

Final Settlement Price of a Live Cattle Delivery

What are the changes to the USDA reports and selector codes under Mandatory Price Reporting that are used in the calculation of the final settlement price?

There are three USDA reports used in the calculation of the settlement price. Two of these have new selector codes under Mandatory Price Reporting. Although these reports have new codes, they continue to provide similar information. The following table provides a comparison of the reports under the previous voluntary system and the new Mandatory Price Reporting system.

Current Reports Under Mandatory Price Reporting		Previous Reports under Voluntary Reporting	
Report Name	Selector Code	Report Name	Selector Code
USDA By-Product Drop Value	NW_LS441	By-Product Drop Value	NW_LS441
National Daily Boxed Beef Cutout and Boxed Beef Cuts	LM_XB403	USDA Estimated Composite of Boxed Beef Cut-Out Values	NW_LS411
National Weekly Direct Slaughter Cattle—Premiums and Discounts	LM_CT155	National Carcass Premiums and Discounts for Slaughter Steers and Heifers	NW_LS195

How are these reports used in the calculation of the final settlement price of a delivery?

None of these reports are needed for non-delivery situations. They are only used for calculating the final values of delivered cattle with adjustments for cattle better than (premium) or less than (discount) the par specifications.

The USDA By-Product Drop Value report is used to calculate the discount on condemned livers for carcass deliveries. The condemned liver discount is equal to the reported liver value (\$/cwt of live weight) from the report multiplied by -0.01 , resulting in a dollar per pound of live weight discount. This discount is applied to condemned livers in excess of the 20 percent allowable level.

The live weight equivalent of the Choice-Select boxed beef spread is now calculated from values reported in the National Daily Boxed Beef Cutout and Boxed Beef Cuts report. This live weight equivalent is known as the Live Equivalent Choice-Select Spread (LECSS). The LECSS is used in adjusting the premiums and discounts associated with the quality grade in both live and carcass deliveries. To calculate the LECSS, the Select 1-3 Boxed Beef Cut-Out Value is subtracted from the Choice 1-3 Boxed Beef Cut-Out Value and the result is then multiplied by 0.0063. The result is in units of cents per pound on a live weight basis.

National Weekly Direct Slaughter Cattle—Premiums and Discounts is the third report used in the calculation of the final settlement price of a Live Cattle contract. This report provides the actual premiums and discounts applied for quality and yield grade deviations as well as weight

deviations with a carcass graded delivery. The actual quality grade, yield grade, and weight factors are calculated by multiplying the simple average reported by 0.0063.

It is important to work with all numbers on a live weight basis because the final settlement price is reported on a live weight basis, no matter if live or carcass grading was selected.

For more information, contact Commodity Marketing at 312-930-4597.

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