

Cattle Marketing & International Trade

Committee addresses futures contracts, access to markets and currency of *Packers & Stockyards Act*.

Story & photos by **Troy Smith**, field editor



Considering the trend toward lower cattle prices, and especially the volatility exhibited by the futures market in recent months, Ed Greiman figured his committee's meeting would be well-attended. The Iowa cattleman chairs the National Cattlemen's Beef Association (NCBA) Cattle Marketing & International Trade Committee, which met Jan. 29 during the 2016 Cattle Industry Convention in San Diego, Calif.

"A lot of people want to talk about the cattle futures market, and we have a CME Group representative here to discuss what's good or bad about futures contracts," said Greiman in comments preceding his introduction of Terry Duffy, executive chairman and president of CME Group.



► High-frequency trades represent only 10% of cattle futures transactions, and large aggressive orders from manual traders lead the most significant price moves, said CME's Terry Duffy.

"We investigate every complaint and concern," said Duffy.

Cattlemen have expressed concern over the impact of high-speed, electronic trading replacing traditional pit trading. NCBA has communicated that concern to the CME, asking if the abundance of limit-up and limit-down moves in the market could

be caused by anything other than high-frequency trading. Adding to the concern is the influence that futures-market gyrations have on the cash market.

"We want nothing more than a vibrant cash market and a vibrant futures market,"

stated Duffy. "Nothing is more important than integrity in the marketplace."

According to Duffy, the cattle market sees little high-frequency trading, compared to other markets. He said high-frequency

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Industry insight

New CBB & NCBA presidents share remarks in closing general session.

The second general session of the 2016 Cattle Industry Convention & NCBA Trade Show was convened Jan. 29 in San Diego, Calif., providing an opportunity for Tracy Brunner and Anne Anderson to share remarks about their outlook for the industry.

Brunner will serve as president of the National Cattlemen's Beef Association (NCBA) for 2016. He represents the fourth generation on his family operation at Ramona, Kan. The entity includes a feedyard, yearling grazing operation and seedstock enterprise.

Anderson was elected by Cattlemen's Beef Board (CBB) members to serve as CBB chairman in 2016. She is a cow-calf and stocker operator from Austin, Texas.

Brunner remarked that the industry is "in transitional times — times when we will choose new directions, and sometimes those directions are chosen for us." He noted that with the changing global economy and a pending election year, the future will likely present new challenges and uncertainties.

Despite that, Brunner said, "One thing I am sure of is that as an industry, we are strong. We are leading the discussion on the responsible use of producing food and caring for the planet. We are focused on the future. We need to be reaching down and giving a hand up to future generations. I am so proud to be part of NCBA."

Anderson emphasized the continuing importance of communicating the message of beef's benefits with consumers.

"They want to hear from you," she told the producers in the audience.

She noted that when the beef checkoff was established in 1985, the inaugural "Beef. It's What's For Dinner" campaign, was effective in reaching consumers. However, Anderson added, "Things changed after 20 years with the creation of the Internet and social media."

To that she emphasized the role that everyone now has in sharing beef's message. Anderson said, "The future of this industry is in the hands of every one of you. You have a partner in this — the beef checkoff, but you are the channel and conduit to get that message out."

Anderson challenged those in the industry to initiate conversations about beef. "The next time you are in the grocery store checkout, visit with the person behind you about beef and why it is or isn't in their basket. Do the same at a restaurant with the waitstaff, or on a plane. Share beef facts, information and stories. We are your partner, but the future is in your hands."

More than 6,700 cattle industry members gathered in San Diego for this year's convention to engage in the grassroots policy process, learn from industry experts and network with trade show exhibitors. The convention convened Jan. 27 and concluded with the NCBA board meeting on Jan. 30.

— **Kindra Gordon**, field editor

Editor's Note: Kindra Gordon is a freelance writer and cattlegirl from Whitewood, S.D. This article was written as part of Angus Media's online coverage of the 2016 Cattle Industry Convention & NCBA Trade Show. For additional coverage, visit the Newsroom at www.4cattlemen.com.

trades represent only 10% of cattle futures transactions, and large aggressive orders from manual traders lead the most significant price moves. However, Duffy announced that the CME is implementing a new messaging policy for cattle futures, as of Feb. 1, which should limit high-frequency trading.

CME personnel insisted that all of its customers have equal access to the market. Customers control how price information



► Chelsea Good shared LMA's contention that the *Packers & Stockyards Act* needs review.

is received and how orders are sent. He emphasized that no customer has a "speed advantage."

Noting other factors that are influencing cattle futures, Duffy listed increased cattle supplies, beef industry public relations issues, a strong U.S. dollar that is detrimental to beef exports and China's faltering economy.

Ed Greiman credited the CME for responding to cattlemen's concerns, but assured the audience that NCBA will maintain its dialogue with CME management.

"We will form a working group to work with the CME and seek answers — not to find the boogeyman that some people might be looking for, but to make sure that, going forward, everything works better," Greiman said.

In other business, Livestock Marketing Association (LMA) representative Chelsea

Good addressed the committee regarding LMA's contention that the *Packers &*

Stockyards Act needs to be reviewed and possibly updated to reflect modern marketing practices. Good questioned whether the existing law sufficiently addresses issues such as current technology used in transfers of funds, internet auctions and dealer bond requirements.

Greiman said NCBA will take LMA's concerns under advisement and seek input from the Grain Inspection, Packers & Stockyards Administration

(GIPSA), which has responsibility for overseeing activities covered under the Act.

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Editor's Note: Troy Smith is a freelance writer and cattleman from Sargent, Neb. This article was written as part of Angus Media's online coverage of the 2016 Cattle Industry Convention & NCBA Trade Show. For additional coverage, see visit the Newsroom at www.4cattlemen.com.

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— Terry Duffy

Introduction to risk management

Managing risk encompasses more than just focusing on cattle prices.

Risk management requires adopting a different mind-set, noted Tom Clark, director of agricultural product for the CME Group, as he addressed cattle producers attending the Learning Lounge session Jan. 29 in the NCBA Trade Show during the 2016 Cattle Industry Convention.

He explained, "Conceptually, risk management is different from what you do in your day-to-day lives. You hope the market will go higher, so why would you lock in a set price?"

However, he added, "To get your head around the concept that risk management requires a different mind-set, that would be a good thing."

Clark emphasized the importance of not solely focusing on production risk — i.e., cattle prices — but realizing there is also risk in input costs, energy, transportation and other elements.

"No matter what type of business you operate, within the chain, there are several things to mitigate. Each element has exposure to risk in the marketplace."

Clark identified a list of several fundamental price drivers, including: seasonal and cyclical market aspects, weather, input costs related to feed and transportation, international and domestic supply and demand forces, government programs, consumer taste preferences and animal health issues. He

also noted that random events can occur and introduce volatility to the market — drought, export bans or incidence of diseases such as bovine spongiform encephalopathy (BSE) or avian influenza.

"All of these things can cause aberrations in the market. Hopefully just for a short period of time, but can exacerbate price," stated Clark.

In defining risk management, Clark said, "Risk management is a structured approach to managing uncertainty."

Clark noted that the biggest mistake he sees people make is deviating from their plan — their "structured approach."

Said Clark, "It's critical to keep within that structure, otherwise you find yourself speculating. When someone says 'I wish' or 'I hope,' that's vocabulary speculators use."

He added, "I'm not saying speculation is all bad. We need some of that in the market. But, when you have the cattle, to manage risk you need hedging, not speculating."

The CME Group offers several resources to learn about risk-management tools and strategies on their web pages at www.cmegroup/agriculture and www.cmegroup/livestock.

— Kindra Gordon, field editor



PHOTO BY KINDRA GORDON

► "Risk management is a structured approach to managing uncertainty," CME's Tom Clark told Learning Lounge attendees.

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