

Fighting for the U.S. Cattle Producer!



R-CALF United Stockgrowers of America
P.O. Box 30715
Billings, MT 59107
Fax: 406-252-3176
Phone: 406-252-2516
Website: www.r-calfusa.com
E-mail: r-calfusa@r-calfusa.com

March 8, 2011

David A. Stawick
Secretary
Commodity Futures Trading Commission
Three Lafayette Center
1155 21st Street, NW
Washington, DC 20581

Sent Via E-Mail and U.S. Mail

Re: Ranchers-Cattlemen Action Legal Fund, United Stockgrowers of America (R-CALF USA) Request to Deny the Proposal by the CME and NCBA to Increase Cattle Weights Used to Compute the Feeder Cattle Index

Dear Secretary Stawick:

The Ranchers-Cattlemen Action Legal Fund, United Stockgrowers of America (R-CALF USA) is a national nonprofit association that represents independent U.S. farmers and ranchers who raise, feed, and sell live cattle. R-CALF USA works to sustain the profitability and viability of the U.S. cattle industry, a vital component of U.S. agriculture. R-CALF USA's membership consists primarily of cow/calf producers, cattle backgrounders and stockers, and feedlot owners. Various main-street businesses are associate members of R-CALF USA.

R-CALF USA has learned through a trade publication that the National Cattlemen's Beef Association (NCBA) is encouraging the Chicago Mercantile Exchange (CME), through the CME Group, to increase the cattle weights used by the CME to compute its Feeder Cattle Index.¹ We understand the proposal is under consideration by the CME Group and would cause the CME to drop the lightest of its four weight ranges presently in use (the 650-pound to 699-pound weight range) and add a new 850-pound to 899-pound weight range.² This proposal would effectively slide the entire scale upward by 50 pounds (rather than 849 pounds, the new, heaviest weight range would be 899 pounds, an increase of 50 pounds).

NCBA reportedly claims the current weight range (from 650-pound cattle to 849-pound cattle) "misses enough heavier-weight cattle to create a slight distortion in the index, which is used at the end of the month to settle CME's Feeder Cattle futures contracts."³

¹ See CME May Change Feeder Cattle Index: NCBA Pushes to Slide Weight Range to Include 850-899 Pound Cattle, Katie Micik, DTN Staff Reporter, DTN/The Progressive Farmer, Feb. 16, 2011, available at http://www.dtnprogressivefarmer.com/dtnag/common/link.do?symbolicName=/free/news/template2&forceNavUpdate=false&vendorReference=3fa6aa2e-aa0d-44ef-8777-31501ee4cf5f_1297702760772.

² See *id.*

³ *Ibid.*

What NCBA calls a “slight distortion” in the index is not a distortion at all, but rather, is an accurate market reflection of the extremely tight supply of feeder cattle that exists today – the result of decades of depressed cattle prices that have decimated the size of the U.S. cattle herd.

The Feeder Cattle Index is an important price-discovery tool in both the cash cattle market and the feeder cattle futures market, as it provides the basis for determining the daily average market price for feeder cattle. The Feeder Cattle Index is used to value feeder cattle in the cash cattle market, as well as acting as a starting point to establish the average market price for feeder cattle futures trades.

The effect of NCBA’s proposal to increase the weight-range used to compute the Feeder Cattle Index would be to *reduce* the per cwt value of the feeder cattle cash index, thus lowering the per cwt index value of *all* feeder cattle. This is a function of the lower per cwt value accorded to cattle as their weights increase. Thus, NCBA’s proposal is designed to break the feeder cattle board, causing direct financial harm to every U.S. cow/calf producer, backgrounder and stocker that markets feeder cattle.

For example, the CME Feeder Cattle Index Calculation for Friday, Feb. 18, 2011, calculated a Reported Index of \$128.69/cwt.⁴ One of the many sales used by the CME to calculate this Reported Index is Fort Pierre Livestock Auction Inc. (Fort Pierre Livestock), in Fort Pierre, S.D. The weighted average price calculated by the CME Feeder Cattle Index for Fort Pierre Livestock on Feb. 18, 2011, was \$132.00/cwt. based on the sale of 1,578 feeder cattle that weighed less than 850 pounds.⁵ However, if the Index calculation for Fort Pierre Livestock were to omit the 650-pound to 699-pound weight range as NCBA proposes, and if only 800 cattle weighing 899 pounds were included in that day’s calculation (as NCBA also is proposing) with a price per cwt – only \$7.00/cwt less than what the 650-pound to 699-pound cattle sold for on that day – the CME Index Calculation for Fort Pierre Livestock on Feb. 18, 2011, would be reduced to \$128.92/cwt, which is more than \$3.00/cwt *less* than what was calculated for Fort Pierre Livestock using the existing weight ranges.⁶ This, in turn, would effectively reduce the CME’s Reported Index for feeder cattle sold at all sales locations.

Thus, the proposal by NCBA to slide-up the scale used by the CME to calculate the Feeder Cattle Index in nothing but a deceptive ploy by NCBA to help the nation’s beef packers (which also are prominent feeder cattle buyers) break the current, higher-priced feeder cattle board and reduce the values of all classes of feeder cattle, particularly those that weigh less than 850 pounds. This action would exact significant financial harm to every United States cow/calf producer, backgrounder, and stocker, which together comprise the largest segment of the U.S. cattle industry. NCBA’s proposal would literally transfer millions, if not billions, of dollars away from feeder cattle producers and directly to the packers and their cattle feeding operations. This, of course, will exacerbate the ongoing hollowing out of rural communities all across America.

⁴ See Cash Settled Commodity Index Prices, CME Group, Feb. 18, 2011, available at <http://www.cmegroup.com/market-data/reports/cash-settled-commodity-index-prices.html>.

⁵ See *id.*

⁶ See worksheet developed by R-CALF USA based on Fort Pierre Livestock Auction data reported in the Cash Settled Commodity Index Prices, CME Group, for Feb. 18, 2011.

David A. Stawick, CFTC Secretary

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It is R-CALF USA's position that the wrongheaded and deceptive proposal advanced by NCBA is intended to benefit the packing segment of the multi-segmented beef supply chain at the expense of the hundreds of thousands of U.S. cow/calf producers, backgrounders, and stockers, who today are experiencing price-levels for feeder cattle that are helping them to recover from decades of depressed prices. We urge the Commodity Futures Trading Commission to put an immediate stop to NCBA's attempt to break the currently favorable feeder-cattle market by manipulating the principle tool used for feeder cattle valuations – the CME Feeder Cattle Cash Index.

Please contact us if any additional information is needed to assist the CFTC in preventing the artificial disruption of the United States' feeder cattle market.

Sincerely,

A handwritten signature in black ink, appearing to read "Bill Bullard". The signature is fluid and cursive, with a prominent loop at the end.

Bill Bullard, CEO

Cc: The CME Group
Edward Avalos, Under Secretary, USDA
John Ferrell, Deputy Under Secretary, USDA
J. Dudley Butler, Administrator, GIPSA