10 business days would also make the Index less susceptible to “outlier” prices of a small number of cash market transactions. Other cash-settled CME agricultural products use multi-day averaging periods (7 calendar days for Feeder Cattle and one month for Dairy products), providing precedence for index averaging periods greater than one week.

Some CME Group customers have argued moving the expiration date of the Lean Hog futures contract to the end of the month would create greater basis predictability and hedging effectiveness. Others claim this change would simplify accounting practices and make hedging tactics easier to understand for new hedgers. Moving the settlement date to the end of the month would align Lean Hog futures settlement date with that of Live Cattle futures, which would bring further harmony across the CME livestock futures complex and may increase Live Cattle-Lean Hog spreading effectiveness.

Finally, proponents of adding additional contract months suggest this would create a more predictable, stable basis. Theoretically, this would occur as the futures market would be converging to the Index price each month, rather than only in the current 8 months with Lean Hog futures contracts. CME Group research finds slight improvements in basis stability and predictability during the April – August time period when serial contracts are listed versus the September – March period where only bi-monthly contracts are listed. However, there are significant concerns that adding additional contract months would split market liquidity between existing and newly-listed contracts, potentially resulting in less liquid, less efficient markets during all contract months. Listing additional contract months may also place added burden on traders and hedgers to monitor an increased number of contracts and spreads.

CME Group welcomes comments and feedback from the livestock industry and from participants in our CME livestock futures markets. Comments may be sent to:

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