

Negotiated Cash Trade Mandates

- *Costs & benefits of mandates are benefits & costs of alternative marketing agreement use.*
- *Alternative marketing agreements are formulas. 60-70% of fed cattle trade are formulas.*
- *Formulas do not change the supply/demand balance. More cash trade will not result in better prices or change the market situation since 2016.*
- *AMAs are worth at least \$25/head to feedlots.*
- *AMAs are worth at least \$25/head to packers.*
- *Reducing AMA use will decrease calf prices \$50/head on the animals impacted.*
- *Southern plains & southeast cow-calf producers impacted the most.*

Table 1: An Illustration of How Variation in AMA Volumes Do Not Impact Cattle Market Fundamentals.

	Low AMA Volume	High AMA Volume	Excess Fed Cattle Demand	Excess Fed Cattle Supply
Feedlot Availability:	100,000	100,000	90,000	<i>110,000</i>
Formula	40,000	80,000	80,000	90,000
Cash	60,000	20,000	10,000	20,000
Packer Needs:	100,000	100,000	<i>100,000</i>	100,000
Formula	40,000	80,000	80,000	90,000
Cash	60,000	20,000	20,000	10,000

What matters here and what doesn't matter?

- What matters is availability versus needs.
- What does not matter is the split of availability/needs into cash or formula.

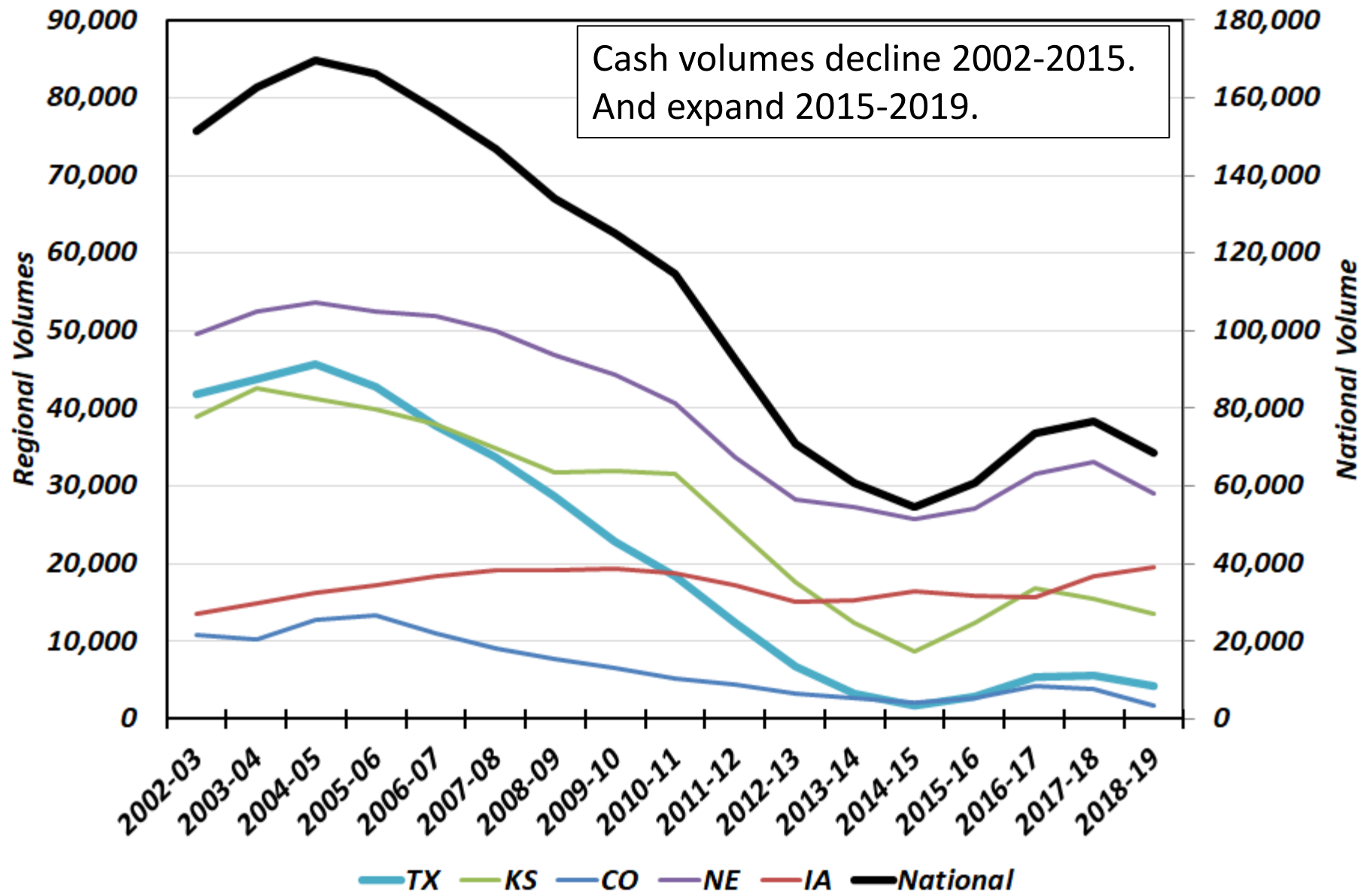
Negotiated Cash Trade Mandates

- *Efficiency, cost reduction, & revenue improvement.*
- *Risk management impacted also.*
- *Value added...*
- *Domestic & international demand...*
- *Costs are high & benefits minimal to zero.*
- *Improved price discovery.*
- *Hundreds of millions for certain and likely billions of dollars of impacts – annually – mainly to cow-calf producers.*
- *Don't let me forget to mention AMAs require trust.*

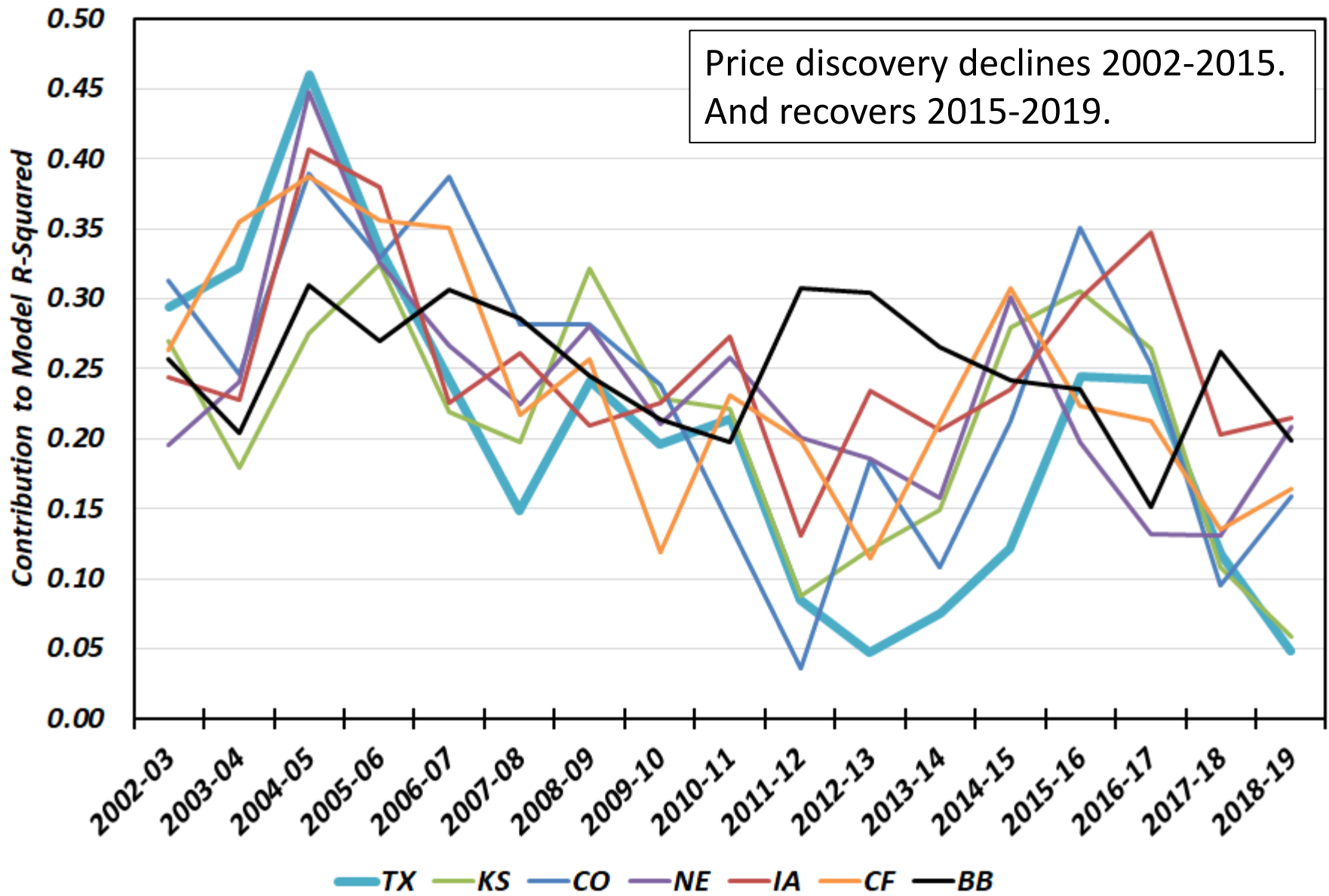
What is Price Discovery?

- *Price discovery is the impounding of new information into price – price changes both up & down.*
- *Price discovery is not the correct price levels or correct margins between beef & cattle prices.*
- *Three objective measures:*
 - *Information flows.*
 - *Component shares.*
 - *Information shares.*

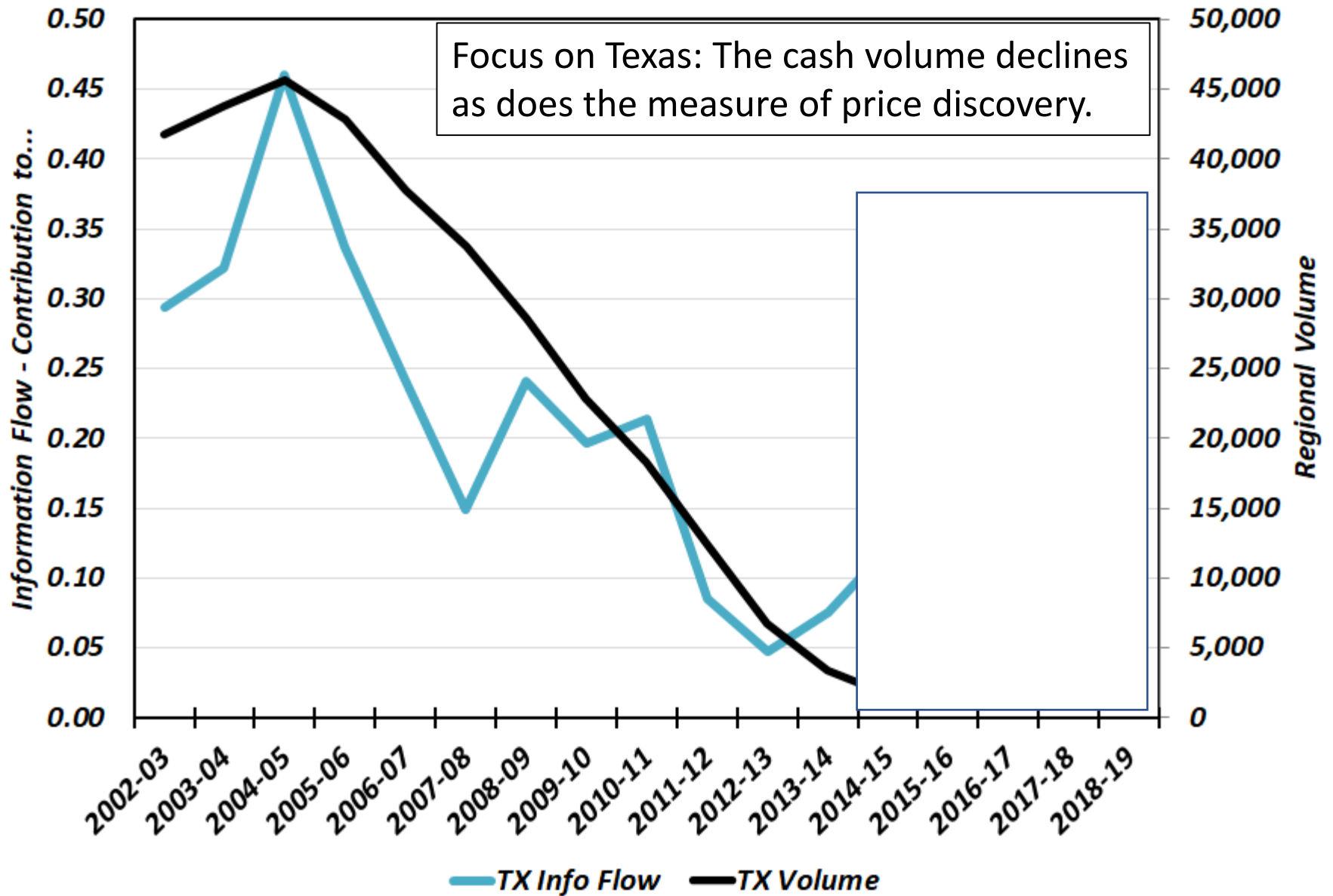
Average Weekly Negotiated Cash Volumes



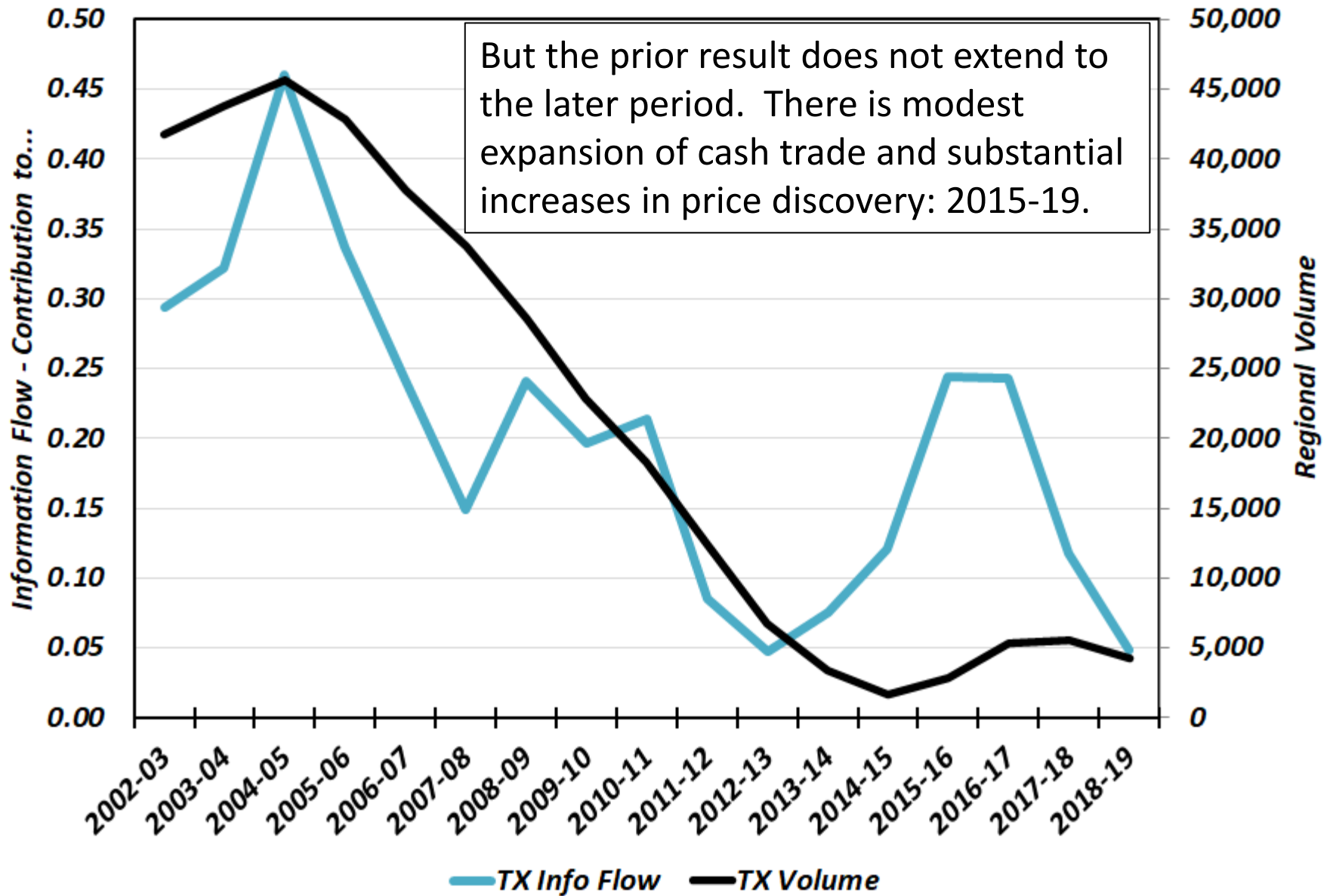
Strength of Information Flows



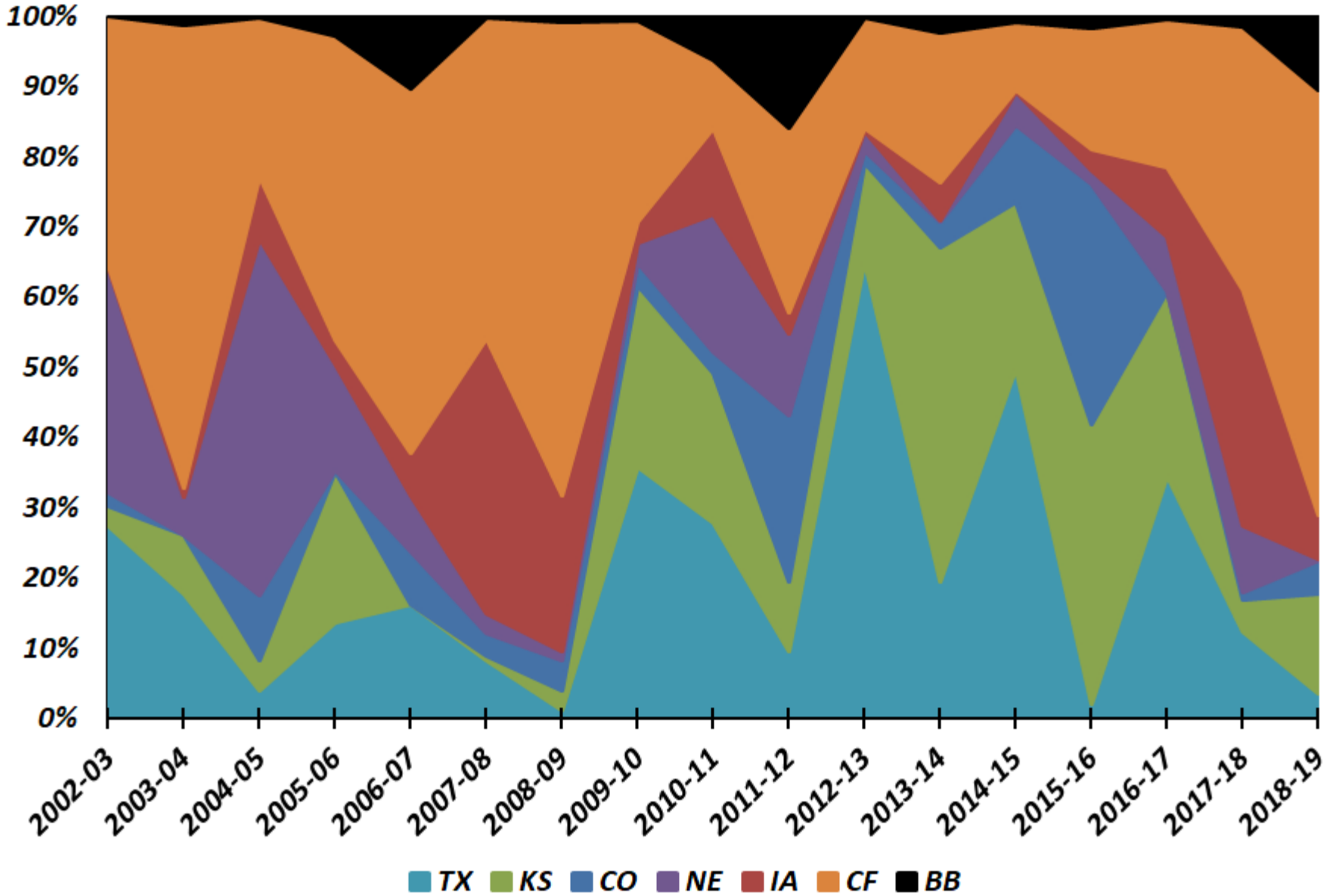
Strength of Information Flow & TX-OK-NM Volume



Strength of Information Flow & TX-OK-NM Volume



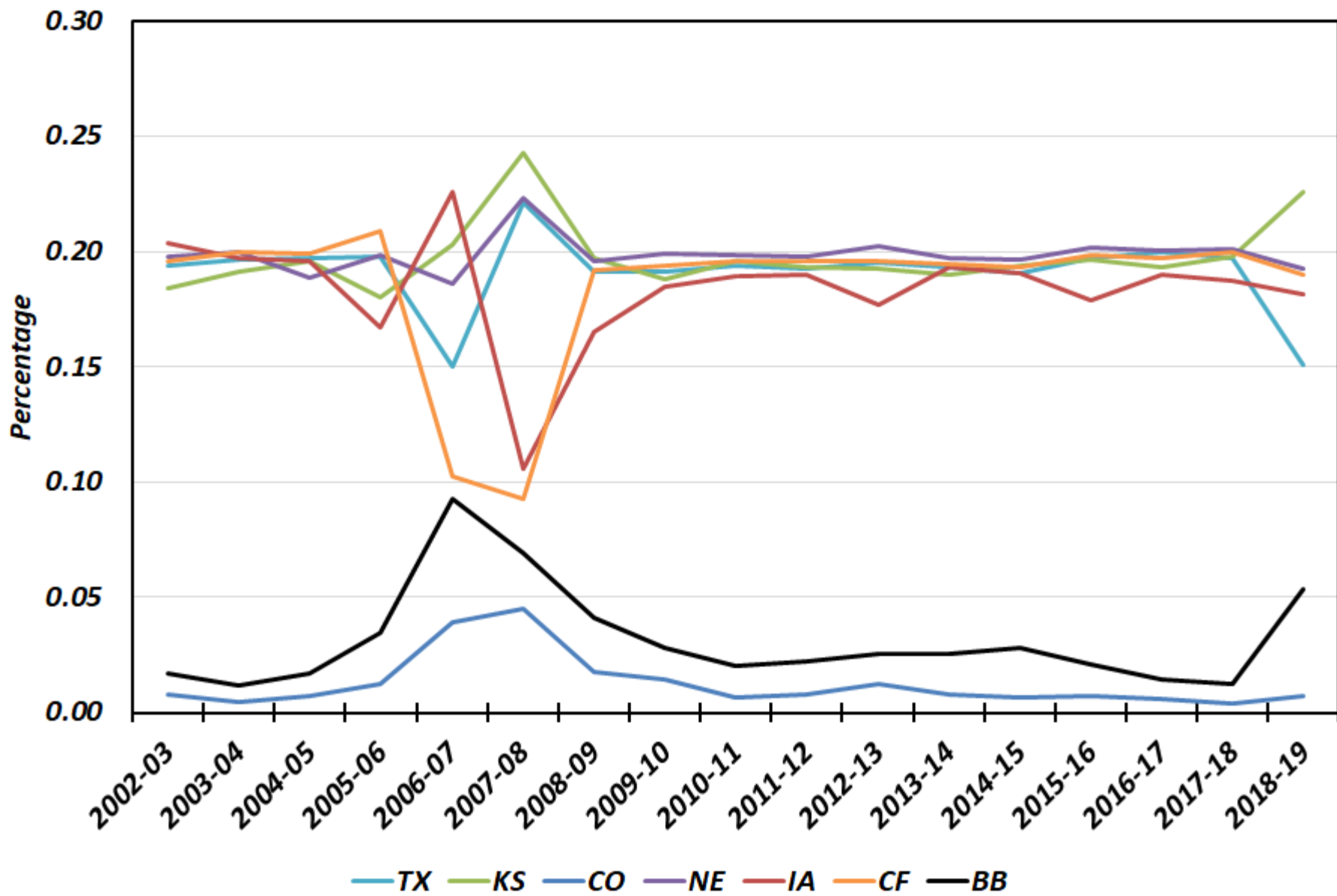
Relative Market Weights



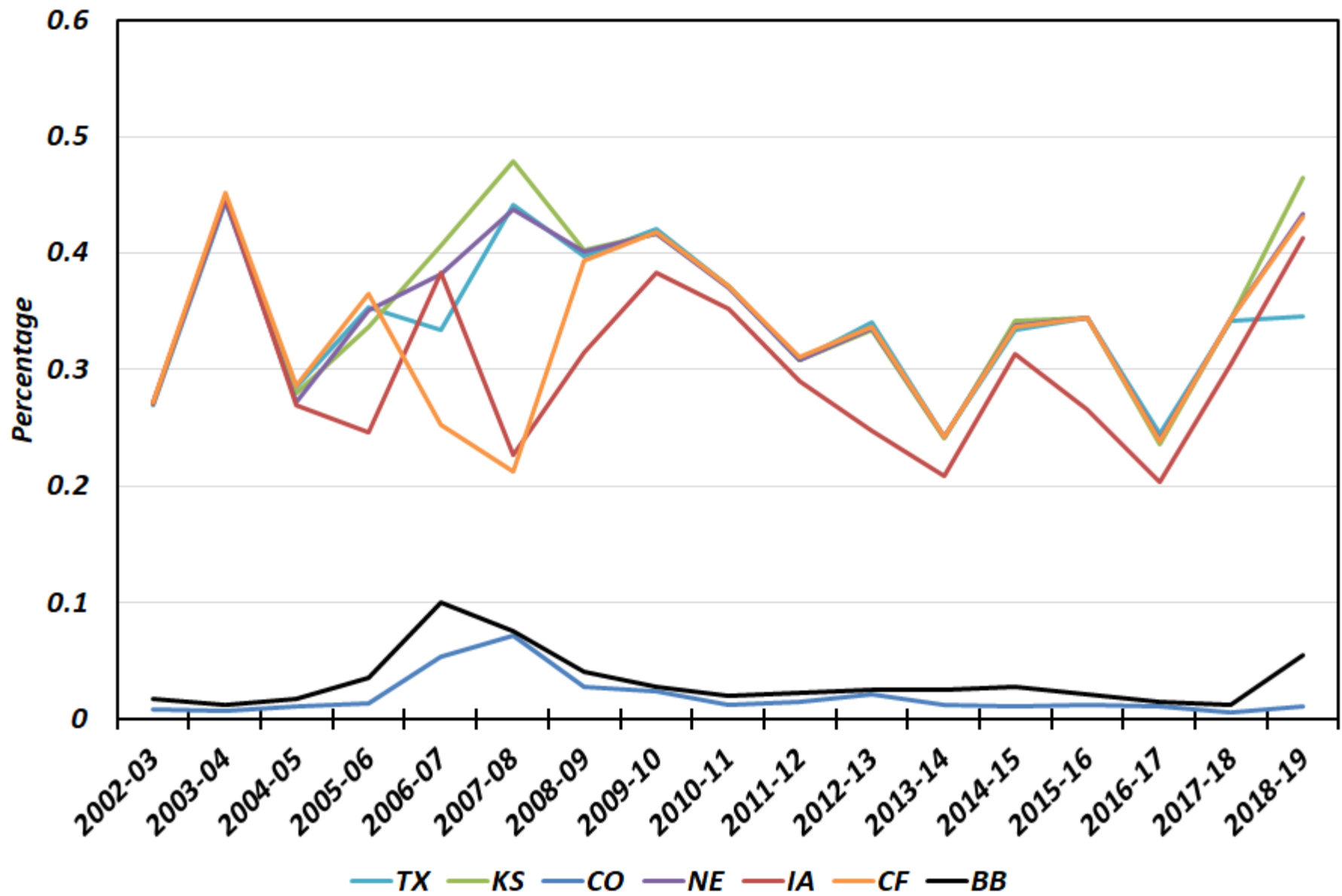
Relative Cash Market Weights



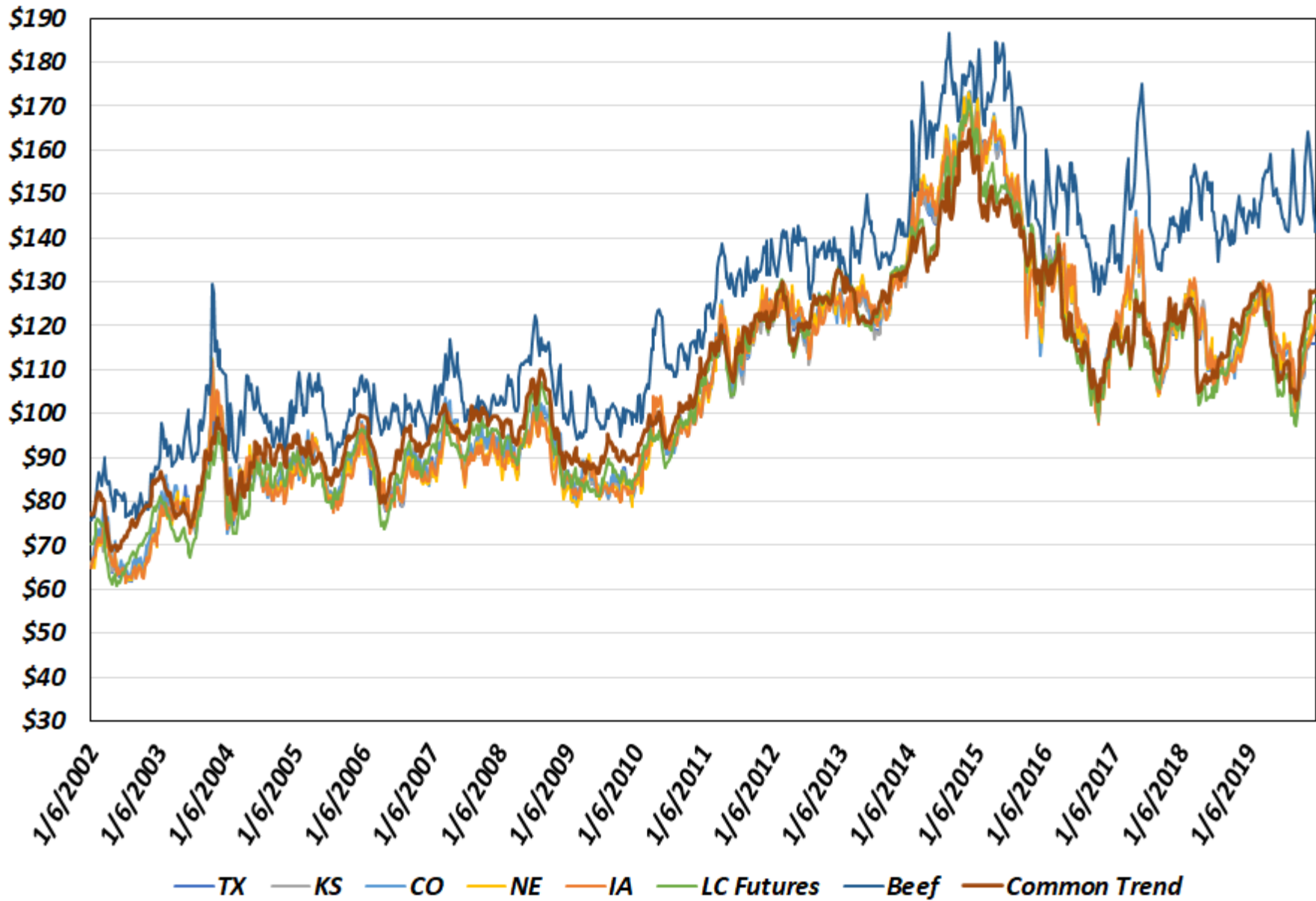
Information Share Averages



Information Share 75th Quantile "If Large How Large?"



Cash Fed Cattle, Live Cattle Futures, Downstream Beef Value & Common Trend



Objective Price Discovery Measure Summary

- *One price discovery measure finds less from 2002 – the beginning on MPR – until 2014.*
- *It looks like there is a relationship between volume of cash trade and the amount of price discovery.*
- *But price discovery returns, as objectively measured, in 2015-16 with substantially less volume of cash trade.*
- *A second measure finds TX-OK-NM does a lot of price discovery when its volumes are smallest.*
- *A third measure which is – sort of – a combination of the two finds persist and constant price discovery done by TX-OK-NM, KS, NE, IA, & futures and very little by CO and the downstream beef market.*

Price Discovery

- *Price discovery is work by people – bid & ask – it is a human activity. And is not so simple as to be determined by the volume of cash trade.*
- *There needs to be cash trade but very effective price discovery is done with very little trade.*
- *Finally, price discovery is not better prices. It is the right price and sometimes the right price is much lower. The time period of 2020-21 is testimony to that.*