

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

Overview of the NCBA Live Cattle Marketing Working Group –
Regional Triggers Subgroup Report Delivered October 1, 2020



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Subgroup Members

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Excerpt: Fed Cattle Price Discovery Policy (M 1.10)

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.

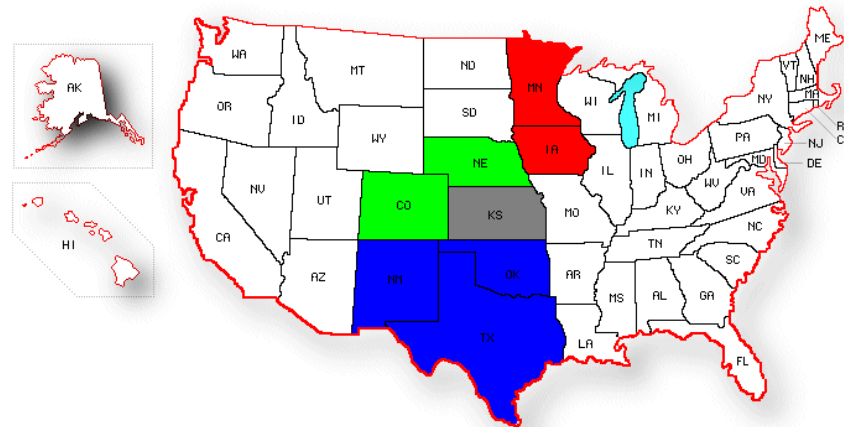
BE IT FURTHER RESOLVED, if the voluntary approach does not achieve robust price discovery as determined by NCBA funded and directed research, and meet the established triggers that increase frequent and transparent negotiated trade to a regionally sufficient level, and triggers are activated, NCBA will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



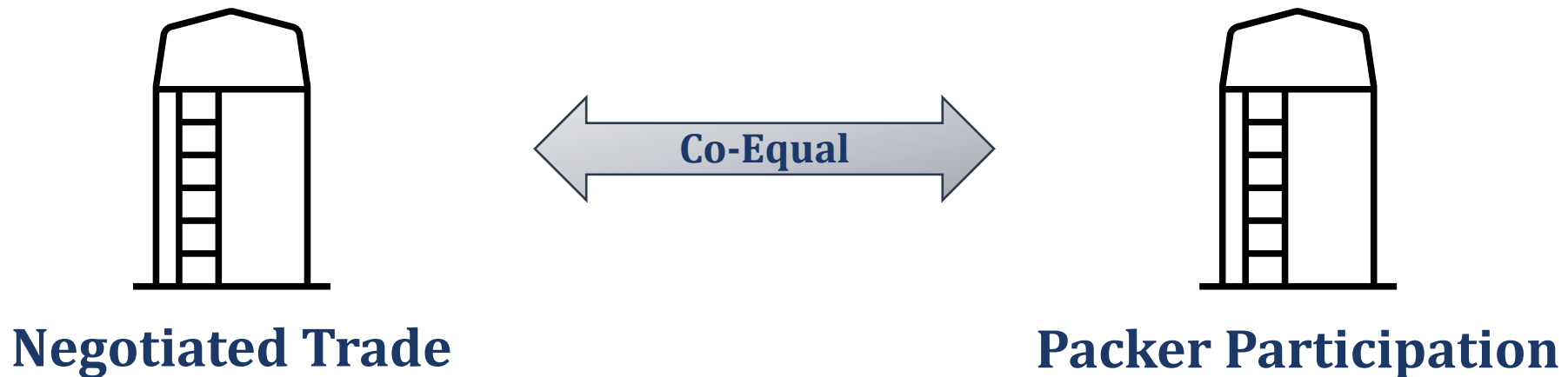
Regions

- In general, the subgroup will use the 5 USDA-AMS reporting regions
- Colorado combined with Nebraska to account for instances of nonreporting (NOTE: this is only for NCBA's internal analysis purposes, not a recommendation for changes to LMR or AMS reporting regions)



Trigger Silos

The subgroup believes that robust price discovery is determined by both sufficient levels of weekly negotiated trade and packer participation in such negotiated trade, and will evaluate each component in a co-equal trigger silo.



Minor vs. Major Triggers

- There are a total of 8 minor triggers:
 - 4 regional negotiated trade obligations
 - 4 regional packer participation obligations
- In any given quarter, the tripping of 3 or more minor triggers shall constitute a major trigger

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.



The 75% Plan

On a quarterly basis, the subgroup will evaluate each region's performance for each trigger silo.

Evaluations will be based upon LMR data collected in arrears.

For each quarter, data will be organized in weekly increments



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The 75% Plan, cont.

To avoid tripping a major trigger, each region must:

- 1) Weekly trade 75% or more of its unique “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 at a later date) no less than 75% of the reporting weeks



The 75% Plan, cont.

- If a major trigger is tripped during any two out of four rolling quarters, the subgroup will recommend NCBA pursue legislative or regulatory measures to compel adequate negotiated trade for robust price discovery



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Negotiated Trade

- Defined 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.

- Includes negotiated cash and negotiated grid
- Use the regional negotiated trade volumes identified by Dr. Koontz at the “robust” levels



Negotiated Trade, cont.

- Under the 75% Plan, each region must quarterly attain 75% of the Koontz “robust” negotiated trade number (at least 75% of the reporting weeks)

REGION	NEGOTIATED TRADE	
	KOONTZ "ROBUST" NUMBER (HD/WK)	Weekly Trade Obligation (75% of Robust)
Texas, Oklahoma, New Mexico	13,000	9,750
Kansas	21,000	15,750
Nebraska, Colorado	36,000	27,000
Iowa, Minnesota	16,000	12,000



Packer Participation

- Each of the four major packers' participation in negotiated trade, within each of the regions from which they predominantly procure cattle, will be monitored by the Subgroup
- Each major packer will be responsible to participate at adequate levels under this framework
- The data to measure this is not currently published by USDA-AMS
- NCBA currently in talks with AMS to access data in some form
- The subgroup is hopeful that a packer participation silo can be finalized in the coming weeks



Implementation

- The framework will be implemented on January 1, 2021
- The first quarterly analysis will take place shortly after March 31, 2021
- If the packer participation silo is not complete, only the negotiated trade volume silo will be used in Q1



Force Majeure

- The subgroup will evaluate “black swan” events on a case-by-case basis and will make trigger determinations accordingly
- Major supply chain disruptions may allow for flexibility within the 75% Plan.



Review and Adjustment

- The framework will need to be adjusted from time to time to account for changing conditions of supply and demand, technological advancements, updated academic literature, etc.
- Such considerations will be made quarterly, and adjustments may be made accordingly
- This includes evaluations of the two out of four rolling quarters approach versus alternatives such as two quarters in a calendar year, or any two consecutive quarters



Questions?



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