Report of the

NCBA Live Cattle Marketing Working Group

Regional Triggers Subgroup

on

A Voluntary Framework to Achieve Robust Price Discovery in the Fed Cattle Market

Submitted by Subgroup Members:

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Background

Price discovery has long been a topic of fervent discussion within the cattle industry. Over the years, a rise in popularity of Alternative Marketing Arrangements (AMAs) has led to a decline in negotiated trade across the fed cattle marketplace. This decline in direct bid-and-offer, buyer-seller interactions has led many to believe the process to facilitate sufficient price discovery in the fed cattle markets has failed. The current body of research, conducted largely by respected agricultural economists at the nation's leading land-grant institutions, has suggested that regional increases in negotiated trade are needed for robust price discovery.

At the 2020 Cattle Industry Summer Business Meeting in Denver, CO, the National Cattlemen's Beef Association's (NCBA) Live Cattle Marketing Committee and Board of Directors unanimously adopted policy **M 1.10 - Fed Cattle Price Discovery** (Addendum 1). The policy established a subgroup of the Live Cattle Marketing Working Group and tasked this body with developing a voluntary framework, to include triggers, which "increases frequent and transparent negotiated trade to regionally sufficient levels, to achieve price discovery determined by NCBA funded and directed research in all major cattle feeding regions." The subgroup was appointed by the NCBA officers in August of 2020, and was made up of the seven individuals identified on the title page. The subgroup met twice weekly during the months of August and September to develop this report and fulfill their voluntary obligation under **M 1.10**.

This report, as well as the framework and triggers outlined herein, represent the subgroup's desire to achieve a voluntary path forward to achieve robust price discovery throughout all of the cattle feeding regions. In the event that this approach does not result in regionally sufficient levels of negotiated trade, and triggers as outlined below are tripped, NCBA will explore legislative and regulatory solutions determined by its membership in accordance with **M 1.10**.

Definition of Negotiated Trade

The subgroup shall use the definition of negotiated trade outlined in **M 1.10**, which is, "a cash or spot market purchase of cattle by a packer or negotiation of a base price, from which premiums are added and discounts are subtracted."

NOTE: Current triggers will be evaluated by information and data as reported by Livestock Mandatory Reporting (LMR). At such time another source is deemed to be more accurate in reporting said negotiated trade (as defined above), a new source will be evaluated by the subgroup.

Regions

In general, the subgroup will use the LMR reporting regions commonly known as the "5-Area." However, Colorado rarely reports weekly negotiated trade volumes under LMR due to USDA's rules of confidentiality. To account for these instances of nonreporting, the subgroup will combine Colorado with Nebraska. This is solely for the subgroup's purposes of evaluation, not a suggested modification for LMR reporting. The regions to be evaluated by the subgroup are:

- Texas, Oklahoma, New Mexico
- Kansas
- Nebraska, Colorado

- Iowa, Minnesota

Trigger Silos

The subgroup believes that robust price discovery by region is determined by both sufficient levels of weekly negotiated trade and packer participation in such negotiated trade. For the purposes of evaluating regional price discovery performance, the subgroup will use two co-equal silos which analyze each of these components.

Negotiated Trade Volumes

For the purposes of evaluating the sufficiency of regional volumes of negotiated trade of fed cattle, the subgroup will use the numbers identified by Dr. Stephen Koontz of Colorado State University, derived from his years of research on the subject of price discovery, as presented to the NCBA Live Cattle Marketing Working Group in March of 2020 (Addendum 2). Dr. Koontz identifies weekly price discovery “minimum” and “robust” thresholds of negotiated trade volumes on a regional basis. Those thresholds, in head-per-week, are as follows:

REGION	MINIMUM (HD/WK)	ROBUST (HD/WK)
Texas, Oklahoma, New Mexico	6,000	13,000
Kansas	14,000	21,000
Colorado	2,000	5,000
Nebraska	26,000	31,000
Iowa, Minnesota	11,000	16,000

NOTE: The subgroup recognizes that these thresholds are static. This report was originally written in 2016, and needs to be periodically updated and potentially adjusted to account for changing conditions of supply and demand.

Packer Participation

Each of the four major packers shall be responsible to participate in negotiated trade, at appropriate and adequate levels, within each of the regions from which they predominantly procure fed cattle. At this time, there is insufficient data published under LMR to measure the participation of the major packers in negotiated trade within each region. NCBA is currently involved in conversations with U.S. Department of Agriculture’s Agricultural Marketing Service (USDA-AMS) to determine what packer participation information can be shared under the current LMR statutes and USDA’s rules of confidentiality. The subgroup has drafted a potential framework for the packer participation silo, but will await additional information from USDA-AMS before finalizing. The subgroup is hopeful the specific framework for this silo can be released prior to January 1, 2021.

Minor vs. Major Triggers

The subgroup will use a series of minor triggers, evaluated regionally within both silos, to gauge the price discovery obligations of fed cattle market participants. There are a total of eight minor triggers:

- Texas, Oklahoma, and New Mexico negotiated trade volume threshold

- Texas, Oklahoma, and New Mexico packer participation threshold
- Kansas negotiated trade volume threshold
- Kansas packer participation threshold
- Colorado, Nebraska negotiated trade volume threshold
- Colorado, Nebraska packer participation threshold
- Iowa, Minnesota negotiated trade volume threshold
- Iowa, Minnesota packer participation threshold

Example:

Texas-Oklahoma-New Mexico	
Negotiated Trade	**Packer Participation**
Obligation Met	Obligation Met
Nebraska-Colorado	
Negotiated Trade	**Packer Participation**
Obligation Met	Obligation Not Met
Iowa-Minnesota	
Negotiated Trade	**Packer Participation**
Obligation Met	Obligation Met
Kansas	
Negotiated Trade	**Packer Participation**
Obligation Not Met	Obligation Met

In this fictional example, only two minor triggers would have been tripped in the quarter being analyzed.

In any given quarter, the tripping of three or more minor triggers shall constitute a major trigger.

The 75% Plan

Using LMR data, the subgroup will evaluate, on a quarterly basis in arrears, the weekly negotiated trade volume and packer participation information for each reporting region. To avoid tripping a minor trigger, each region must:

1) Weekly trade 75% or more of its “robust” price discovery threshold via negotiated means, no less than 75% of the reporting weeks, and

2) Weekly fulfill its packer participation obligations (to be determined as outlined above) no less than 75% of the reporting weeks.

There are approximately thirteen reporting weeks per quarter. Under the 75% Plan, each region would need to meet its unique negotiated trade obligation during nine of the reporting weeks (75% of 13, rounded down to the nearest whole number) of each quarter. The weekly negotiated trade obligation (75% of the robust threshold) for each region is as follows:

REGION	TOTAL WEEKLY NEGOTIATED TRADE OBLIGATION (HD/WK)
Texas, Oklahoma, New Mexico	9,750

Kansas	15,750
Nebraska, Colorado	27,000
Iowa, Minnesota	12,000

Additionally, each region would need to meet its unique packer participation obligations during nine of the reporting weeks. As previously noted, the framework for the packer participation silo will be released at a later date.

In any given quarter, the tripping of three or more minor triggers shall constitute a major trigger. In the event that a major trigger is tripped during any two out of four rolling quarters, the subgroup shall recommend NCBA pursue legislative or regulatory measures to compel adequate negotiated trade for robust price discovery.

Implementation

This subgroup intends to implement this framework on January 1, 2021, with the first quarter analysis taking place shortly after March 31, 2021. In the event that the framework for the packer participation silo cannot be completed by December 31, 2020, the subgroup will evaluate the first quarter of 2021 using only the negotiated trade volume silo.

Review and Adjustment

The subgroup recognizes that this framework will need to be adjusted from time to time to reflect new information, changing conditions of supply and demand, technological advancements, etc. Those considerations will be made on a quarterly basis, and adjustments to this framework may be made accordingly, including the efficacy of the two out of four rolling quarter approach versus alternatives such as two quarters in a calendar year, or any two consecutive quarters.

Force Majeure

The subgroup will take into account such events which may cause failure or delay in performing an obligation under this framework that is due to any of the following causes, to the extent it is beyond reasonable control: acts of God; war; terrorist acts; pandemics; quarantine mandates; civil commotion, including but not limited to national strikes that directly impact the beef supply chain; governmental acts or omissions, including but not limited to the unavailability or delayed availability of LMR data; isolated exceptional events, including events at facilities, that impact the beef supply chain; lack of availability of raw materials or energy, and other unforeseen production or supply chain disruptions.

Conclusion

Cattle producers across all segments of the industry expect adequate price discovery in the fed cattle markets. While the framework outlined in this report represents a voluntary path to achieving robust price discovery, it is not intended to be the sole remedy to that end. Similarly, it is not intended to be static, and will need to be adjusted from time to time to ensure currency and efficacy. The subgroup hopes that all market participants will find this framework useful as the industry seeks to lead the charge in making progress toward improved price discovery.

Addendum 1

NCBA FED CATTLE PRICE DISCOVERY POLICY (M 1.10)

ADOPTED BY THE NCBA BOARD OF DIRECTORS

JULY 2020

M SBM Resolution 2
M 1.10
2020/Amended

WHEREAS, a competitive fed-cattle market, based on multiple price discovery points, is necessary to achieve robust price discovery that sends proper price signals throughout the supply chain, and

WHEREAS, robust price discovery is vital for all cattle market participants, and

WHEREAS, properly functioning cash and futures markets require transparent distribution of market information and regionally sufficient negotiated trade to achieve robust price discovery, and

WHEREAS, Livestock Mandatory Reporting defines negotiated trade as a cash or spot market purchase of cattle by a packer or negotiation of a base price, from which premiums are added and discounts are subtracted, and

WHEREAS, the bid-and-offer cash fed cattle trade remains the primary base factor for fed cattle value determination on a nationwide basis, including those transacted on alternative marketing mechanisms, and

WHEREAS, all fed cattle market participants have a shared responsibility to contribute to regionally sufficient levels of negotiated trade in all cattle feeding regions to achieve robust price discovery,

THEREFORE BE IT RESOLVED, NCBA supports a voluntary approach that:

1) Increases frequent and transparent negotiated trade to regionally sufficient level, to achieve robust price discovery determined by NCBA funded and directed research in all major cattle feeding regions, and

2) Includes triggers to be determined by a working group of NCBA producer leaders by October 1, 2020.

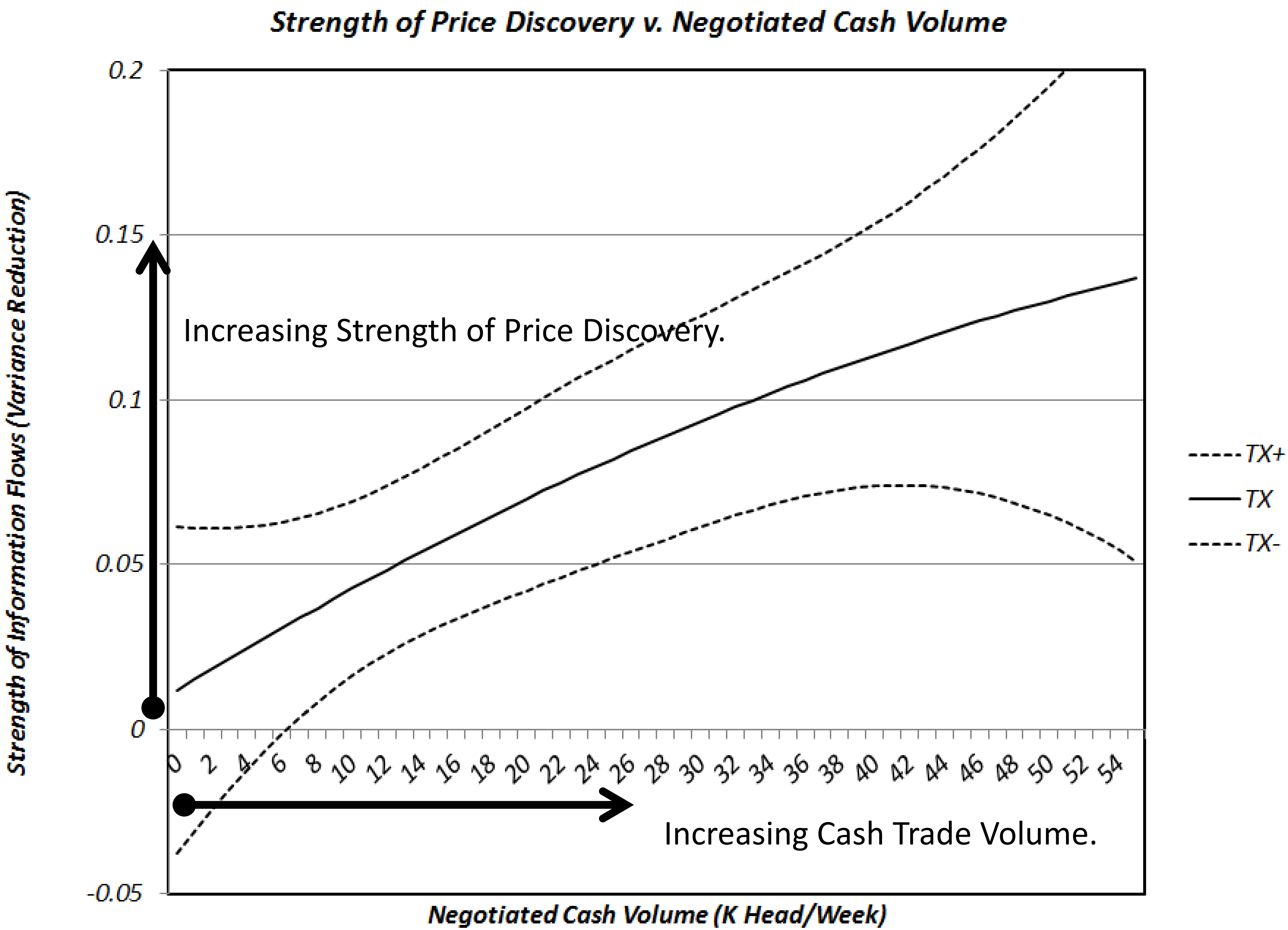
BE IT FURTHER RESOLVED, if the voluntary approach does not achieve robust price discovery as determined by NCBA funded and directed research, and meet the established triggers that increase frequent and transparent negotiated trade to a regionally sufficient level, and triggers are activated, NCBA will pursue a legislative or regulatory solution determined by the membership.

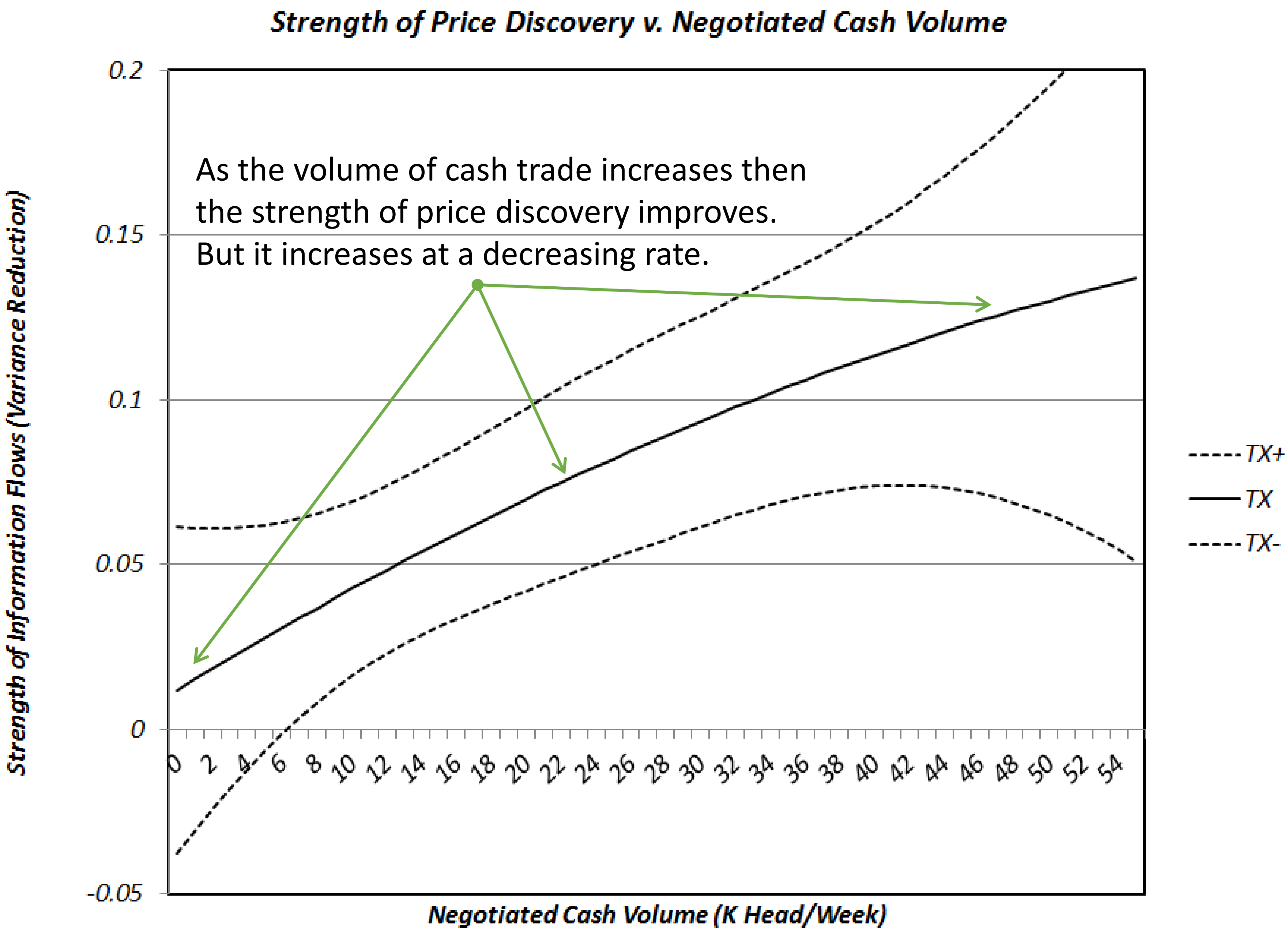
BE IT FURTHER RESOLVED, NCBA support a three-year review/sunset provision on any negotiated trade solutions implemented to allow for a thorough cost benefit analysis to be conducted.

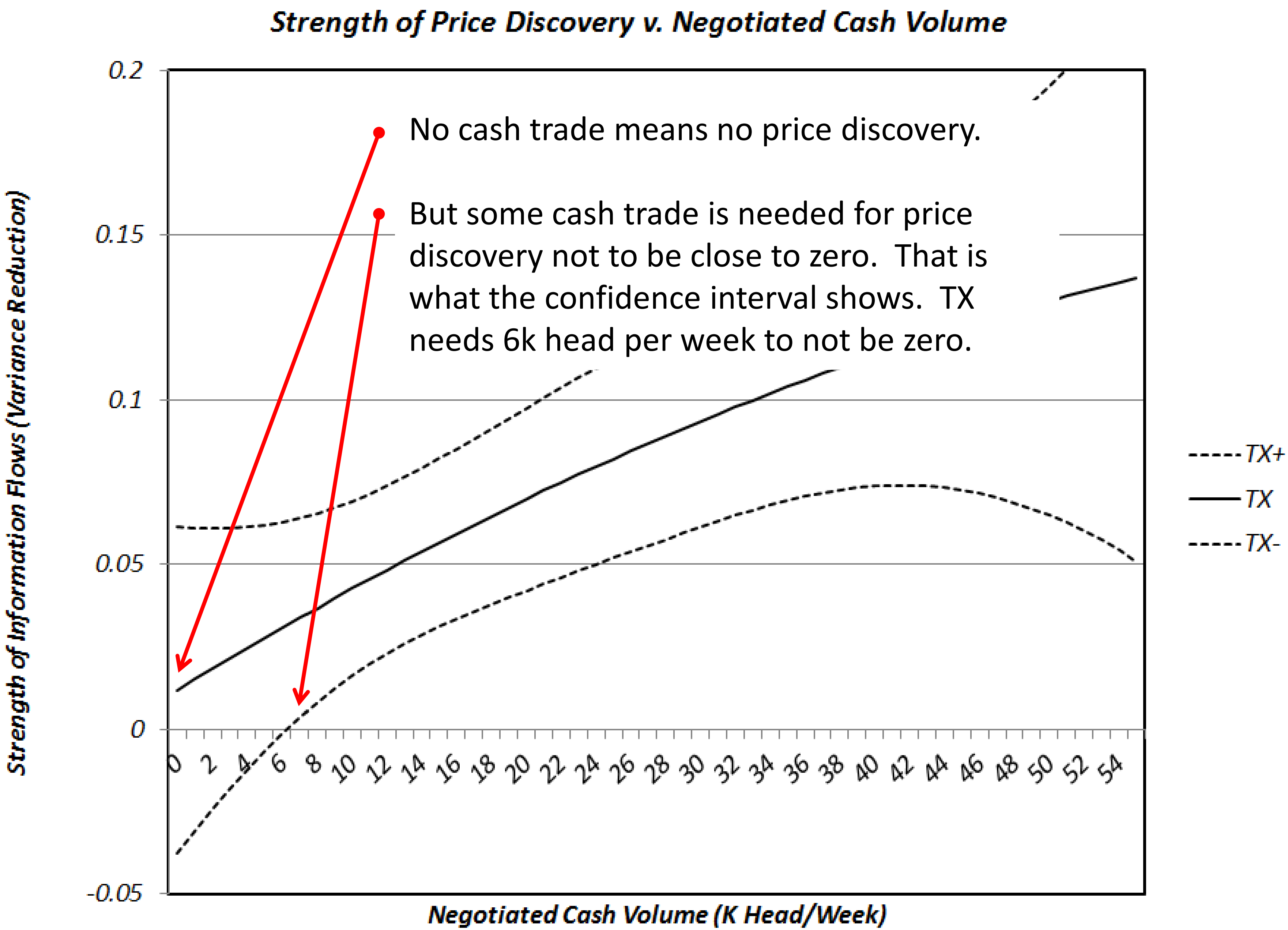
Addendum 2

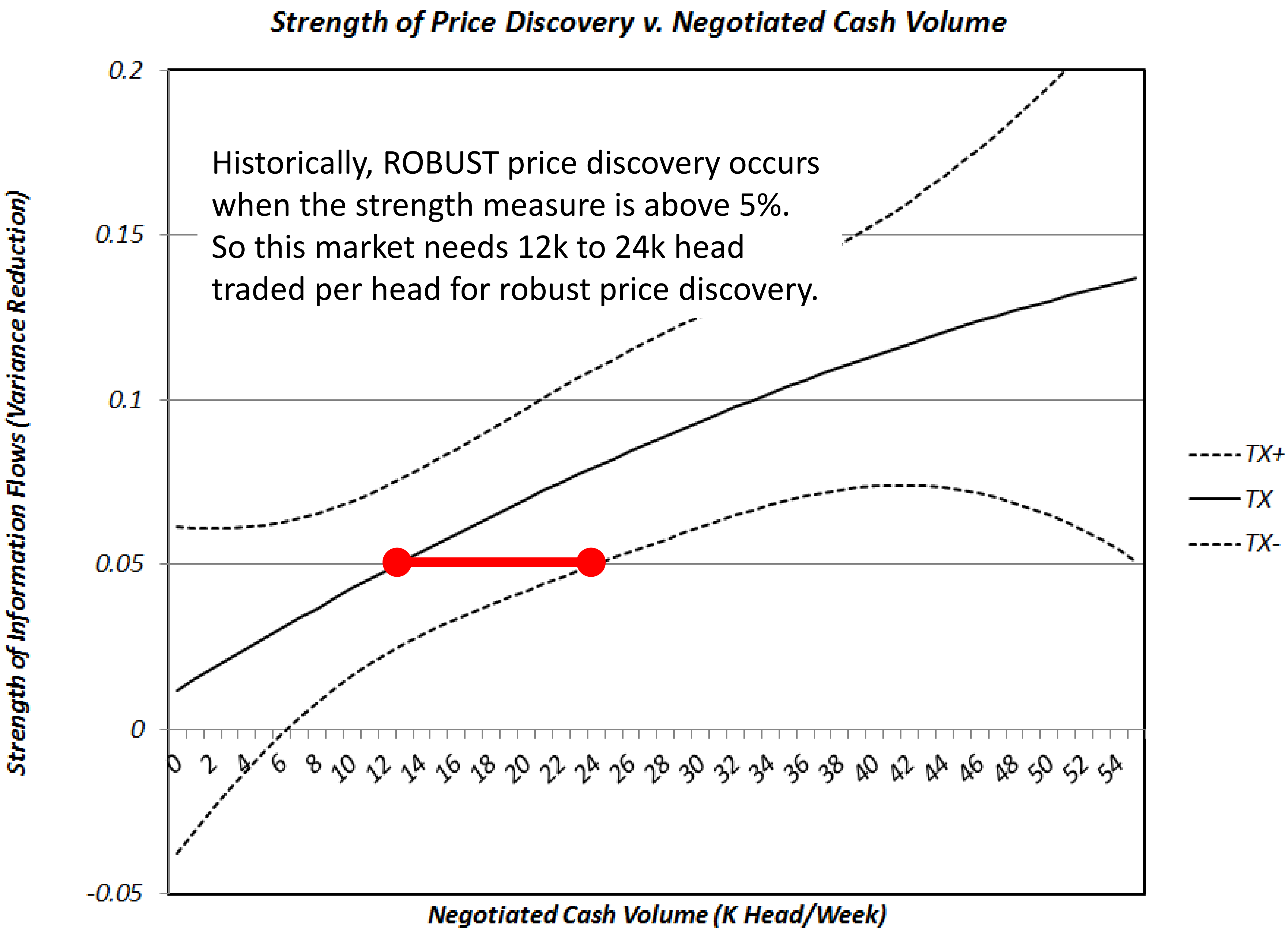
PRESENTATION OF DR. STEPHEN KOONTZ TO NCBA LIVE CATTLE MARKETING WORKING GROUP

MARCH 2020

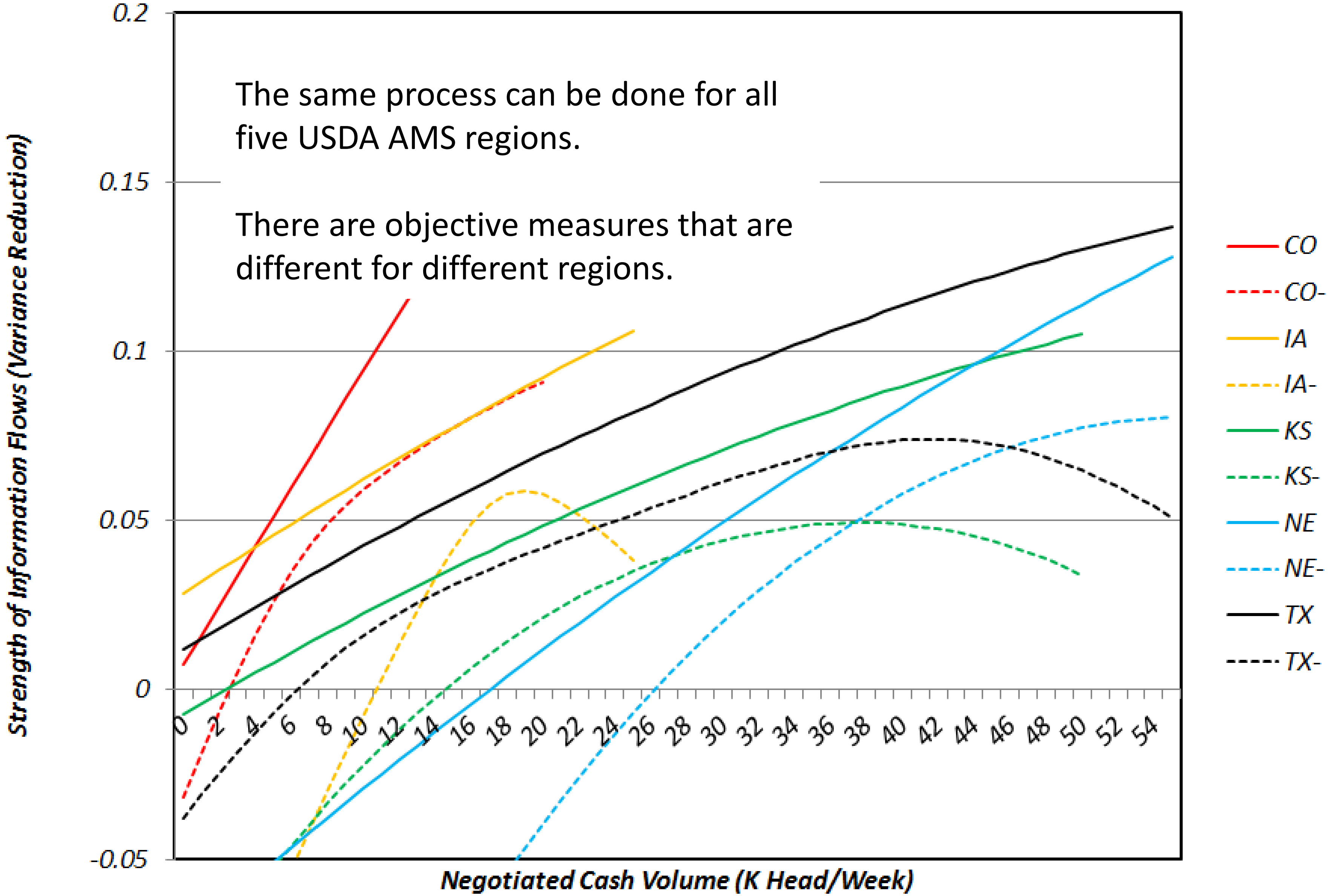

Strength of Price Discovery v. Negotiated Cash Volume
Strength of Information Flows (Variance Reduction)
0.2
0.15
0.1
0.05
0
-0.05
Increasing Strength of Price Discovery.
Increasing Cash Trade Volume.
0 2 4 6 8 10 12 14 16 18 20 22 24 26 28 30 32 34 36 38 40 42 44 46 48 50 52 54
Negotiated Cash Volume (K Head/Week)
TX+
TX
TX-


Strength of Price Discovery v. Negotiated Cash Volume
As the volume of cash trade increases then
the strength of price discovery improves.
But it increases at a decreasing rate.
Strength of Information Flows (Variance Reduction)
0.2
0.15
0.1
0.05
0
-0.05
0 2 4 6 8 10 12 14 16 18 20 22 24 26 28 30 32 34 36 38 40 42 44 46 48 50 52 54
Negotiated Cash Volume (K Head/Week)
TX+
TX
TX-


Strength of Price Discovery v. Negotiated Cash Volume
No cash trade means no price discovery.
But some cash trade is needed for price discovery not to be close to zero. That is what the confidence interval shows. TX needs 6k head per week to not be zero.
0.2
0.15
0.1
0.05
0
-0.05
Strength of Information Flows (Variance Reduction)
0 2 4 6 8 10 12 14 16 18 20 22 24 26 28 30 32 34 36 38 40 42 44 46 48 50 52 54
Negotiated Cash Volume (K Head/Week)
TX+
TX
TX-


Strength of Price Discovery v. Negotiated Cash Volume
Historically, ROBUST price discovery occurs when the strength measure is above 5%. So this market needs 12k to 24k head traded per head for robust price discovery.
Strength of Information Flows (Variance Reduction)
0.2
0.15
0.1
0.05
0
-0.05
0 2 4 6 8 10 12 14 16 18 20 22 24 26 28 30 32 34 36 38 40 42 44 46 48 50 52 54
Negotiated Cash Volume (K Head/Week)
TX+
TX
TX-

Strength of Price Discovery v. Negotiated Cash Volume



Weekly Cash Trade Needed for Minimum & Robust Price Discovery

USDA AMS Region	Minimum Needed	Needed for Robust
Texas-OK-NM	6,000/week	13,000/week
Kansas	14,000-15,000	21,000
Colorado	2,000-3,000	5,000
Nebraska	26,000	31,000
Iowa-S MN	11,000	16,000

Summary

- ***Texas is the strongest cash market. Trading a small percentage of the cattle in the cash market contributes the most to price discovery.***
- ***Colorado is a strong market because it is regionally unique. But a relatively large volume is needed.***
- ***Iowa is the strongest upper Midwest market.***
- ***Nebraska is the weakest upper Midwest market.***
- ***Kansas is the weakest southern plains market.***
- ***These recommendations are not arguments – they are based on historic objective measurements.***