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## **Cattle and Beef Stakeholder Teleconference**

### **Negotiated Cattle, Delivery Periods, and Comprehensive Report**

*June 15, 2017*

### **Overview**

Following the completion of the 0-30 day negotiated period confidentiality study that was sent to cattle and beef stakeholders on April 20, 2017, the industry requested additional analysis of the negotiated cattle market and delivery periods. The Agricultural Marketing Service (AMS) brainstormed ideas with the underlying goal of expanding published data within delivery periods in the negotiated market.

Any of the first five agenda options described below in this document could be implemented in the near future. The next two agenda items specifically address a change to the delivery period. The regulation directs the delivery periods that AMS utilizes in the negotiated cattle reports. Any change to the delivery periods would require a regulation change, preceded by a comment period.

While reviewing the data internally, it is apparent that negotiated cattle are sold outside of the 30-day window. AMS will implement a report change in the near future that designates cattle on the forward contract report as being delivered 31+ days. This will distinguish these purchases from other forward contract purchases with a basis involved.

Lastly, AMS is in the process of developing a new comprehensive cattle report that will provide weekly prices and volumes inclusive of all purchase types, up-to-date weight and grading information, and a purchase type breakdown.

As you review the presented options, the LMR [confidentiality guidelines](#) are linked for your convenience. On the teleconference, the following agenda will be discussed:

### **Agenda**

- Options for Expanding the Published Negotiated Cattle Information:
  1. Status quo
  2. Keep the [LM CT154](#) 0-14/15-30 head counts – add 5-Area beef type 0-14/15-30 prices
  3. Discontinue 0-14/15-30 head count split on the LM\_CT154 – price only
  4. 0-15/15-30 day price spreads
  5. Rounding head counts and prices
- Options to Change Delivery Period Windows (regulatory action required):
  1. Adopt LMR beef delivery windows; [LPS-126](#) form
  2. Adopt week-long delivery periods
- Reporting 31+ Day Negotiated Cattle on Forward Contract ([LM CT153](#)) Report
- New Comprehensive Report
- Open Discussion – New Stakeholder Ideas
- Closing



## Options for Expanding the Published Negotiated Cattle Information

To protect confidentiality, the first five options are some variation of data suppression. AMS hopes to find an option that provides the most useful information to stakeholders while still protecting confidentiality. AMS will leverage our math expertise for a more in-depth feasibility study once the stakeholder group has vetted these options. Any selected option would likely be published through our upcoming Weekly Comprehensive Cattle Report. This would allow implementation sooner and more cost effectively than through text reports.

### Option 1 – Status Quo

Currently, AMS shows a 0-14/15-30 head count split on the National LM\_CT154 below. This is the only delivery period head count split AMS publishes. Negotiated pricing on all reports is aggregated to 0-30 days.

- *Pros:* Confidentiality is assured, providing reliable head count splits going forward. A historical data set goes back to 2011.
- *Cons:* No price information for specific delivery periods. This pricing can only be speculated through CME quotes, the 0-30 negotiated prices, and these 0-14/15-30 head count proportions of the LM\_CT154.

LM_CT154			
St Joseph, MO	Mon Jul 25, 2016	USDA Market News	
NATIONAL WEEKLY DIRECT SLAUGHTER CATTLE - NEGOTIATED PURCHASES			
For Week Ending Sunday, 7/24/2016			
NEGOTIATED CASH:			
Total Confirmed for the week:	97,378	Week ago:	92,584
		Year ago:	65,613
Total 1-14 day delivery for the week:	89,323	Week ago:	83,705
Total 15-30 day delivery for the week:	8,055	Week ago:	8,879

### Option 2 – Keep LM\_CT154 0-14/15-30 Head Counts and Add 5-Area Beef Type 0-14/15-30 Prices

The 0-14 and 15-30 head count split on the LM\_CT154 is nationwide and includes dairybred cattle. In the 5-Area [LM\\_CT150](#) report, the beef type section is a subset of the LM\_CT154. These data sets may differ enough that we could have both head count splits and separate pricing for 0-14 and 15-30 categories while preserving confidentiality.

- *Pros:* Arguably the most informative of all the options.
- *Cons:* Possibly the least likely to pass confidentiality. If it would pass now, it remains the most likely to fail in the future if marketing patterns change. This option is dependent on nationwide dairybreds and beef types outside the 5-Area trading in the 15-30 category with sufficient quantity so the nationwide 15-30 head count and 5-Area 15-30 pricing still preserve confidentiality.



LM\_CT154 head counts:

Total 1-14 day delivery for the week: 89,323	Week ago: 83,705
Total 15-30 day delivery for the week: 8,055	Week ago: 8,879

Weekly Comprehensive Cattle Report:

5-Area Steers and Heifers (Beef Type)	Weighted Average Price
Live 0-14	\$114.73
Live15-30	\$113.52
Dressed 0-14	\$184.70
Dressed 15-30	\$180.31

### Option 3 – Suppress Head Count Splits

Discontinue the 0-14/15-30 head count split on the LM\_CT154, and print both a 0-14 price and 15-30 price.

- *Pros:* Confidentiality is strengthened with all delivery period head count splits removed, making future price quotes more reliable.
- *Cons:* While deferred pricing information is available, the unknown extent of the trade can be detrimental to others using it as a pricing reference. Published prices could be realistically unattainable to others if they have occurred in insignificant quantities.

Weekly Comprehensive Cattle Report:

5-Area Steers and Heifers (Beef Type)	Weighted Average Price
Live 0-14	\$114.73
Live15-30	\$113.52
Dressed 0-14	\$184.70
Dressed 15-30	\$180.31

### Option 4 – LM\_CT154 Head Count Split Remains, With a 0-14/15-30 Day Price Spread

Combine the LM\_CT154 head count split and publish a price spread between the 0-14 and the 15-30 categories. Other price spreads such as the Choice/Select cutout value spread have proved valuable, for example. In the Comprehensive Cattle Report, AMS is also preparing a section including other spreads (beef type/dairybred; cash/formula nets; formula base/formula nets).

- *Pros:* Preserves volume data while identifying the price value between delivery periods. Confidentiality is not as vulnerable as quoting specific 0-14/15-30 prices.
- *Cons:* Specific pricing of each delivery period is not provided.

LM\_CT154 head counts:



United States Department of Agriculture

Total 1-14 day delivery for the week:	89,323	Week ago:	83,705
Total 15-30 day delivery for the week:	8,055	Week ago:	8,879

Weekly Comprehensive Cattle Report:

All Beef Type Steers & Heifers (Negotiated Cash)	Delivery Premium(1-14 days)/ Deferred Delivery (15-30 Days)
DRESSED	\$4.39
Live	\$1.21

Option 5 – Rounding

Round the 0-14/15-30 head counts and/or prices to protect confidentiality. The extent of rounding necessary would depend on whether both volume and price are rounded.

- *Pros:* Rounding is flexible and can be incorporated into other 15-30 options. Rounding thresholds can also be expanded when markets get thin so data can likely remain published; whereas, specific data is more likely to be withheld indefinitely when thinning markets increase the confidentiality issue. Since data is rounded both up and down, stakeholders pricing on rounded numbers consistently should even out over time.
- *Cons:* While more information is available, it is not as specific. Stakeholder’s pricing with rounded numbers on an occasional basis will either gain or lose money due to the rounding process.

Price Rounding Example:

5-Area Steers and Heifers (Beef Type)	Wtg Av (nonpublished)	Rounded (published)
Live 0-14	<del>\$114.73</del>	\$115.00
Live 15-30	<del>\$113.52</del>	\$114.00
Dressed 0-14	<del>\$184.70</del>	\$185.00
Dressed 15-30	<del>\$180.31</del>	\$180.00

Head Count Rounding Example:

<b>Actual Head Count:</b>		
Total Confirmed for the week:	97,378	Week ago: 92,584      Year ago: 65,613
Total 1-14 day delivery for the week:	89,323	Week ago: 83,705
Total 15-30 day delivery for the week:	8,055	Week ago: 8,879
<b>Example A. Rounded Head Count split (nearest 5,000):</b>		
Total Confirmed for the week:	97,378	Week ago: 92,584      Year ago: 65,613
Total 1-14 day delivery for the week:	90,000	Week ago: 85,000
Total 15-30 day delivery for the week:	10,000	Week ago: 10,000
<b>Example B. Rounded 15-30 head count percentage of total confirmed (nearest 5%):</b>		
Total Confirmed for the week:	97,378	Week ago: 92,584      Year ago: 65,613
Total 15-30 day delivery for the week:	10%	Week ago: 10%



## Options to Change Delivery Period Windows

### Option 1 – Adopting LMR Beef Delivery Period Windows from the LPS-126 Form Shown Below

DELIVERY PERIOD	
1 =	0-21 DAYS
2 =	22-60 DAYS
3 =	61-90 DAYS
4 =	91/UP DAYS

- *Pros:* Provides consistency with LMR beef reporting, where these windows have provided good results. The same delivery windows for cattle and beef would save program maintenance costs for AMS in the long term. Using four delivery windows instead of two provides more flexibility in addressing the negotiated 30+ cattle. The fourth window is also open ended to capture any negotiated trade regardless of extended time frames.
- *Cons:* Implementing this option would be a reporting change for packers, adding to their expense. AMS would also have short term programming expenses, but would benefit longer term. The delivery windows are wider than those used currently, which some stakeholders may not prefer.

### Option 2 – Adopting Week Long Delivery Periods

Rather than split delivery windows according to specific days from the date of purchase, AMS could divide them by the scheduled week of slaughter. After the current week, each successive week would start on Sunday.

1 =	current week	
2 =	week 2	
3 =	week 3	
4 =	week 4	
5 =	week 5	
6 =	week 6	
7 =	week 7	
8 =	week 8+	

- *Pros:* Eight delivery windows provides even more flexibility in establishing report parameters regarding delivery, and provides more adaptability regarding changing marketing trends. The last window is open ended to capture any negotiated trade regardless of extended time frames. Separating delivery windows by weeks instead of specific days is more consistent with how the industry schedules cattle. While head counts for specific weeks could not be published due to confidentiality, this large number of delivery windows presents the opportunity to introduce a weighted average delivery week factor for industry analysis. The delivery factor would be calculated in the same manner as a weighted average price in the example below.



		head count distribution	deferred emphasis		price	price emphasis
1 =	current week	10000	10000		\$140.00	\$1,400,000.00
2 =	week 2	50000	100000		\$139.00	\$6,950,000.00
3 =	week 3	20000	60000		\$138.00	\$2,760,000.00
4 =	week 4	10000	40000		\$137.00	\$1,370,000.00
5 =	week 5	5000	25000		\$136.00	\$680,000.00
6 =	week 6	3000	18000		\$135.00	\$405,000.00
7 =	week 7	2000	14000		\$134.00	\$268,000.00
8 =	week 8+	1000	8000		\$133.00	\$133,000.00
	total	101000	275000		\$132.00	\$13,966,000.00
Published weighted average delivery of <b>2.72</b> (275000/101000)						
Published weighted average price of <b>\$138.28</b> (\$13966000/101000)						

- *Cons:* Specific pricing and head counts of each delivery period will probably never pass confidentiality when the trade is spread through this many windows.

## Change in Reporting Negotiated Purchases Delivering Beyond 30 days

### Background

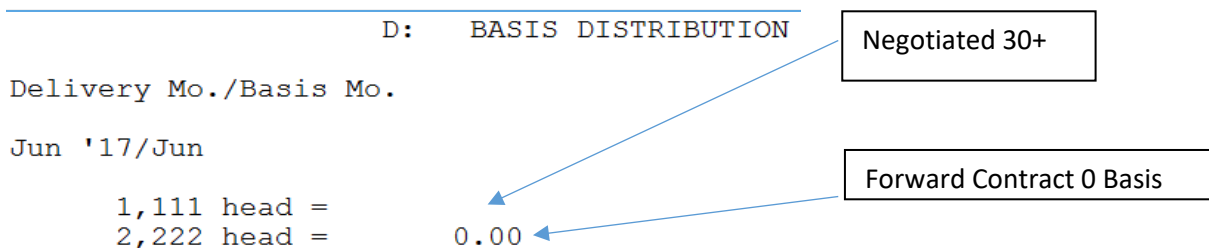
When negotiated cattle are purchased to deliver beyond 30 days, Market News [requires](#) these trades to be submitted as forward contract purchases as the current delivery windows are 0-15 and 15-30 days. Reporting forward contract purchases to AMS requires a basis level value in the [LPS-115C](#) input form. Because these negotiated 30+ trades are a flat price without a basis, AMS has instructed packers to use a basis value of 0.

### Issue

The [LM CT153](#) National Prior Week Slaughter and Contract Purchases Report (section “D: Basis Distribution”) lists head counts for each basis level. Basis level transactions of 0.00 could be either negotiated 30+ trades or forward contracts which actually do have a 0 basis.

### Short-Term Solution

Market News will soon implement a programming change to the LPS-115C input form allowing negotiated 30+ purchases to be submitted to AMS with a blank basis level, which will identify these trades as shown in the LM\_CT153 report example below.



### Long-Term Solution

A more permanent solution lies with regulatory changes to make the final delivery window open ended, such as the LMR beef delivery window of 90+ days. This would allow the purchase to remain categorized as negotiated since the delivery windows can accommodate any given delivery date.