

## A New Futures Contract as Appraised by a Broker

by  
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Similar symposiums to the one we are conducting today were held by the Exchange in the case of pork bellies, hams, and live cattle. The contribution of the participants during those symposiums was invaluable. I am sure that the suggestions that are being made here, today, will be considered and encompassed in tentative specifications.

The findings in live hogs really have been encouraging. It dates back to when Henry Adlam was going around the country making a survey on pork belly specifications for the Exchange. "This is fine, but when are you going to get started on live hogs", was the question asked of him.

So it took two or three years to get the bellies going, and this year the New Commodities Committee has embarked on the live hog contract. There is just a tremendous amount of interest in it. As Mr. Lammers from Sioux City explained, he has an opportunity for forward contracting at a specific price for their use in their slaughtering program; be it a pork promotion or a cut-out promotion that includes the various cuts, it does afford this possibility, but most of all it does afford the possibility for the producer to shift the risk to the investment capital that the Mercantile Exchange is able to attract.

This is probably the only difference between the attempt in 1930 to start live hog trading at the Yard. Actually, they were trading among themselves from livestock people to producers to packers, and they didn't attract sufficient interest on the part of the investment public. It is paramount to bring in outside

## FUTURES TRADING IN LIVESTOCK

capital to permit shifting risks to those specialized in this function.

We hasten to point out that live hog futures trading in no way is intended to take the place of hog marketing through your regular terminal market, and your present marketing systems. In fact, it is an additional tool that implements producer marketing programs in forward selling and forward buying.

Only two percent of the actual commodity is delivered, but it is very important to have specifications that will attract the buyer. So, as Mr. Ross pointed out, while there may be few deliveries made, we have to have a contract that the buyer won't run away from in case he is called upon to accept delivery, or in case he wants delivery.

Actual deliveries need not be effective in 48 states. As a matter of fact, this would be a great detriment to the contract because, we are not in the cash livestock business; this is the business of the packer, the producer, and the terminal marketeers. We are an agency where risks can be shifted. So the idea of terminal markets being established or delivery points being established in 48 states is not an actual necessity. The Committee is considering a few delivery points, and they will, when they are designated, afford the barometer that we need in price trends etc. that are needed. The contract is intended to provide safeguards for keeping it honest, and for making it possible for deliveries to be taken and for deliveries to be made.

The Committee will arrange to have some correlation grading of live hogs. After they are slaughtered, tests will be made for both yields and grades. This experiment will answer many of the questions that have come up today, in as far, as the final yield and grade expectancies are considered.

The recommendations, that we have secured from hog buyers, meat packers, terminal markets, and livestock interests points out that there are four factors that govern values in hogs that must be strongly emphasized. They are: average weights, uniformity, grades, and yields. So, it is important to consider the greatest volume of the quality products available. At the same time, specifications should be good enough so buyers will be willing to stand for delivery and accept delivery for their own slaughtering houses.

## EVOLUTION OF A FUTURES CONTRACT

Now, Col. Lacy was one of our staunchest supporters of the 40,000 lb. contract on the West Coast because he said, "Let's give them what they want to trade — on the West Coast, they trade minimum 40,000 lb. carloads." His argument was valid and good because the Board purchased this suggestion.

There is one thing in contract specifications, as a whole, that will need to be scrutinized carefully. That is the weight size of the load. The consensus of opinion about the average size load seems to settle around 25,500 lbs. The terminal markets which the Committee will designate as delivery points should be checked to determine the most popular size of incoming loads. That is, incoming loads from the larger producers in the Mid-West, not the marginal producers. If it is 40,000 lbs., fine; if it is less that should be acceptable. It should be within reach of the larger and better quality producers in the Mid-West.

With respect to grades for delivery Number 1's and 2's seems to be the general consensus of opinion. Here again, the summations of grades will tell you a lot about what the average percentage is.

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