Today's Cattle Market

A group of 40 concerned and heavily impacted cattle producers representing small cow/calf to large backgrounders met on October 11, 2016 at the farm of John Sparks to discuss the current situation with the cattle markets. Having seen prices for cattle decline from 40-60% in the last 14 months has created concern since the fundamentals of the marketplace would not indicate a drop of this magnitude is warranted. During this same period of time the retail value of the beef product has not fallen proportionally with the devaluation of live cattle. The consumer continues to pay an astronomical premium for the product while the farmer producing the product is operating below breakeven and has done so for two production seasons. The Packing and retail sectors are operating with historic profit margins that are well documented. Compounding this problem of too much control in the hands of a small sector of the industry is the fact that volatility in the futures market has created an environment that has crippled the cash marketplace.

Lenders require most if not all cattle customers to "hedge" their cattle purchases against the futures market. The extreme volatility in that market and the fact that it seems to move without any drive from fundamental market factors has taken all of the "risk takers" out of both the cash and futures market. We have seen several instances where the market has crashed, at the end of the week, when it is widely known that the packers need to go to the cash market to buy fed cattle to fill the next week's harvest to supplement the 80% of the fed cattle supply that they already control. At other moments in the market there have been dramatic, often limit, moves that seem to be totally disconnected from the fundamentals at work in the cash marketplace and in the absence of any significant "news" in the industry that would justify those moves. In retrospect we now realize that the period in 2014-15 when the cash market ran up so dramatically was a predictor of what was coming, the market simply is not a vibrant and healthy fundamental marketplace in which legitimate business can be conducted.

This group is not proposing legislative solutions to these problems but rather asking that our elected officials initiate a round of questions to those responsible for operating and overseeing these markets. It seems that everyone, at all levels, acknowledges that we are at a pivotal time in the cattle industry and if the situation doesn't change quickly we are at risk of allowing a forced integration of the cattle industry, similar to what transpired in the swine and poultry sectors. Cattlemen are fiercely independent and wish to remain that way. For three decades we have been told that the cattle industry cannot be integrated because the packer can't afford to own the grass and cows. We now understand that they don't have to own the resource base, they need only control the financing of cattle moving into feedyards and they accomplish the same level of control with much lower risk and cost.

The following is a list of agencies and entities and the appropriate questions that we feel necessary.

USDA – Justice Department – Federal Trade Commission

- **In this environment of historic profit margins and an ample supply of cattle and excess processing capacity, why don't the packers expand harvest as they would historically do?**
- With the 4 major packers having achieved control of 80% of the fed cattle supply, either through direct ownership or contract production**, is it time to revisit the rules under which the industry operates and limit the time that a packer can own/control that supply?**
- **Why won't the packing industry consistently participate in the cash fed cattle market?** The industry has tacitly granted them a monopoly, is it not their responsibility to honor that by maintaining a vibrant cash marketplace?
- There is virtually no price discovery in the fed cattle market. With only 20% of the supply traded in some form of open market or negotiated trade there is no way of knowing what the product is truly worth**. How can we incentivize a higher percentage of the cattle to be traded in open markets?**
- **How can these agencies justify standing idle while packers make historic profits at the cost of family farms?** Much of the equity that has been built over the last decade in the independent cattle industry has been eroded in the last year. Soon the farmer and farmer feeder will be forced to go to the packing industry for financing which is the same as integrated or contract production.
- **The role of USDA is to insure open and competitive markets for farm commodities, what are they doing or planning to do in this situation?**
- With a farm bill approaching**, is it time to be proposing changes in the regulatory structure and rules that govern the packing and feeding industries?**

Commodity Futures Trading Commission – Chicago Mercantile Exchange

- **What is the origin of the volatility in the cattle futures contracts?**
- **Has the market been overtaken by electronic, high frequency traders or is it being manipulated by entities within our own industry?**
- **What has changed in the dynamics of this market since pit trading stopped and contract limits were expanded?**
- **Why can't the traditional "long" trader participate in the current environment?** They were the "risk taker" that kept the market vibrant for decades.
- **What forces are at work that cause the markets to move independently of and often inversely to "fundamental news" in the industry?**
- **What drives the market to move sharply lower leading into times when packers need to buy fed cattle in the cash market?**
- CME has openly stated that a vibrant cash market is required for a healthy futures market**. How can the cattle futures continue to be relevant if the cash market is dysfunctional?**
- **What is the role of CME and CFTC in incentivizing participation in the cash fed cattle market?**
- **What steps are being taken to correct the dysfunctionality of the cattle futures trade?**