Overview of CME Pork Cutout Index and Pork Cutout Futures

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Commodity Research & Product Development
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CME Group offers the widest range of benchmark futures and options products, covering all major asset classes – and all kinds of risk.
Where the World Comes to Manage Risk

CME Group’s ADV is roughly 19 million contracts

Agricultural Product ADV is roughly 1.4 million contracts

Livestock ADV is roughly 138,000 contracts

Note: Date range referenced for ADV is 1/1/2021-9/30/2021
Price Risk Management

• Futures and options markets are used by agricultural market participants to hedge against adverse price movements in the cash market.

• Trade in futures is the buying and selling of a contractual obligation calling for future delivery of a specified commodity or cash payment (debits or credits) in lieu of physical delivery.

• Options on futures are contracts that represent the right, not the obligation, to either buy or sell a particular underlying futures contract at a specified price on or before a specified date.
# CME Group Agricultural Product Line

## Livestock
- Live Cattle
- Feeder Cattle
- Lean Hogs
- Pork Cutout

## Lumber & Softs
- Random Length Lumber
- Cotton
- Cocoa
- Coffee

## Dairy
- Class III Milk
- Class IV Milk
- Nonfat Dry Milk
- Dry Whey
- Cash-settled Butter
- Cash-settled Cheese
- Block Cheese

## Grains & Oilseeds
- Corn
- Soybeans
- Soybean Oil
- Soybean Meal
- Chicago SRW Wheat
- KC HRW Wheat
- Black Sea Wheat
- FOB Santos Soybeans
- Malaysian Palm Oil
- Rough Rice
- Oats

## Fertilizer
- Urea FOB US Gulf
- Urea FOB Middle East
- Urea CFR Brazil
- Urea FOB Egypt
- DAP FOB NOLA
- UAN FOB NOLA Swaps
- MAP CFR Brazil
Price Risk Management Tools for the Swine Industry

1961
- Frozen Pork Belly Futures Introduced
  - Traded for over 50 years

1966
- Live Hog Futures Introduced
  - Physically delivered contract
  - Traded for over 30 years

1997
- Lean Hog Futures/Options Introduced
  - Financially settled contract
  - Average Daily Volume in 2021 = 47,330; Average Daily Open Interest in 2021 = 268,710

2015
- CME Pork Cutout Index Introduced
  - Non-tradable index

2020
- CME Pork Cutout Futures/Options Introduced
A Changing Landscape and a Need for New Tools

- An increasing number of contracts between producers and packers have been referencing the pork cutout value in their base price calculations.
- As a result, the need emerged for additional price risk management tools for the industry.
A Changing Landscape and a Need for New Tools

CME Pork Cutout/Lean Hog Index Spread

CME Pork Cutout and Lean Hog Indexes

Lean Hog Index
Pork Cutout Index
Introducing: CME Pork Cutout Futures and Options

- A tool for producers, packers, processors, wholesalers, importers, and exporters to tailor their risk management strategy according to exposure to pork cutout values
- Allows hog producers to more effectively hedge their exposure
- Allows packers, food distribution companies, HRI and exporters/importers to manage cutout price exposure further down the supply chain
- An opportunity to trade the spread between Pork Cutout and Lean Hogs
# CME Pork Cutout Futures Contract Specifications

<table>
<thead>
<tr>
<th>Specification</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract Unit</td>
<td>40,000 pounds (~18 MT)</td>
</tr>
<tr>
<td>Price</td>
<td>U.S. Cents per pound</td>
</tr>
<tr>
<td>Minimum Price Fluctuation Limits</td>
<td>$.00025 per pound ($10 per contract)</td>
</tr>
<tr>
<td>Daily Price Limit</td>
<td>$0.0575/lb, expandable to $0.085/lb</td>
</tr>
<tr>
<td>Trading Hours</td>
<td>Globex: Monday – Friday: 8:30am – 1:05pm CST</td>
</tr>
<tr>
<td>Product Code</td>
<td>CME Globex: PRK Clearing:PRK</td>
</tr>
<tr>
<td>Listed Contracts</td>
<td>2 Monthly contracts of Feb, Apr, May, Jun, Jul, Aug, Oct, Dec</td>
</tr>
<tr>
<td>Settlement Method</td>
<td>Pork Cutout futures will be cash settled based upon the CME Pork Cutout Index® price for the Five-day period ending on the day on which trading terminates. The relevant index price is released one business day after trading in the expiring contract month terminates.</td>
</tr>
<tr>
<td>Termination of Trading</td>
<td>10th business day of the contract month, 12:00 p.m.</td>
</tr>
<tr>
<td>Exchange Rulebook</td>
<td>CME 156</td>
</tr>
</tbody>
</table>
CME Pork Cutout Contract Since Launch

• Since launching on November 9, 2020, Pork Cutout futures and options have traded over 29,000 contracts, equating to over 1.1 billion lbs. traded

• Market composition has included participants across the supply chain

• Average daily volume (ADV) for 2021 is 127 contracts

• Average Open Interest for 2021 is 1,481 contracts

• Continued industry support
CME Pork Cutout Index

• Effective on Monday, August 24, 2015, CME Group began publishing the CME Pork Cutout Index

• “National Daily Pork Report Fob Plant - Negotiated Sales – Afternoon” (LM_PK602)

• Takes into account the daily number of loads and the daily carcass price to determine the daily total value

• 5-day moving weighted average price

• Calculated every business day
# Datapoints Used for Calculation of the CME Pork Cutout Index

## USDA National Daily Pork Report FOB Plant - Negotiated Sales - Afternoon

**Agricultural Marketing Service**

**Livestock, Poultry, and Grain Market News**

**October 08, 2021**


### USDA Estimated Pork Cut-Out Values - as of 2:00pm

Based on negotiated prices and volume of pork cuts delivered within 14 days and on average industry cutting yields. Values reflect U.S. dollars per 100 pounds.

Calculations for 215 lb. Pork Carcass. 55-56% lean, 0.55”-0.70” BF Last Rib

<table>
<thead>
<tr>
<th>Date</th>
<th>Loads</th>
<th>Carcass</th>
<th>Loin</th>
<th>Butt</th>
<th>Pelvis</th>
<th>Rib</th>
<th>Ham</th>
<th>Belly</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/08/2021</td>
<td>280.54</td>
<td>106.99</td>
<td>101.90</td>
<td>115.09</td>
<td>72.68</td>
<td>130.04</td>
<td>75.08</td>
<td>203.38</td>
</tr>
<tr>
<td>Change</td>
<td>-5.27</td>
<td>-8.07</td>
<td>0.98</td>
<td>-5.30</td>
<td>-4.18</td>
<td>-8.53</td>
<td>-2.68</td>
<td></td>
</tr>
<tr>
<td>10/07/2021</td>
<td>356.96</td>
<td>112.76</td>
<td>109.97</td>
<td>114.11</td>
<td>77.98</td>
<td>134.22</td>
<td>83.61</td>
<td>206.06</td>
</tr>
<tr>
<td>10/06/2021</td>
<td>288.56</td>
<td>112.86</td>
<td>103.93</td>
<td>113.31</td>
<td>75.93</td>
<td>134.72</td>
<td>93.57</td>
<td>203.35</td>
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<tr>
<td>10/05/2021</td>
<td>341.51</td>
<td>108.13</td>
<td>105.05</td>
<td>109.04</td>
<td>79.54</td>
<td>133.22</td>
<td>76.94</td>
<td>201.31</td>
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<tr>
<td>10/04/2021</td>
<td>292.27</td>
<td>112.40</td>
<td>105.28</td>
<td>111.84</td>
<td>78.15</td>
<td>132.16</td>
<td>91.87</td>
<td>202.90</td>
</tr>
<tr>
<td>Five Day Average --</td>
<td>110.53</td>
<td>105.23</td>
<td>112.68</td>
<td>76.86</td>
<td>133.07</td>
<td>84.21</td>
<td>203.60</td>
<td></td>
</tr>
</tbody>
</table>
### Example calculation of the index for the five business days ending on Friday, October 8, 2021:
The sum of the five daily values is $173,555.4101. This is then divided by the sum of the five daily loads, 1,569.84, to obtain the index price of 110.5561, which is rounded to 110.56.

<table>
<thead>
<tr>
<th>DATE</th>
<th>LOADS</th>
<th>CARCASS VALUE</th>
<th>DAILY VALUE (LOADS X CARCASS VALUE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/8/2021</td>
<td>280.54</td>
<td>106.99</td>
<td>$30,014.9746</td>
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<tr>
<td>10/7/2021</td>
<td>366.96</td>
<td>112.26</td>
<td>$41,194.9296</td>
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<tr>
<td>10/6/2021</td>
<td>288.56</td>
<td>112.86</td>
<td>$32,566.8816</td>
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<tr>
<td>10/5/2021</td>
<td>341.51</td>
<td>108.13</td>
<td>$36,927.4763</td>
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<tr>
<td>10/4/2021</td>
<td>292.27</td>
<td>112.40</td>
<td>$32,851.1480</td>
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<tr>
<td><strong>SUM</strong></td>
<td><strong>1,569.84</strong></td>
<td><strong>112.40</strong></td>
<td><strong>$173,555.4101</strong></td>
</tr>
</tbody>
</table>
Published CME Pork Cutout Index Prices

Commodity Index Prices

CME Group Commodity Indices reflect volume-weighted average prices calculated by using head counts, weights, and prices of a commodity to determine a daily or weekly index value. Here you will find daily price data and links to historical files for CME Group Commodity Indices on Feeder Cattle (posted in the US afternoon with a lag of one business day), Lean Hogs (posted in the US morning with a lag of two business days), Pork Cutout (posted in the US morning with a lag of one business day), Boxed Beef (posted in the US morning with a lag of one business day), and Fresh Bacon (posted on the first business day of the week reflecting the previous week's cash trade).

CME Pork Cutout Index Over Time
## PORK CUTOUT FUTURES - CALENDAR

<table>
<thead>
<tr>
<th>CONTRACT MONTH</th>
<th>PRODUCT CODE</th>
<th>FIRST TRADE/LAST TRADE</th>
<th>SETTLEMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>OCT 2021</td>
<td>PRKV21</td>
<td>09 NOV 2020/14 OCT 2021</td>
<td>15 OCT 2021</td>
</tr>
<tr>
<td>DEC 2021</td>
<td>PRKZ21</td>
<td>09 NOV 2020/14 DEC 2021</td>
<td>15 DEC 2021</td>
</tr>
<tr>
<td>FEB 2022</td>
<td>PRKG22</td>
<td>09 NOV 2020/14 FEB 2022</td>
<td>15 FEB 2022</td>
</tr>
<tr>
<td>APR 2022</td>
<td>PRKJ22</td>
<td>09 NOV 2020/14 APR 2022</td>
<td>18 APR 2022</td>
</tr>
<tr>
<td>MAY 2022</td>
<td>PRKK22</td>
<td>01 DEC 2020/13 MAY 2022</td>
<td>16 MAY 2022</td>
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<tr>
<td>JUN 2022</td>
<td>PRKM22</td>
<td>01 DEC 2020/14 JUN 2022</td>
<td>15 JUN 2022</td>
</tr>
<tr>
<td>JUL 2022</td>
<td>PRKN22</td>
<td>15 JUL 2022</td>
<td>18 JUL 2022</td>
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<tr>
<td>AUG 2022</td>
<td>PRKQ22</td>
<td>15 AUG 2022</td>
<td>15 AUG 2022</td>
</tr>
<tr>
<td>OCT 2022</td>
<td>PRKV22</td>
<td>17 MAY 2021/14 OCT 2022</td>
<td>17 OCT 2022</td>
</tr>
<tr>
<td>DEC 2022</td>
<td>PRKZ22</td>
<td>15 JUN 2021/14 DEC 2022</td>
<td>15 DEC 2022</td>
</tr>
</tbody>
</table>
Resources

Getting Started: Find a Broker

Pork Cutout Landing Page

https://www.cmegroup.com/tools-information/find-a-broker

Contact Information

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