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COMMODITY FUTURES TRADING COMMISSION

AGRICULTURAL ADVISORY COMMITTEE MEETING

3:05 p.m.

Wednesday, April 22, 2020

(Via Teleconference)

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P R O C E E D I N G S

MS. MERSINGER: Good afternoon. As the Designated Federal Officer and acting chair of the Agricultural Advisory Committee, it's my pleasure to call this meeting to order.

I would like to welcome everyone to today's virtual meeting. While this is certainly not how we envisioned the first AAC meeting under Chairman Tarbert's sponsorship, we are grateful for the chance to come together in a way that keeps us all safe and healthy.

Before we get started, there are a few logistical items that I do need to mention to the committee members and invited speakers.

Because this is a virtual meeting, it is also being broadcast. So please make sure you identify yourself before you begin speaking.

Also, please signal when you have completed your comments, so we can continue with the next speaker or question.

Ensure your phone is unmuted before you start to speak and that you speak clearly into the

1 mic.

2           For committee members, please send a  
3 message to the panelist group on Webex or dial \*0 if  
4 you would like to be recognized during the  
5 discussion.

6           Finally, please keep your telephone line  
7 muted when you are not speaking. If you do not mute  
8 your line, the conference operator may need to mute  
9 your line for you.

10           Now that I have those housekeeping items  
11 out of the way, I would like to turn this over to  
12 the committee sponsor, Chairman Heath Tarbert, for  
13 his opening remarks and introduction of our honored  
14 guests. Chairman Tarbert?

15           CHAIRMAN TARBERT: Thank you very much,  
16 Summer.

17           This is Chairman Heath Tarbert. Good  
18 afternoon, everyone, and thank you for joining  
19 today's meeting of the Agricultural Advisory  
20 Committee.

21           First, I want to say that I am humbled to  
22 be a sponsor of this committee. The members of this

1 committee and the industry groups you're a part of  
2 have mobilized and risen to the challenge of feeding  
3 our nation during this pandemic. I realize a lot of  
4 you and your members are struggling, and I therefore  
5 specifically want to thank you on behalf of the  
6 Agency for the important work you are doing. It's  
7 truly an honor to work with you.

8           Agriculture is essential to the basic  
9 needs of everyone around the world. We're reminded  
10 of that now more than ever. The ag sector also  
11 plays a critical role in our economy and has been  
12 the cornerstone of the Commodity Exchange Act since  
13 it was actually ag-related products that gave birth  
14 to the global derivatives markets. So as I have  
15 said before and I will say again, if the derivatives  
16 markets aren't working for American agriculture,  
17 then in my view they're simply not working.

18           Today we face unprecedented uncertainty  
19 and price volatility across our ag commodity  
20 markets. Many of you rely on these markets to  
21 mitigate and hedge risk as agricultural producers  
22 and end users. Given the unique circumstances we're

1 facing due to COVID-19, it's important that we have  
2 this call to discuss what we're seeing, how we're  
3 managing it, and what tools we have in place to  
4 address the uncertainty and volatility ahead.

5 Our job at the CFTC is to understand the  
6 challenges confronting the agricultural sector and  
7 to ensure that our derivatives markets are doing the  
8 job of providing opportunities for end users to  
9 manage risk.

10 To start us off, I'd like to share a  
11 couple of updates about our work here at the CFTC.

12 Last week, in response to the growing  
13 public concern around the livestock market, I  
14 established a Livestock Markets Task Force that will  
15 monitor daily in real time livestock contracts. So  
16 we're talking about the Live Cattle, the Feeder  
17 Cattle, and the Lean Hogs contracts, specifically.  
18 I am pleased to report that this task force is up  
19 and running to ensure market integrity in these  
20 uncertain times.

21 I'm also excited to announce that we will  
22 soon appoint a CFTC liaison to the U.S. Department

1 of Agriculture for the first time in our 45 years as  
2 an agency. As many of you know, the predecessor to  
3 our agency, the Commodity Exchange Commission, was  
4 actually part of the Department of Agriculture, and  
5 then it was spun off and made into an independent  
6 agency. But in so doing, the original Commodity  
7 Exchange Act, as amended, that gave rise to the CFTC  
8 actually requires that the USDA appoint a liaison  
9 officer for the purposes of maintaining a  
10 relationship between the USDA and the CFTC now that  
11 the CFTC became an independent agency.

12           So to facilitate that cooperation, the  
13 CFTC will assign a member of our Division of Market  
14 Oversight Staff to be a primary point of contact for  
15 the USDA liaison. So, in other words, we're also  
16 going to have a CFTC liaison to USDA, just as we  
17 have a USDA liaison to the CFTC. And that's really  
18 important again to signify that we have a robust  
19 dialogue and continued historical coordination with  
20 USDA on matters of mutual interest.

21           A final point I want to make is that the  
22 CFTC team is teleworking just like the rest of

1 America and much of the world. But even though we  
2 are physically separated, our commitment to our  
3 critical mission is stronger than ever. We won't  
4 let these challenges stop us from doing the  
5 necessary work to fulfill our mission, which is to  
6 promote the integrity, resilience, and vibrancy of  
7 the U.S. derivatives markets through sound  
8 regulation.

9 I would like to thank staff from the CME  
10 Group and ICE Futures U.S. for joining the call  
11 today.

12 I also want to thank my fellow  
13 commissioners, Commissioner Quintenz, Commissioner  
14 Behnam, Commissioner Stump, and Commissioner  
15 Berkovitz, for joining, and I am looking forward to  
16 their statements.

17 We're also fortunate to have Rob  
18 Johansson, the Chief Economist for USDA, on the  
19 line, as well as a number of leaders and experts  
20 from our own Division of Market Oversight.

21 But I want to give special thanks and a  
22 grand welcome to Secretary of Agriculture Sonny



1 Perdue who is on the call with us today. The  
2 Department of Agriculture and Secretary Perdue are  
3 on the front lines of this fight. Given the  
4 extraordinary times we're facing, I cannot think of  
5 anyone more qualified or more equipped to lead the  
6 Department. I think we can all agree that we're  
7 lucking to have Secretary Perdue at the helm of  
8 USDA.

9 Secretary Perdue and I have stayed in  
10 touch since the very start of the pandemic. Staff  
11 of the USDA and the CFTC have been communicating  
12 regularly on market conditions and factors that  
13 impact pricing in our ag markets. Our partnership  
14 with the Department of Agriculture is critical to  
15 our work here at the CFTC, and we're grateful for  
16 the Secretary and the Department for the insight and  
17 knowledge they bring to our discussions.

18 Secretary Perdue, thank you so much for  
19 joining us today, taking time out of your  
20 tremendously busy schedule to share some remarks  
21 with the Agricultural Advisory Committee. Mr.  
22 Secretary, the floor is yours.

1                   SECRETARY PERDUE: Well, thank you very  
2 much, Dr. Tarbert, and for all your commissioners  
3 and your members of the Ag Advisory Committee, good  
4 afternoon and it is an honor to join you. And I  
5 want to be one of the first to welcome the CFTC back  
6 to its roots in USDA, and we appreciate very much  
7 liaison. Obviously, our fortunes are intertwined  
8 and our responsibilities and roles are intertwined  
9 more and more so it seems like. And I appreciate  
10 the efforts that you have made in the relationship  
11 that we enjoy. Thank you for your leadership and  
12 engagement on agricultural issues. I'm well aware  
13 that other sectors in the economy may have outpaced  
14 the futures trading, but I very much appreciate you  
15 all recognizing the bedrock issue of agriculture in  
16 futures trading as well. And certainly its price  
17 discovery and transparency is critical in our  
18 sector. And I appreciate very much what CFTC does  
19 in that effort.

20                   So I really also want to congratulate you  
21 for reviving this Ag Advisory Committee and meeting  
22 on a regular basis after being inactive for a while.

1 And I really appreciate your prioritizing hearing  
2 from your users in the various sectors, farmers,  
3 ranchers under your leadership. I know it was just  
4 a couple of months ago that we were in our office  
5 here discussing the state of the farm economy, but  
6 after all that has gone on, it seems like a lot  
7 longer than that. But you know that our whole  
8 economy has been hurt hard, and agriculture is no  
9 exception. But just as we all are discovering more  
10 and more, I think we have come to a better  
11 appreciation of our farming. And food production and  
12 food supply chain is much more appreciated because  
13 of its essentiality than it had been before.

14           So I do want to tell you in the beginning  
15 and all your members on the committee that I'm very  
16 proud of your individual sectors. I'm proud of all  
17 of our farmers and ranchers, as well as everyone  
18 involved from the vendors helping our farmers all  
19 the way to the consumer in the food supply chain  
20 getting it done day in and day out. This has been  
21 an amazing, resilient effort. I know that we  
22 realize that our food supply chain is one of the

1 most efficient. It's sophisticated. It's  
2 integrated. It's almost synchronized in many ways  
3 and just-in-time.

4           So the Covid-19 impacts have rippled  
5 through that. When you think about the dual supply  
6 chain that we had developed in this country because  
7 of efficiency. When you think half of the food being  
8 consumed outside of the home, they developed a  
9 supply chain that served that restaurant and  
10 institutional market very efficiently. And different  
11 types of packaging and quantities and products even,  
12 in that way. When you have that whole sector, half  
13 of that consumption stop, you can imagine the ripple  
14 effect is like a crash on the interstate highways  
15 where everything gets backed up. But we've been  
16 very active in trying to reallocate and realign the  
17 supply and demand with the needed demand here across  
18 the country.

19           So you know well that price movements over  
20 the last few years have been primarily driven by  
21 those significant demand shifts or market  
22 expectations for changes in demand in the near

1 future. Just an example, you know we've got cotton  
2 prices at decade lows and livestock prices are at  
3 multiyear lows due to the loss of that institutional  
4 and restaurant market. And there have been also  
5 concerns about potential closures or disruptions in  
6 the processing industry as well.

7           So all of those are vital and critical,  
8 and we appreciate your attention to recognizing the  
9 need for transparent markets of integrity that  
10 people can depend on and really make their future  
11 business - either production or consumption  
12 decisions around. And it's critical that we  
13 maintain our commodity futures trading in this  
14 country as the gold star around the world in a 24-  
15 hour global environment that we are in right now.

16           So USDA, obviously, is working as quickly  
17 as possible to bring help to those producers who  
18 have been devastated. You may recall that last week  
19 the President announced a \$19 billion support for  
20 those producers through direct payments, as well as  
21 our out-of-the-box food distribution system program  
22 that we're developing. So we will use the funding

1 from resources, as well as CCC funds to do that.  
2 Congress really essentially also gave about \$25  
3 billion more in food stamp recipients, increased  
4 funding for our food nutrition services for our  
5 school children, as well as those people in need  
6 from out of jobs and things like that. So we're  
7 going to continue to provide direct support  
8 basically to producers where prices and market  
9 supply chains have been significantly impacted.

10           As you know, in the government we've got a  
11 lot of steps that we have to do to implement  
12 programs. We have to write rules. They have to be  
13 detailed, make sure they're transparent and fairly  
14 implemented by rule and not just by feel. So we're  
15 doing that as we speak. I am hoping that our  
16 purchase and distribution of both produce, dairy,  
17 and meat products will be able to begin within 2  
18 weeks, and then the direct support will require  
19 rulemaking. But we hope to have sign-ups beginning  
20 in late May as quickly as we're able to.

21           So more information and more details are  
22 going to be provided when that rule is published.

1 But we are working daily and sometimes 24 hours a  
2 day with our federal partners - FEMA, HHS, CDC - and  
3 additional support and guidance regarding our food  
4 supply chain continuity of operations, reopening  
5 processors of both the food and agricultural sector.

6 And we're working with CDC and OSHA to provide  
7 guidance on our best practices for our employees in  
8 our meat, poultry, seafood processing facilities.

9 And it has been an interesting time, one  
10 challenge after the other, but I am very proud of  
11 the team at USDA. I think the public would be  
12 extremely proud if they saw these people working  
13 remotely actually in a more difficult environment  
14 getting the job done.

15 We're monitoring certainly, as you  
16 indicated, the flow of food from farm to table and  
17 paying particular attention to any supply/demand  
18 disruptions or divergences that seem to be not  
19 reasonable. You may remember or your members may  
20 know that on April 8th, 2020, I directed our  
21 Agricultural Marketing Service to extend its  
22 investigation initiative after the Holcomb fire in

1 Kansas and to include the price effects for Live  
2 Cattle and boxed beef during the current COVID  
3 emergency.

4           As part of this ongoing investigation, our  
5 Packers and Stockyards Division will determine if  
6 there is any evidence of price manipulation,  
7 collusion, restrictions or complications or any  
8 unfair practices or unfair advantages. And that is  
9 what our public expects. That's what our producers  
10 expect, and I hope that's what all the people in  
11 between expect as well. And I know that's the  
12 reason you set up your task force, and we look  
13 forward to working directly with that task force, as  
14 well as your liaison.

15           So you can rest assured if any of that  
16 investigation yields any evidence of any violation  
17 of the Packers and Stockyards Act, we'll begin  
18 immediate and necessary enforcement action and,  
19 where appropriate, initial referrals to the  
20 Department of Justice for further consultation.

21           So I know trade is a huge part. That's  
22 why the markets are here in the United States, and



1 we are working hard, even through these difficult  
2 times, to help find customers overseas and reduce  
3 the barriers to doing business with them. We got  
4 USDA, the phase I Japan agreement, beginning of  
5 implementation of China Phase I, and a number of  
6 priorities including the EU and UK that I wanted to  
7 mention as well.

8           But those are some highlights. I know  
9 I've spoken longer than I intended, but I very much  
10 appreciate the opportunity to speak to your members.  
11 It's a good, distinguished group that you have  
12 there, and I know they will give you good counsel  
13 regarding the agricultural aspects of the commodity  
14 futures trading. And I very much appreciate, as I  
15 said, the relationship and look forward to  
16 continuing.

17           Dr. Johannson, who is the real brains  
18 behind USDA as our economist, will be here to help  
19 answer any specific questions about our CFAP program  
20 or anything else that your members may have as we go  
21 along.

22           So thank you very much for the

1 opportunity, Chairman.

2           CHAIRMAN TARBERT: Thank you so much, Mr.  
3 Secretary. And I'm sure I speak for everyone on the  
4 call to say it's tremendously valuable to hear  
5 directly from you on these important issues, and we  
6 are all very grateful for your leadership. And I  
7 look forward to strengthening the relationship  
8 between the Department and our agency in the weeks,  
9 days, and months, and years ahead. So thank you so  
10 much.

11           SECRETARY PERDUE: Hear, hear. Thank you.

12           MS. MERSINGER: This is Summer Mersinger  
13 again.

14           Now I would like to turn to the  
15 commissioners for their opening remarks. First,  
16 I'll check in with Commissioner Quintenz.

17 Commissioner Quintenz, are you on the line?

18           COMMISSIONER QUINTENZ: Yes, Summer, this  
19 is Commissioner Quintenz. Can you hear me?

20           MS. MERSINGER: Yes, sir. Thank you. The  
21 floor is yours.

22           COMMISSIONER QUINTENZ: Thank you. This

1 is Commissioner Brian Quintenz.

2           And first, let me thank you, Mr. Chairman,  
3 for your leadership in convening today's meeting.

4 And what a privilege, not only to have Secretary  
5 Perdue join us today, but to have him in that role  
6 and at this time. I'm so grateful to have heard  
7 from him about USDA's ongoing efforts in this  
8 unprecedented time for the agricultural community.

9           Given that ongoing historic levels of  
10 prices and volatility in the agricultural cash and  
11 futures markets, it's timely that this committee  
12 specifically could come together today to share  
13 their insights with us on liquidity and market  
14 integrity and accessibility of futures markets with  
15 the Commission.

16           America's agricultural producers and  
17 growers tirelessly dedicate themselves to putting  
18 food on our kitchen tables while they themselves  
19 constantly struggle to ensure the solvency of their  
20 farms and their ranches. The CFTC, along with the  
21 futures exchanges and market intermediaries, must  
22 work just as tirelessly to ensure that our futures

1 markets remain a reliable, efficient hedging tool  
2 for them.

3           This agency has a unique role to play in  
4 protecting America's farmers and ranchers, and since  
5 becoming a commissioner, I've had the privilege of  
6 traveling all across the United States to wheat  
7 fields in Kansas and soybean farms in Michigan, rice  
8 farms in Louisiana, Arkansas, a cotton gin in  
9 Georgia, corn fields across the Midwest in Iowa,  
10 Minnesota, South and North Dakota, cattle ranches in  
11 Montana, just to name a few. And that includes the  
12 farms and places of businesses of many of the  
13 participants on this call and members of this  
14 committee. And let me just say that I'm incredibly  
15 grateful for those relationships that developed from  
16 those travels and in many cases those friendships.  
17 I've been consistently impressed and humbled by  
18 these Americans' work ethic, their sophistication  
19 and dedication to growing their businesses, many of  
20 which are family owned, in the face of historically  
21 low commodity prices, international trade disputes,  
22 and intense competition.

1           The combination of steep declines in  
2 commodity prices and global supply and demand forces  
3 has put unrelenting pressure on America's farmers to  
4 increase yields, cut costs, and drive efficiencies  
5 to remain profitable. The severe supply and demand  
6 shocks caused by the COVID-19 challenges are the  
7 latest of many circumstances the heartland has  
8 withstood in recent years. These difficult events  
9 make it all the more vital that farmers and ranchers  
10 feel like they can depend upon liquid, well-  
11 functioning agricultural futures and swaps markets  
12 to hedge their risk.

13           Recently I have noted that some have  
14 expressed concerns regarding the performance of  
15 certain futures contracts, and I take those concerns  
16 seriously. I encourage market participants to  
17 continue voicing those concerns and experiences to  
18 the exchanges, to the CFTC staff, and to us as  
19 commissioners. In particular, I commend the  
20 Chairman for convening the Livestock Market Task  
21 Force to examine conditions in the cattle markets  
22 and ensure contracts are working as intended.

1                   For over 150 years, the U.S. futures  
2 markets have enabled farmers and ranchers to hedge  
3 their commercial risk in the most liquid,  
4 competitive, and vibrant futures markets in the  
5 world. This is no small accomplishment. It has  
6 taken generations of hardworking, creative, and  
7 aspirational thinkers to build both today's  
8 agricultural industry, as well as today's futures  
9 marketplace, and I am committed to working to  
10 strengthen the trust that the agricultural community  
11 has in our futures markets and ensure the  
12 longstanding tradition continues for America's next  
13 generation of farmers.

14                   Thank you very much.

15                   MS. MERSINGER: Thank you, Commissioner  
16 Quintenz. Commissioner Behnam?

17                   COMMISSIONER BEHNAM: Good afternoon. Can  
18 you hear me, Summer? This is Commissioner Behnam.

19                   MS. MERSINGER: Yes. The floor is yours.

20                   COMMISSIONER BEHNAM: Thank you. Good  
21 afternoon, everyone. I want to first off thank  
22 Chairman Tarbert for sponsoring and hosting this

1 afternoon's meeting. It's certainly a challenge, as  
2 we noted earlier, with a telephonic meeting, but one  
3 that I think will be effective. And I appreciate  
4 his efforts to put this forward, given the  
5 conditions.

6 I also want to thank him for starting the  
7 Task Force, given a lot of the challenges and the  
8 volatility we've seen in the market and the issues  
9 that we have heard as a commission. I couldn't  
10 appreciate that more. I think it's the best way  
11 that we can engage with market participants and,  
12 above all else, show them proof that we care, that  
13 we are constantly thinking about these issues, and  
14 that we want to find solutions as soon as possible.

15 A special thanks to Secretary Perdue and  
16 his leadership and his words, taking time this  
17 afternoon to share some of his thoughts on the COVID  
18 crisis and what he's doing as Secretary over at the  
19 Department to help ensure that the ag economy and  
20 the producers all across the country are enduring  
21 here and getting out on the right end of this  
22 challenge. There are certainly a lot of issues

1 ahead, but again, as has been said, Secretary Perdue  
2 is the right man for the job here.

3 I do want to recognize that it's a great  
4 relationship that we've had -- the Chairman has  
5 mentioned it many times --- the CFTC and USDA. We  
6 had Secretary Vilsak. I think he came to the CFTC  
7 back in 2014. So we have a long history of  
8 engagement with the USDA. And as Chairman Tarbert  
9 said, I have full confidence that we'll continue  
10 that with the liaison and constant communication to  
11 ensure that we're doing what we need to do on our  
12 end to promote and to make the futures markets as  
13 effective and useful as possible.

14 I also want to quickly thank Summer and  
15 Christa Lachenmayr, Summer particularly, for her  
16 role at DMO and Christa for her input, as always, on  
17 agricultural issues.

18 I finally want to thank the members of the  
19 AAC. I know a lot is going on. I certainly wish  
20 all of you well, your families, a lot of transition  
21 in the past few months. But I certainly appreciate  
22 your willingness to be on the call and provide the



1 commission with input. A lot of challenges in the  
2 ag economy, more so than many. I'm thinking about  
3 the front line individuals who have had the courage,  
4 including our health care workers, but ag is right  
5 there putting food on the table for Americans and  
6 the world, as you always have. It certainly means a  
7 lot to me, and I know it means a lot to the  
8 commission and folks across the country. So thanks  
9 for your continued hard work and your willingness to  
10 fight this very challenging fight we're going  
11 through right now.

12 I sponsored the AAC a few years ago before  
13 we had a full commission, and I had the privilege of  
14 hosting a meeting for the first time outside of D.C.  
15 in Kansas City. And we discussed crop insurance and  
16 farm credit. It seems like many, many years ago, but  
17 those were relevant issues at the time, and I think  
18 given the challenges we're facing today, crop  
19 insurance and farm credit are among the many issues  
20 that I think growers and producers are dealing with  
21 right now. So we continue to sort of parse through  
22 all the challenges that folks are facing and trying

1 to come up with solutions to ensure that our markets  
2 are functioning well.

3           Given the market volatility and thinking  
4 about what was mentioned earlier about the spreads  
5 between boxed beef and cattle prices, I want to  
6 commend a lot of the market participants, the  
7 exchanges for their engagement, their continued  
8 increased engagement, with producers and market  
9 participants. We've learned, I think, as a  
10 commission that communication is key more so than  
11 ever now that we all work remotely, and I think it's  
12 important that all members of this sort of  
13 ecosystem, the exchanges included, which they've  
14 done a great job, continue to engage to resolve some  
15 of these issues about the limit days, the delivery  
16 challenges settlement, and the spreads to ensure  
17 that we do have market integrity and that we are, as  
18 regulators, overseers, and as exchanges, that we're  
19 doing what we need to do to ensure that the markets  
20 are fairly reflective of price discovery and allow  
21 risk management, as we've said.

22           The ag economy has faced headwinds for

1 many, many years. It has endured many different  
2 challenges over decades -- but I'm confident we'll  
3 get through this one -- most recently, as the  
4 Secretary mentioned, trade issues, weather issues.  
5 They don't seem to stop and we will continue to  
6 fight I think as a commission and as a member of  
7 this conversation and this group to ensure that the  
8 markets are functioning well and we're doing what we  
9 need to do to allow farmers to hedge these risks.

10 CFTC is a partner. We have long been a  
11 partner and we continue to be one.

12 I'm often reminded of thinking about  
13 growers, producers as the best stewards of their  
14 land, and they certainly are. And it's the 50th  
15 anniversary of Earth Day. So it's, I think, timely  
16 to think about and have this discussion with our  
17 producers and folks across the country who are  
18 working hard to produce food for the States, of  
19 course, and for the globe. And as they are the best  
20 stewards of their land, I do want to commend and  
21 thank them for all the work they're doing and  
22 certainly ensure that I'm doing what I can, working

1 with my colleagues, as the chairman and Commissioner  
2 Quintenz and my other colleagues we'll do what we  
3 can to ensure that the markets are functioning well.

4           So with that, I look forward to today's  
5 comments. Thank you again for your participation,  
6 and I will turn it back to you, Summer. Thanks.

7           MS. MERSINGER: Thank you, Commissioner  
8 Behnam. Commissioner Stump?

9           COMMISSIONER STUMP: Thank you, Summer.  
10 This is Commissioner Stump.

11           And I wanted to thank you and Christa and  
12 the Chairman for calling this meeting or organizing  
13 the meeting. I very much appreciate all of the  
14 committee members and the panelists and especially  
15 Secretary Perdue for participating.

16           Having had the opportunity to work through  
17 many prior challenges with USDA makes today's  
18 meeting a bit bittersweet for me. In a prior  
19 capacity, I spent almost a decade working on ag  
20 policy as a staffer in the House and the Senate,  
21 which afforded me the opportunity to work with USDA  
22 on the implementation of two farm bills and several

1 disaster programs. I think everybody on the  
2 commission knows that. What you may not know is  
3 that my husband also worked at the Department of  
4 Agriculture and in the grim days following 9/11, he  
5 became the agency's first homeland security  
6 director. And I mention this just because while my  
7 family and I are very proud to have worked with USDA  
8 in some previous difficult times, no challenge is  
9 quite like any other. And today we are again called  
10 to work together in managing yet another  
11 unprecedented circumstance that impacts our ag  
12 markets. And I'm so pleased that we're having this  
13 meeting to try and get our arms around it.

14           As for the CFTC's part in all of this, we  
15 have an obligation to preserve the integrity of the  
16 futures markets specifically so that everyone  
17 involved in the production, distribution, and  
18 consumption of food and fiber can reliably discover  
19 prices on transparent market venues.

20           But we don't do this in isolation. Price  
21 discovery in the futures markets relies on various  
22 inputs tied to the underlying cash markets. So we

1 rely on partners such as the Department of  
2 Agriculture to help us maintain this integrity.

3           As the past few weeks have shown, price  
4 discovery is sometimes a grim job. Today we are  
5 particularly sensitive to and acknowledge the real  
6 world implications of recent commodity prices. But  
7 we must, nonetheless, ensure that the price is  
8 transparent and reliable regardless of its  
9 favorability. Only then are these markets able to  
10 actually serve their risk management function as  
11 intended.

12           We also take very seriously our obligation  
13 to ensure that those who attempt to manipulate these  
14 markets are held accountable. And we have such a  
15 remarkable forum here today. I know many of the  
16 people on this committee, I've known them for many  
17 years, and we are very blessed to have so many  
18 people willing to take time out of their busy day to  
19 help us discuss these issues and think through them  
20 in a way -- in very dynamic circumstances. And I  
21 just want to commend all those who are willing to  
22 participate who give of their time and their energy

1 and, as I said, we have many partners and preserve  
2 the integrity of the various commodities we  
3 regulate, but none more important than the market  
4 participants who help us have a view into what's  
5 happening on the ground.

6           So with that, I'll turn it back to you,  
7 Summer.

8           MS. MERSINGER: Thank you, Commissioner  
9 Stump. Commissioner Berkovitz?

10 COMMISSIONER BERKOVITZ: Thank you, Summer, and  
11 congratulations on your first meeting. And thank  
12 you, Christa, for all the work you do to support our  
13 agricultural market oversight program. And thank  
14 you, Mr. Chairman, for your sponsorship of the  
15 committee and your leadership in conducting this  
16 meeting today. We had one of these a few weeks ago  
17 with the Energy and Environmental Management  
18 Advisory Committee, and it's particularly critical  
19 in a time like this that we engage in this dialogue  
20 with members of the affected markets so that they  
21 can hear from us about what we are doing to ensure  
22 market integrity and, as important, we learn from

1 market participants firsthand about conditions in  
2 the markets.

3           I'm pleased particularly to welcome  
4 Secretary of Agriculture Perdue to the meeting  
5 today. Commitment and cooperation among all levels  
6 and branches of government are critically important  
7 as our country seeks to overcome the COVID-19  
8 pandemic and its economic consequences, including in  
9 the agricultural sector. We are meeting with the  
10 Secretary and his leadership staff in this spirit  
11 today.

12           America's farmers, ranchers, and other  
13 participants in the agricultural commodity have long  
14 been a focus of the commission's work in promoting  
15 price discovery and effective risk management in  
16 derivatives markets and ensuring that these markets  
17 are free from fraud and abuse.

18           Last summer, I had the privilege of  
19 traveling the country to meet with farmers,  
20 ranchers, and agricultural market participants  
21 throughout the United States. Each of these visits  
22 emphasized the importance of agriculture to the U.S.



1 economy and to our national well-being through safe,  
2 abundant, and affordable domestic food supplies. I  
3 saw firsthand how American farmers and ranchers were  
4 diligently working to overcome the threats posed by  
5 floods, tariff wars, and collapsing prices.

6           And I might add that, on my travels last  
7 summer, I happened to intersect with Secretary  
8 Perdue's travels and we both attended a dinner with  
9 farmers and ranchers and leaders of the agricultural  
10 community in Minneapolis. And I had a good  
11 conversation with the Secretary at that dinner, and  
12 we talked about a convergence in our agricultural  
13 markets. And I think it's great that we have a  
14 Secretary that understands our markets and that is  
15 committed to supporting our markets and so  
16 knowledgeable about our markets and supportive of  
17 our mission. So I look forward to continuing to  
18 work with Secretary Perdue and his staff on issues  
19 of mutual interest, and I'm pleased to see that we  
20 will have a new liaison to the Department of  
21 Agriculture.

22           The COVID-19 pandemic has added a myriad

1 of new existential challenges to our agricultural  
2 sector. In this environment, it is critical that  
3 our commodity markets serve their purpose to help  
4 overcome these challenges and not contribute to  
5 them. We must ensure that the commodity markets  
6 continue to serve their intended function of risk  
7 management and price discovery so that farmers,  
8 ranchers, and others in the agricultural sector can  
9 manage the risks posed by the current situation.

10 I look forward to the discussion today,  
11 including with respect to livestock markets and  
12 processing facilities. I thank each of today's  
13 panelists for making the time to help inform the  
14 commission so that we can better ensure that CFTC  
15 regulated agricultural markets are working  
16 effectively for all farmers, ranchers, and  
17 commercial businesses involved in feeding America  
18 during these challenging times.

19 Thank you, and I look forward to the  
20 discussion today.

21 MS. MERSINGER: Thank you, Commissioner  
22 Berkovitz. And thanks again to the committee and

1 the commissioners for making time to take part in  
2 this important meeting today and for sharing your  
3 remarks with the committee.

4 I also want to echo the thanks to Christa  
5 Lachenmayr who has been very involved in preparing  
6 for this meeting today, and I also want to say thank  
7 you to Ann Wright, Deputy Director of the Office of  
8 Legislative and Inter-Governmental Affairs, and  
9 Jenna Tubby, an intern with the Office of  
10 Legislative and Inter-Governmental Affairs, who were  
11 also a very important part of today's call.

12 With that, at this time, I would like to  
13 do a roll call of the committee members on the line.  
14 When I call your name, please indicate that you are  
15 present.

16 Buddy Allen, American Cotton Shippers  
17 Association?

18 [No audible response; MR. ALLEN  
19 subsequently signaled his presence via email.]

20 MS. MERSINGER: Next we'll go to Joe  
21 Barker, National Council of Farmer Cooperatives.

22 MR. BARKER: Present.

1 MS. MERSINGER: Chris Betz, Michigan Agri-  
2 Business Association?  
3 MR. BETZ: Present.  
4 MS. MERSINGER: Larry Birgen, National  
5 Farmers Union?  
6 MR. BIRGEN: Present.  
7 MS. MERSINGER: Darryl Blakey, National  
8 Cattleman's Beef Association?  
9 MR. BLAKEY: Present.  
10 MS. MERSINGER: Robbie Boone, Farm Credit  
11 Council?  
12 MR. BOONE: Present.  
13 MS. MERSINGER: Amanda Breslin, Coalition  
14 for Derivatives End Users?  
15 MS. BRESLIN: Present.  
16 MS. MERSINGER: Patrick Coyle, National  
17 Grain and Feed Association?  
18 MR. COYLE: Present.  
19 MS. MERSINGER: Rob Creamer with the  
20 Principal Traders Group and Futures Industry  
21 Association?  
22 MR. CREAMER: Present.

1 MS. MERSINGER: Neil Dierks, National Pork  
2 Producers Council?  
3 MR. DIERKS: Present.  
4 MS. MERSINGER: Ed Elfmann, American  
5 Bankers Association?  
6 MR. ELFMANN: Present.  
7 MS. MERSINGER: Ed Gallagher, National  
8 Milk Producers Federation?  
9 MR. GALLAGHER: Present.  
10 MS. MERSINGER: Tommy Hayden, Commodities  
11 Markets Council?  
12 [No response. MR. HAYDEN subsequently  
13 signaled his presence via email.]  
14 MS. MERSINGER: Matt Hines, American Farm  
15 Bureau Federation?  
16 MR. HINES: Present.  
17 MS. MERSINGER: Thomas Hogan, Cocoa  
18 Merchants Association of America?  
19 MR. HOGAN: Present.  
20 MS. MERSINGER: Tom Kadlec, Futures  
21 Industry Association?  
22 [No response. MR. KADLEC subsequently

1 signaled his presence via email.]

2 MS. MERSINGER: Chris Klenklen, National  
3 Association of State Departments of Agriculture?

4 [No response. MR. KLENKLEN subsequently  
5 signaled his presence via email.]

6 MS. MERSINGER: Ron Lee, National Cotton  
7 Council of America?

8 MR. LEE: Present.

9 MS. MERSINGER: Randy Melvin, National  
10 Corn Growers Association?

11 MR. MELVIN: Present.

12 MS. MERSINGER: John Owen, USARice  
13 Federation?

14 MR. OWEN: Present.

15 MS. MERSINGER: Monte Peterson, American  
16 Soybean Association?

17 [No response. MR. PETERSON subsequently  
18 signaled his presence via email.]

19 MS. MERSINGER: Paul Riniker, National  
20 Farmers Organization?

21 [No response.]

22 MS. MERSINGER: Mark Scanlan, Independent

1 Community Bankers of America?

2 [No response. MR. SCANLAN subsequently  
3 signaled his presence via email.]

4 MS. MERSINGER: Stephen Strong, North  
5 American Export Grain Association?

6 [No response. MR. STRONG subsequently  
7 signaled his presence via email.]

8 MS. MERSINGER: I think we're maybe having  
9 a problem with some folks' lines. So we will just  
10 finish our roll call here, and we might have to  
11 check back to see who we missed.

12 Justin Tupper, US Cattlemens Association?

13 [No response.]

14 MR. ALLEN: Summer, this is Buddy Allen,  
15 American Cotton Shippers. I apologize. I had a  
16 muted line, but I'm on.

17 MS. MERSINGER: No problem. Thank you.

18 MR. TUPPER: Justin Tupper is present.

19 MS. MERSINGER: Thank you.

20 Hayden Wands, American Bakers Association?

21 [No response. MR. WANDS subsequently  
22 signaled his presence via email.]

1 MS. MERSINGER: Ryan Weston, American  
2 Sugar Alliance?

3 [No response. MR. WESTON subsequently  
4 signaled his presence via email.]

5 MS. MERSINGER: Chris Young, International  
6 Swaps and Derivatives Association?

7 MR. YOUNG: Present.

8 MS. MERSINGER: Thank you. We can go back  
9 and touch base with those that we didn't hear from  
10 in case you were having problems with your line  
11 after the call.

12 As noted in today's agenda, next we'll  
13 have remarks from Derek Sammann. He is the Global  
14 Head of Commodities and Options Products and our  
15 Senior Managing Director at CME Group.

16 Derek will be followed by David Farrell.  
17 He's the Chief Operating Officer of ICE Futures US.

18 And with that, I'll turn it over to Derek  
19 for his presentation.

20 MR. SAMMANN: Thank you, Summer. Can you  
21 hear me okay?

22 MS. MERSINGER: Yes.



1                   MR. SAMMANN: Terrific. This is Derek  
2 Sammann from CME Group.

3                   And let me start by saying thank you to  
4 Commissioner Tarbert and the entire Ag Advisory  
5 Committee for the opportunity today to provide a  
6 brief overview on the state of agricultural markets.

7                   I especially want to thank the industry  
8 associations represented here today with whom we've  
9 been engaged throughout these difficult times. Your  
10 engagement is extremely beneficial to helping us  
11 provide the best markets for commercial customers.

12                  The disruption that the COVID-19 has  
13 caused in the global economy, and in the  
14 agricultural markets in particular, is  
15 unprecedented. These extraordinary circumstances  
16 have led to disruptions in the food supply chain,  
17 the results of which can be seen primarily in  
18 livestock and dairy markets, with the physical  
19 supply chain of adapting to a shift in demand from  
20 food service to grocery channels and uncertainty  
21 around processing capacity.

22                  Cattle and hog futures prices at CME Group

1 were particularly impacted by these shifts. We  
2 observed and heard from our customers about the  
3 unusually wide basis between spot prices and futures  
4 prices. We know this was confusing for many market  
5 participants as they saw robust current demand as  
6 consumers cleared out the meat case at the local  
7 grocer while futures markets were pricing any  
8 impacts of closed food service outlets, the  
9 potential for additional shelter-in-place orders,  
10 and the possibility that COVID-19 might infect and  
11 shut down processing plants, all factors which have  
12 now come to pass.

13           The measure of the effectiveness of a  
14 futures contract is not if a futures contract  
15 matches today's spot price, which it rarely will in  
16 volatile and uncertain markets. Instead, it is how  
17 effectively it enables the convergence between the  
18 futures price and the cash price by the end of the  
19 delivery period.

20           For example, in the cash-settled March  
21 Feeder Cattle contract, we recently saw the basis  
22 converge from \$22 between the cash spot and futures

1 to 36 cents in a week. Based on the first cattle  
2 option and the settlement period, which was \$22  
3 below the futures price, we proactively took action  
4 to widen the daily price limits to ensure that  
5 convergence would not be impeded. Based on  
6 successive cattle options in the settlement window,  
7 which were at and above the futures price, the index  
8 caught up to the futures price, and those wider  
9 daily price limits were eventually not needed for  
10 the two prices to successfully converge.

11 Last week, we saw an orderly convergence  
12 in the cash settled April Hog contract. Over the  
13 past year, we have consistently seen convergence  
14 successfully occur across our livestock contracts,  
15 both the physically settled Live Cattle contract and  
16 the financially settled Feeder Cattle contract where  
17 the futures prices and the cash prices successfully  
18 converged.

19 In the case of livestock, it's important  
20 to note the broad delivery territory as it relates  
21 to different cash prices. Convergence means the  
22 futures price and the cash price in at least one of

1 those locations equal each other, but not  
2 necessarily at all of those locations.  
3 Additionally, it means the two prices will converge  
4 at the end of the delivery period not necessarily  
5 before the delivery period or on the first day.

6           It's worth highlighting that liquidity in  
7 the live cattle contracts has improved significantly  
8 over the past few years as the Exchange has made  
9 contract enhancements which have boosted deliverable  
10 supply and addressed the potential for congestion  
11 during the delivery period. This is consistent with  
12 how we regularly review our futures contracts and  
13 seek customer feedback on the ways to make these  
14 products as efficient as possible for customers that  
15 manage their risk in the livestock markets. As a  
16 result, this contract was much better positioned to  
17 withstand this current market uncertainty.

18           We remain equally vigilant around the  
19 grains and dairy markets. Many of the fundamental  
20 factors impacting livestock are also impacting the  
21 dairy markets, where we see heightened volatility in  
22 both milk and cheese products. The impact on grains

1 was less severe. However, low Crude Oil prices and  
2 reduced global energy consumption have filtered back  
3 into ethanol demand where Corn prices reached a  
4 14-year low.

5           We continue to closely monitor our  
6 contracts' performance, especially as it relates to  
7 enabling the successful convergence of futures and  
8 cash prices in our market. We also continue to work  
9 closely with the ag industry to ensure that all our  
10 contracts remain effective hedging tools by ensuring  
11 that we have appropriate price limit mechanisms in  
12 place to allow price discovery and convergence to  
13 efficiently occur in a timely manner. CME Group  
14 remains committed to continuing to work with the ag  
15 industry and maintain an open line of communication  
16 to build and improve the effectiveness of our  
17 futures and options contracts for robust risk  
18 management and efficient price discovery.

19           Thank you. And I'll turn it back to the  
20 committee.

21           MS. MERSINGER: Thank you, Derek. Dave,  
22 are you on the line?

1                   MR. FARRELL: Yes, Summer. Can you hear  
2 me?

3                   MS. MERSINGER: Yes. The floor is yours.

4                   MR. FARRELL: Okay, great. My name is  
5 David Farrell and I'm the Chief Operating Officer  
6 for ICE Futures US.

7                   First and foremost, I'd like to thank  
8 Chairman Tarbert, the commissioners, and the  
9 industry associations represented on the committee  
10 for allowing us the opportunity to update the  
11 committee on the status of our agricultural markets.

12                   In such extraordinary times and with  
13 unprecedented disruptions on both the supply side  
14 and the demand side, the futures markets remain  
15 critical in providing their three primary functions  
16 to the agricultural supply chains.

17                   First, risk management. We continue to  
18 offer contracts that allow firms to offset their  
19 commercial risks that exist in their business and  
20 manage their risks.

21                   Second, price discovery. We provide a  
22 place for today's unique supply and demand dynamics

1 to play out publicly to determine the price of a  
2 standard specification of product.

3           And third, the futures serve as a buyer  
4 and seller of last resort and allow for convergence  
5 with the physical market. For example, if a seller  
6 has a surplus of stock, they can use the futures  
7 markets to pass it on to other participants that may  
8 need it. And likewise, a buyer with a genuine  
9 commercial need and no access to supply can utilize  
10 the futures markets to service that need.

11           Our agricultural markets, including the  
12 domestic crops that we have, are global in nature.  
13 They serve as benchmarks for goods traded around the  
14 world.

15           (Inaudible) electronically, which has  
16 allowed for a relatively uneventful transition of  
17 participants from office environments to working  
18 from home and other working arrangements.  
19 Participants have been able to access the market to  
20 carry out their required business and to manage  
21 their risks.

22           The impact we do see with the onset of the

1 COVID-19 epidemic has a distinct fingerprint that we  
2 can see across our agricultural markets, and it's  
3 evident in the patterns of volumes and volatility in  
4 those markets. Each of our agricultural futures  
5 markets and options markets have seen above average  
6 volume and volatility year-to-date with a minimum of  
7 a double digit increase in the volume for that  
8 market.

9           The pattern of that activity has followed  
10 a similar path in each market. At the beginning of  
11 the year, broadly speaking across our ag markets, we  
12 saw average volume and we saw average volatility  
13 relative to last year. Beginning in February and  
14 through the start of March, we began to see some  
15 extended periods of increased activity and above  
16 average volume. Following that volume increase, we  
17 saw implied volatilities respond and increase as  
18 well, mainly throughout March and into the early  
19 April timeframe.

20           However, in recent weeks, as we've  
21 progressed through April, we've seen a return to  
22 more average or below average, in some



1 circumstances, trading activity. So the overall arc  
2 of activity is similar across many of these markets.  
3 After the initial uncertainty around COVID-19 has  
4 come to pass, markets are starting to settle in and  
5 trade and progress in a more normal fashion.

6           While the derivatives trading activity in  
7 our markets is 100 percent electronic, there are  
8 aspects of our futures supply chain that could  
9 experience constraints. Some activities require  
10 people to be congregated together and to perform a  
11 function. This could manifest itself in warehousing  
12 or sampling operations, transportation, as well as  
13 the grading function, specifically for coffee and  
14 cocoa.

15           Coffee and cocoa grading occurs in our  
16 exchange facility in New York by a panel of licensed  
17 experts, most of whom are based in the New York  
18 vicinity. Considering New York is one of the high-  
19 risk regions, we've taken precautions to ensure the  
20 safety of the graders and our staff who assist and  
21 help facilitate the grading. These precautions have  
22 reduced the potential capacity of our grading

1 function. However, to date, we continue to be able  
2 to facilitate grading where necessary.

3           While the delivery mechanism and delivery  
4 locations vary greatly for each of our markets,  
5 we're monitoring the key functions which are  
6 critical for an exchange delivery in eligible  
7 locations. We're reviewing our contingency plans  
8 and potential mitigations, as well as advising  
9 participants of the market of conditions that exist  
10 where necessary. Logistical complications are  
11 always possible with physically settled contracts,  
12 but ultimately we're preparing ourselves to ensure  
13 that the markets remain available for trading, that  
14 participants are able to manage their commercial  
15 risks, and that price discovery continues in an  
16 orderly manner.

17           Thank you again to the commission for  
18 inviting us to update you on our markets. We wish  
19 everybody on the committee and at the commission  
20 good health and safety as we work through these very  
21 difficult times. Thank you.

22           Back to you, Summer.

1                   MS. MERSINGER: Thank you, David. Thank  
2 you both for your insight and taking time to join us  
3 today.

4                   I will note we've received some messages  
5 from those individuals from the committee that are  
6 on the call. So we're unable to unmute their lines  
7 to say "present," and we will adjust the record  
8 accordingly to account for those individuals.

9                   Now I'd like to open the meeting up for a  
10 few questions. For those of you listening in, the  
11 committee members sent questions ahead of time, and  
12 thank you all for doing that. I'll read the  
13 questions and probably address them to our  
14 panelists. As the Secretary mentioned, we also have  
15 USDA's Chief Economist, Dr. Rob Johannson, on the  
16 line. Tom LaSala, the Chief Regulatory Officer for  
17 CME, is also on our line, and we have a few people  
18 from our Division of Market Oversight, specifically  
19 David Amato with our Market Intelligence Branch.

20                   We'll do the best we can to get you as  
21 many questions as possible today. If you have other  
22 questions and you'd like to ask them during the

1 discussion, if you press \*0 that should take you to  
2 the operator to alert the operator.

3           With that, I'm going to kick off our  
4 question and answer session, and we'll start with a  
5 question for Chairman Tarbert. Chairman, groups  
6 such as dairy, cattle, and corn farmers are  
7 experiencing large price volatility in the industry.  
8 The demands for these products are high, yet  
9 ranchers and farmers are struggling. How does the  
10 CFTC plan to make sure these markets are working  
11 properly?

12           CHAIRMAN TARBERT: Thanks so much, Summer.

13           I mean, in a nutshell, we're putting all  
14 of our efforts into making sure that we understand,  
15 during this period of immense volatility, exactly  
16 what's going on in our markets. And particularly,  
17 as I mentioned, we've put together the Livestock  
18 Task Force specifically for that reason. And so we  
19 are talking to the exchanges. We're talking to  
20 market participants. We're talking to the  
21 clearinghouses just to make sure that we get a sense  
22 of basically any indication that prices are moving

1 in an uneconomic manner relative to the underlying  
2 commodity's cash prices. So in other words, the  
3 question we're asking, as we're looking at  
4 everything, is, does all this make sense, or is  
5 something else going on here? Could it be caused by  
6 a trader exerting market power or attempting to  
7 manipulate futures prices? And if so, we will refer  
8 that matter to enforcement for an investigation.

9           And so that is what we are doing. We're  
10 watching the markets very carefully, and in  
11 particular, given the volatility in sort of the Live  
12 Cattle or the Feeder Cattle contracts, we've put  
13 together this Livestock Task Force.

14           MS. MERSINGER: Thank you, Chairman.

15           With regard to the Livestock Task Force,  
16 when you're communicating with industry groups and  
17 the general public about the work the CFTC is doing  
18 during this time, are you able to publicize those  
19 efforts, such as what surveillance is undertaking,  
20 or if there are investigations? And is the  
21 commission able to post an update on any type of  
22 ongoing investigation in an industry segment?

1                   CHAIRMAN TARBERT:  So, Summer, we can  
2 certainly give indications that give information as  
3 to what we're seeing in the markets.  Our Market  
4 Intelligence Bureau does a lot of that.  Calls like  
5 this provide that insight on what's happening in the  
6 markets, and I try to give commentary where possible  
7 in the various media, as well as my fellow  
8 commissioners often do the same.

9                   The one area, though, that I think we  
10 don't really publicize unless we've decided to take  
11 a concrete action is on the enforcement side.  So  
12 if, in fact, we file a case, we bring a case against  
13 someone, we detect something, we will go ahead and  
14 often publicize that through a media release, and we  
15 can always make sure that the members on this call  
16 get those in a timely manner.

17                   What we don't normally do is publicize our  
18 surveillance activities and our investigation  
19 activities.  And the reason for that, of course, is  
20 number one, we want to make sure we get it right, we  
21 do a thorough investigation.  We gather all the  
22 evidence, and we give the people that we're looking

1 at sort of the benefit of the doubt before we decide  
2 to bring an action. So we don't want to do anything  
3 prematurely.

4           The other thing, of course, is that we  
5 need to be smart about how we go about our  
6 surveillance to ensure that particularly if we're  
7 monitoring certain things or we identify certain  
8 patterns, that we don't expose those patterns such  
9 that we're unable to gather the evidence we need if  
10 we think there's wrongdoing.

11           So that's the way we bifurcate it. I  
12 think in terms of market information and being able  
13 to say what we're seeing out there, we're happy to  
14 publicize those efforts. On the other stuff, the  
15 surveillance and the investigation, again there you  
16 should know that we're doing it, but we can't reveal  
17 the details prematurely.

18           MS. MERSINGER: Thank you.

19           The next question -- there's probably a  
20 few people on the panel who are able to answer this.  
21 So I'll throw it out there and let folks provide  
22 their feedback on this. This is a question we

1 received from a number of our advisory committee  
2 members.

3           We've all seen the news about the Crude  
4 Oil market. And members submitted questions related  
5 to this week's activity. Would it be possible to  
6 get an overview of the Crude Oil markets and what  
7 happened in the past week, what the implications are  
8 for a negative price for the May contract? And is  
9 it possible that the contracts in the ag complex --  
10 like Live Cattle, Feeder Cattle, Lean Hogs, dairy,  
11 grain -- could also at some point go negative?

12           MR. SAMMANN: Hi. This is Derek Sammann.  
13 I think I'll maybe be the first to step into this  
14 one. Thank you, Summer. So let me address the  
15 first part of that at the outset.

16           So the negative pricing in front month the  
17 May WTI contract on Monday was driven by three  
18 fundamental factors impacting the global oil market.  
19 Number one, significant oversupply of crude globally  
20 particularly here in the U.S. with U.S. shale  
21 continued production. Number two, significantly  
22 reduced demand for global oil due to the COVID-19



1 impacts of shut-ins in states and nobody flying and  
2 nobody traveling. And thirdly, the concerns about  
3 increasingly full U.S. storage capacity here in the  
4 U.S. for the WTI contract product.

5           During Monday's trading day, the already  
6 steep contango continued to steepen, eventually  
7 pushing the May contract below zero for the first  
8 the last few hours of trading. While this kind of  
9 contango is rare this steep, it is simply a  
10 reflection of the oversupply of the U.S. crude  
11 market seeking storage. So our WTI contract did  
12 what it was designed to do, which basically is to  
13 reflect the underlying supply and demand dynamics of  
14 efficiently converging towards the underlying cash  
15 physical price.

16           So to your second portion of the question,  
17 in terms of ag products, negative prices in ag  
18 markets are unlikely primarily because the ability  
19 to create near-term storage options. It's much  
20 cheaper and much easier than creating near-term  
21 storage capabilities for crude oil. For example, in  
22 grains and oilseeds, it's virtually impossible to

1 have a zero or negative price because grains and  
2 oilseeds can be stored on the ground and covered  
3 with a tarp, for example.

4           In addition, delivery instruments do not  
5 require the buyer to take physical stocks of grain  
6 which he may be incapable of handling.

7           In Live Cattle, for example, it's very  
8 unlikely despite grave concerns around beef  
9 processing capacity due to COVID-19. Slaughter-  
10 ready cattle can always be put back on feed or even  
11 put out to pasture. While it's not ideal -- it  
12 certainly would imply very cheap cattle -- but it  
13 probably wouldn't create negative prices for cattle.

14           Lean hogs? Lean hogs are cash settled to  
15 the CME Lean Hog Index. For the index to go  
16 negative, hogs on the cash market would need to  
17 trade at negative prices. This could really only  
18 happen if most, if not all, hog slaughter capability  
19 was lost across the entire nation and the price of  
20 hogs in the cash market reflected the cost to  
21 destroy them. Hogs can be put in pens for some  
22 period of time, So that's an unlikely scenario.

1                   And finally, on the dairy side, butter may  
2 represent an agricultural product that may  
3 potentially have a risk of trading at negative  
4 prices, but it's very unlikely in our estimation  
5 primarily because it can be stored for a limited  
6 period of time and finding an alternative climate-  
7 controlled warehouse base is much cheaper and easier  
8 than finding an alternative storage for crude oil,  
9 which is far more complex and costly.

10                   So that's on the CME side.

11                   MS. MERSINGER: Thank you, Derek.

12                   MR. FARRELL: Hi. It's David Farrell from  
13 ICE. And I want to tread really carefully here just  
14 to make sure we don't cause any alarm, and I want to  
15 ensure that I avoid any confusion, confusing our  
16 conversation around theoretical possibility with a  
17 conversation around likelihood.

18                   In the realm of theoretical possibility,  
19 yes, negative prices are possible. They would be  
20 extremely unlikely, but possible.

21                   Each market has its own set of potential  
22 legitimate constraints on supply, storage,

1 transportation, delivery, something on the demand  
2 side, which could lead to extreme prices, whether  
3 they be high, low, negative. In particular, this  
4 could happen if the prevailing conditions occur very  
5 close to a contract's expiration and there was some  
6 additional time constraint. The conditions would  
7 certainly need to be extreme. They would likely be  
8 restricted to a specific geographic area, and they  
9 would also probably very likely be very short-lived.  
10 So, again, it's a theoretical possibility but it's  
11 not a likely event in our ag markets.

12 MS. MERSINGER: Thank you, David.

13 The next question -- I'll let you kind of  
14 start by answering this one. Based on how the  
15 markets are functioning during the pandemic, are  
16 there any rules or regulations that are currently in  
17 place that have benefited the operation of the  
18 markets? Or do you all see anything that needs to  
19 be established for anything in the future?

20 MR. FARRELL: I think broadly speaking,  
21 the principles that we have at the exchange and the  
22 principles that we utilize with our rule book and

1 the way that we operate the market has allowed us to  
2 preserve those core functions. And it's not to say  
3 that in very extreme times you won't have extreme  
4 volatility, but the purpose of the market is still  
5 functioning. It's still providing risk management  
6 for participants; it's still providing price  
7 discovery, which is very important in these times  
8 particularly as all the different supply dynamics  
9 and demand dynamics come together in one place. And  
10 ultimately it will provide a buyer and seller of  
11 last resort to allow convergence.

12 MS. MERSINGER: Thank you, David.

13 MR. SAMMANN: From the CME side, I would  
14 say the most important thing that we're seeing in  
15 this market is the continued dialogue with the CFTC  
16 at multiple levels and our customers. Where we have  
17 needed to take decisive actions to ensure the  
18 continued smooth operation of markets, we have done  
19 so. The point that I made on Feeder Cattle earlier  
20 in my prepared remarks are a great example of that  
21 where we wanted to make sure that where we saw a  
22 spread between the underlying cash price on the

1 first day of the settlement window versus our  
2 futures price, we needed to make sure that we were  
3 able to adjust that daily price limit so that didn't  
4 impede the ability for those markets to converge.

5           So our partnership and communication in  
6 coordination with the commission, as well as with  
7 the commercial customers and keeping an open  
8 dialogue, have us comfortable that as we are seeing  
9 issues that are extraordinarily impacting this  
10 market, we're comfortable that we have the right  
11 input from customers and the right support from the  
12 commission when we need to get things done for the  
13 benefit of the market.

14           MS. MERSINGER: Great. Thank you.

15           And speaking of the commission, I'm going  
16 to quickly turn to Dave Amato in our Division of  
17 Market Oversight. He's also on the call today. And  
18 just kind of a general question. Dave, are the  
19 markets reacting as you would expect them to react  
20 given the current conditions?

21           MR. AMATO: Hi, Summer. Yes, this is Dave  
22 Amato. As Summer said, I'm an economist in the

1 Division of Market Oversight, Market Intelligence  
2 Branch. I also head up the Livestock Task Force  
3 that the CFTC has put together, and thank you,  
4 Chairman Tarbert, for that opportunity.

5 In terms of the question, I guess I can  
6 kind of go over a few highlights. In terms of the  
7 price movements that we're seeing, I would say that  
8 the market is reacting the way we would expect. But  
9 the big caveat there is we're living in very, very  
10 historic times, as many of our speakers have talked  
11 about. I don't believe anyone on this call has  
12 experienced anything like this in any other ag  
13 environment or commodity markets that we're aware  
14 of, at least not in our lifetimes.

15 You have the packing plants around the  
16 country, they're now the most significant hot spots  
17 for COVID-19. Looking at some statistics that have  
18 come out, currently about 8 percent of the U.S.  
19 packing capacity is off line and most of the plants  
20 are operating at anywhere from 50 to 75 percent of  
21 normal production. A lot of that is due to employee  
22 absenteeism. So given those estimates, the total

1 meat packing industry is operating at about 60  
2 percent of normal capacity.

3           We have very strange things happening. We  
4 have milk, about 8 percent of milk production is  
5 being dumped. We have poultry producers getting  
6 letters from processors telling them to kill some of  
7 their chickens in the field. In terms of hogs, we  
8 have about -- normally we process about 2.5 million  
9 hogs per week. It's estimated that if the virus  
10 continues, we'll be only able to process about 2.1  
11 million. So that leaves about 400,000 hogs per week  
12 backing up. As some of our guests have said, there  
13 are some things you can do to sort of alleviate  
14 that, but at the end of the day, when you have that  
15 many hogs with no home defined, we're probably going  
16 to have to seek some euthanization of hogs as well.  
17 So these are just definitely very, very strange  
18 times.

19           I think it's very similar to what we saw  
20 in the Tyson Holcomb fire that the U.S. Ag Secretary  
21 referenced earlier, except it's at a much, much  
22 greater level. Instead of having one plant down,



1 you're having multiple plants down, lots of  
2 different locations across the country, and it's  
3 impacting all the meats.

4 I think in terms of volatility, it's just  
5 been extremely volatile, particularly if we look at  
6 livestock, which I know has come up a lot. The  
7 fundamentals are sometimes changing daily, sometimes  
8 point prices in different directions. Normally  
9 volatility is caused by either fears or uncertainty,  
10 and the situation that we're in right now has both.  
11 You have the virus scaring people, closing packing  
12 plants, making people sick and die.

13 And just to kind of give you a little  
14 background, we looked at March 1st through April  
15 14th to the June Live Cattle contract, and that  
16 contract -- those 31 days -- it had 14 days where it  
17 either traded limit up or limit down. So that's  
18 about 45 percent of the trading days over that  
19 31-day period you saw limit moves. And so it's  
20 going to take a lot of research to find a more  
21 volatile time than that.

22 And so, I think, one of the things that

1 we're seeing -- normally when you have volatility  
2 like we're seeing today, you expect to see a lot of  
3 open interest. Usually the investor class likes  
4 volatility as an opportunity to make money. But  
5 what we're seeing pretty much across the board, with  
6 a few exceptions, but most of the commodities have  
7 much lower open interest today, on an all futures  
8 and options combined basis, than they did at the  
9 start of the year. And I think that fear factor has  
10 actually removed people from some of the markets, as  
11 opposed to drawing them in.

12           And then just a couple other notes on the  
13 Commitment of Traders. I think the CFTC's  
14 Commitment of Traders can provide a little bit of  
15 insight to the public on what's been happening in  
16 the markets. And so, just sort of a few  
17 observations, again focusing on cattle and livestock  
18 because so much attention has been placed on that.

19           In the cash market, you have farmers and  
20 ranchers and packers and processors, and they're  
21 dealing in an exclusive commercial market. But  
22 obviously in the futures markets, we have a large

1 investor class that participates in these markets.  
2 And so what we've seen, if you look at the data,  
3 especially if you look at things like livestock,  
4 since January and once the virus hit, we've seen a  
5 tremendous sell-off by non-commercials and this is  
6 available on the CFTC website for the Commitment of  
7 Traders reports. And as you see pretty much across  
8 the board in most of the ag products, there's been a  
9 large sell-off by non-commercials, and you see  
10 buying at lower prices by the commercial class. And  
11 so I think a lot of the sell-off that we've seen -  
12 the downward pressure in prices is due to this non-  
13 commercial exit, changing positions from being net  
14 long to either less long or possibly even in some  
15 cases net short. So I think to summarize, the  
16 general price action is very consistent with the  
17 supply and demand that we're seeing, but it's just  
18 incredibly unprecedented.

19           As someone mentioned oil just a few  
20 minutes ago, I think oil is a perfect example. You  
21 had oil back in June of 2008 trade for almost \$150 a  
22 barrel, and then this week we're seeing negative,

1 minus \$37, dollar prices. So is that consistent  
2 with the supply and demand? Very possibly, but it's  
3 just incredible times that we're living in.

4 So that's all I have. Thank you.

5 MS. MERSINGER: Thank you, Dave.

6 Just to follow up on that, you mentioned  
7 convergence. Can you give us kind of some  
8 circumstances where there may be a lack of  
9 convergence in the markets and then also, if there's  
10 anything that we should consider or be prepared for  
11 moving forward in the months ahead based on the  
12 current uncertainty?

13 MR. AMATO: Again, to go to like livestock  
14 and Live Cattle, the April basis has been very wide.  
15 Cash transactions had been relatively small or very,  
16 very light the past few weeks. However, over the  
17 last several days, we have seen that basis come in  
18 nicely. It's obviously been a big concern for us  
19 because the cash and futures were so wide. At one  
20 point the basis was about \$19 cash over futures. It  
21 has come in today to about \$3.50. So as we approach  
22 LTD, last trading day, on April 30th, we're

1 definitely moving in the right direction.

2           As someone mentioned, cattle is a  
3 physically delivered contract. We don't expect to  
4 see any deliveries at this point because cash is  
5 still over futures, but those two prices are coming  
6 together. And so I think it would be an incredible  
7 accomplishment if we do have this convergence. It's  
8 what we expect, but we are living, as I said, in  
9 very, very difficult times. And so if something  
10 like Live Cattle, which has the potential to deliver  
11 physical animals, if you could have convergence in a  
12 market like that, I would say that our markets are  
13 functioning extremely well.

14           As was pointed out by, I think, by the CME  
15 gentleman, the CME has made adjustments as needed as  
16 we saw in the Feeder Cattle contracts back in March  
17 when they changed the price limits for a futures  
18 contract to ensure convergence. So there are rule  
19 changes and tweaks like that can sometimes be made  
20 to ensure that we get to convergence.

21           MS. MERSINGER: Thank you, Dave.

22           The next question -- I'll actually turn to

1 Dr. Johannson. So your boss mentioned a number of  
2 supply chain issues that you guys are watching, and  
3 I'm just wondering if you could go a little bit  
4 deeper into what you all are doing with respect to  
5 keeping the food chain supply operational and how  
6 you're monitoring that and working with other  
7 agencies to alleviate bottlenecks in the system.

8 DR. JOHANNSON: Yes. Thanks again for  
9 inviting us to participate and provide some comments  
10 just to echo what some of the speakers have already  
11 mentioned regarding well-functioning markets and, in  
12 addition, the numerous sort of historic conditions  
13 that we're facing right now.

14 So, yes, of course, when we talk about the  
15 food supply chain, we're moving, talking about all  
16 the way from the farm operation all the way to the  
17 grocery store or obviously previously to other  
18 marketing outlets. Transportation is a big part of  
19 that. We've been working with DOT to ensure that --  
20 for example, some of their hours of service  
21 regulations have some exemptions for critical  
22 products.

1                   We've also been, of course, closely  
2 monitoring the situation in the packing plants and  
3 working with DHS and CDC and others on the various  
4 task forces that are arranged at the White House  
5 right now to deal with these issues to ensure that  
6 discussions of PPE and other protective measures are  
7 also deliberately considering the ag supply chain.  
8 So in those discussions, we are participating to  
9 make sure that whatever policies are being put in  
10 place are also considering the agricultural sector  
11 and the agriculture food supply chain.

12                   The Secretary has certainly been on more  
13 calls than I can relay with different State  
14 governors and other officials regarding policies in  
15 those regions around some of the packing plants to  
16 understand what's ongoing. And of course, we've  
17 been in touch with the companies as well. We  
18 understand that a lot of the packing companies are  
19 putting in place measures to try and establish  
20 social distancing when possible and adjusting some  
21 of the operations of those facilities to ensure  
22 that, when possible and to the extent possible,

1 those protective measures can be put in place.

2           Of course, we also have a number of our  
3 employees that are directly impacted and that are  
4 participating with ensuring the smooth functioning  
5 of those facilities. And we're, obviously, making  
6 sure that all of our employees are adequately  
7 protected as well.

8           So, again, there are lots of moving  
9 pieces. We're engaging with a lot of the folks that  
10 are probably on the call today in terms of  
11 understanding what they're seeing in terms of the  
12 economic impacts on their stakeholders and making  
13 sure that we're aware of what those are as we start  
14 putting in place some of the programs and policies  
15 the Secretary mentioned and the President mentioned  
16 earlier on both the food purchase, which is also  
17 going to help on the supply chain side, as well as  
18 the payments to producers to help them with their  
19 impacts.

20           Now, I know that we also have some of the  
21 folks in the USDA on the line that may want to point  
22 out some more specifics on this. So I'm just going



1 to see if Dudley Hoskins is available to continue  
2 making comments on this particular issue.

3 MR. HOSKINS: Yes, Rob, thank you. And  
4 this is Dudley Hoskins, USDA in the Secretary's  
5 office.

6 Dr. Johannson, I think, did a great job of  
7 framing out just the landscape of challenges and  
8 issues, and maybe just to go a little deeper on some  
9 of that at a granular level.

10 So the Secretary has directed us to do a  
11 number of different things. I think his metaphor at  
12 the top of the call was about something like a car  
13 wreck on the interstate and the backlog that that  
14 creates. What we saw when the restaurant and food  
15 service industry came offline really kind of  
16 overnight, there was an incredible shock to that  
17 supply chain. I'm not telling anything you all  
18 don't know. But in response to that, one of the  
19 things the Secretary directed us to do was to find  
20 and facilitate as much regulatory flexibility as we  
21 could to help redirect as much of that product from  
22 food service, restaurant, et cetera into the grocery

1 store retail market.

2           And some of the things that we did  
3 unilaterally within USDA and some in partnership  
4 with our colleagues at FDA. The Secretary amended  
5 some of the federal milk marketing orders that had  
6 very specific restrictions on volume and flow in  
7 certain regions. That was an effort to try to  
8 redirect more fluid milk that was disrupted from  
9 some of the school lunch programs and helped broaden  
10 the infrastructure that that product could go to in  
11 the processing space. It also directed AMS to bring  
12 more flexibility to some of the shell eggs that were  
13 initially set to go into food service and  
14 restaurants and to allow them to be regraded,  
15 relabeled, repackaged, and redirected into the  
16 grocery store sector.

17           And then he's done some other things --  
18 trying to exercise some discretion on some of the  
19 COOL enforcement for a product that was currently in  
20 storage. That will still not apply to imported  
21 product, but will provide more flexibility to try to  
22 pull especially some of those specialty crops back

1 into the retail sector.

2           And honestly, a lot of this is done in  
3 real time. It's, wherever we can, we are finding as  
4 much flexibility for our producers, for our  
5 stakeholders, for our customers, for the entire  
6 universe of folks that are on the call now, not to  
7 say we've done it all and it's been perfect, but  
8 wherever we can, trying to mitigate the immediate  
9 shock both to the supply chain but ultimately the  
10 disruption and -- "frustration" is probably not the  
11 right word. There's a better word, cut in the most  
12 technical sense, the frustration for producers  
13 trying to move those products in the market.

14           And so those are just some of the specific  
15 actions the Secretary has directed us to do, in  
16 addition to the things that Dr. Johansson laid out  
17 about working with the White House task force and  
18 the Vice President's office and our colleagues in  
19 DOT and FEMA and DHS and EPA across the board.

20           So I'll stop there, but I just wanted to  
21 add a little more color to what Dr. Johansson was  
22 framing out. Thank you.

1                   MS. MERSINGER: Thanks, Dudley. And I  
2 also understand that you are a distinguished former  
3 member of the AAC. So we're excited to have you on  
4 in a different capacity today.

5                   Another issue that the Secretary touched  
6 on -- I'm just wondering if anyone from USDA can  
7 provide a few more details on the trade deals.  
8 Specifically how has COVID-19 impacted Phase I of  
9 the China deal and how will it impact some of the  
10 other trade deals that were underway before the  
11 pandemic hit?

12                  DR. JOHANSSON: Yes. It's a great  
13 question.

14                  Of course, we were very excited in the  
15 beginning of January to sign the Phase I deal with  
16 China and certainly were moving full speed ahead on  
17 that before, obviously, the Chinese ag sector was  
18 significantly impacted in late January and into  
19 February and then, of course, we are where we're at  
20 here in the U.S.

21                  So I guess we're still moving forward on a  
22 lot of that agreement. But it is still relatively

1 early in that agreement. We have until December to  
2 meet those purchase amounts. We still are operating  
3 under the assumption that China is going to be able  
4 to meet those purchase agreements, although  
5 obviously with global GDP taking such a large  
6 impact, obviously purchasing power for a lot of  
7 things, including a lot of ag products, is going to  
8 be down going forward. And when essentially the  
9 rebound occurs in GDP growth is certainly  
10 questionable. I think most people were expecting a  
11 pretty quick recovery, that's "quick" meaning after  
12 a V-shaped type of recovery. But depending on how  
13 reopening goes in countries, we'll have to continue  
14 to monitor what growth patterns look like.

15           So in terms of the Chinese agreement, yes,  
16 we're still moving forward on that. We still have a  
17 lot of interaction with the Chinese ag teams. Of  
18 course that includes more than purchases including,  
19 for example, the regionalization agreement for  
20 poultry and HPAI which was fortuitous given the fact  
21 that we just had an issue with HPAI recently.

22           USMCA is -- they're still looking at

1 implementations. There are some delays there but  
2 not directly related to coronavirus. As with any of  
3 these agreements, they do take a long time to get  
4 across the finish line. And then, of course, once  
5 implementation starts, it does take a little bit of  
6 time to get up to speed on them.

7           For the Japan agreement, we did see some  
8 promising results in our meat trade in January and  
9 February. We're still getting data in a lot from  
10 our trade -- so monitoring those trade flows. A lot  
11 of times that data is a little bit delayed so I  
12 would say that at this point in time it's still a  
13 little early to tell how much coronavirus has  
14 affected some of the progress that we're making with  
15 the Japan trade agreement.

16           Let me just stop there and see if Dudley  
17 wanted to add anything in addition to some of those  
18 SPS issues.

19           MR. HOSKINS: Thanks Rob, and this is  
20 Dudley. I think you covered the landscape there.

21           I think one other topic is always front of  
22 mind. So last summer or fall -- I'm losing track of

1 some of this -- the Department of Commerce and  
2 Mexico facilitated a tomato suspension agreement.  
3 That agreement went into effect earlier this month,  
4 I think April 4th is when those inspections started.  
5 We have the AMS graders at their posts doing those  
6 inspections. It's not an SPS issue, but it just  
7 goes to the larger narrative of the Secretary's  
8 expectations, whether it's the food safety meat  
9 inspectors at FSIS or the AMS graders or the folks  
10 we have in the market news space. His expectation  
11 is we're at our posts doing our work, and if there  
12 are disruptions to the food supply chain, it will  
13 not be because of a lack of USDA personnel  
14 facilitating that commerce and making sure that  
15 trade is moving.

16           The SPS issues don't stop. The high path  
17 AI (HPAI) incident recently is really unfortunate.  
18 It's an event, but we're working our way through  
19 that. And there have been some other minor  
20 challenges in some of the plant virus space, and  
21 we're doing our best to keep those from compounding  
22 and complicating the flow of commerce, but I think

1 to Rob's point, trade and commerce are a priority  
2 for the administration, for the Secretary, that's  
3 essential or critical. And on USDA's role, we will  
4 be there to do that work and make sure we're not an  
5 impediment or a chokepoint in any of those  
6 processes.

7 MS. MERSINGER: Great. Thank you both.

8 Another interesting question for USDA not  
9 COVID-related, but certainly something that's on the  
10 minds of a number of farmers and ranchers across the  
11 country. So market access is key for the  
12 agricultural industry. And one thing that folks  
13 have to deal with dairy is access to quality  
14 Internet and being able to communicate within the  
15 industry.

16 I was wondering if someone from USDA can  
17 give us an update on USDA's work to improve rural  
18 broadband access.

19 DR. JOHANNSON: Well, we're trying to  
20 cover a lot of topic areas here. But I don't have  
21 any top-of-the-finger numbers in terms of how much  
22 that initiative is essentially pouring out of USDA



1 at the moment. But the Secretary has been pretty on  
2 top of this issue as well, wanting us to make sure  
3 that we expanded, where we could and where it makes  
4 sense, rural broadband to get into areas that didn't  
5 have it to this point.

6 I think there was some additional stimulus  
7 money for this as well.

8 I'm going to turn it over to Dudley real  
9 fast and see if I can pull up some of that stuff for  
10 folks on the line.

11 But, again, as Dudley pointed out, we're  
12 all hands on deck at the moment, and I can just  
13 speak from my -- my personal sort of portfolio has  
14 narrowed pretty quickly to focus 100 percent on  
15 economic impacts on the various sectors due to  
16 coronavirus.

17 But just a second, I'll see if I can find  
18 something else to help answer that question, and  
19 certainly I imagine that you'll have outreach to  
20 your folks on the line after the call is over so  
21 that we can send you any additional information if  
22 we have answers that we can't get to right now.

1                   MS. MERSINGER: Yes, absolutely, and sorry  
2 to throw a curve ball there. Dudley, did you have  
3 any comments on rural broadband access?

4                   MR. HOSKINS: I'm really not, and I would  
5 be wasting your all's time just to try to  
6 regurgitate some talking points, but to Dr.  
7 Johannson's point, this is obviously a priority for  
8 the Secretary and the administration. We have our  
9 mission area at USDA rural development. This has  
10 been one of their bedrock priorities, at least since  
11 the Secretary has been in that role, probably  
12 previous to that. He's had them double down on what  
13 we can do to build and support and expand that  
14 infrastructure.

15                   I think what would be most helpful for you  
16 all and for the AAC would probably be for me to take  
17 that back and see if I can get you a readout or a  
18 more up-to-date, informed status on where that  
19 stands and what the next steps are. I'm sorry not  
20 to be more helpful on that.

21                   MS. MERSINGER: No, completely. That's very  
22 helpful, and yes, we can pass on information after

1 the call as well.

2 I got one more here for you, and then I'll  
3 take the two of you off the hot seat.

4 Because the farming sector is so dependent  
5 on hiring guest workers and there are a lot of  
6 concerns whether or not they will have access to  
7 these workers with all the travel and visa  
8 restrictions. Can you shed some light on how the  
9 administration plans to address the concerns and  
10 whether or not the recent executive order signed by  
11 the President will impact these guest worker visas  
12 and further restrict their ability to be here to  
13 help the farm communities?

14 MR. HOSKINS: This is Dudley. So this  
15 will be another one where I won't want to muddy the  
16 waters with misinformation. One of my colleagues in  
17 the Secretary's office has been kind of our single  
18 point of focus on the ag labor, and she's been  
19 working with the Department of Labor and different  
20 embassies, especially Canada and Mexico, and trying  
21 to help manage and facilitate that flow of the  
22 critical workforce especially under all things

1 COVID. So I will add that to the list for follow-up  
2 for you after the call.

3 DR. JOHANNSON: Yes. And just also on  
4 that note, we've been working hard with the State  
5 Department, DHS, and the White House on this issue  
6 to limit the disruption caused to that H2A  
7 workforce. And so again, as Dudley mentioned, I  
8 don't really want to muddy the waters with incorrect  
9 information, but I just wanted to emphasize that  
10 we're certainly aware of the issue of labor supply.  
11 We have been working on this issue, and the  
12 Secretary has been working on this issue a lot. And  
13 of course, right now it's highlighted by whether or  
14 not this workforce is affected by other immigration  
15 policies. So with that being said, we'll make sure  
16 that we pass that along to you as well.

17 MS. MERSINGER: Great. Thank you.

18 The next question -- maybe Derek can take  
19 this question. We're going to go back to livestock  
20 for a minute.

21 With some of the sale barns reducing the  
22 amount of our feeder cattle sales, what is CME doing

1 to monitor the integrity of the Index for the April  
2 contract?

3 MR. LaSALA: Summer, this is Tom LaSala.  
4 I'll field that.

5 MS. MERSINGER: Thanks, Tom.

6 MR. LaSALA: Sure. So in addition to our  
7 normal oversight activities at CME, which includes  
8 work conducted by our market regulation team, our  
9 research department, as well as our business line,  
10 CME, the CFTC, and the USDA are in frequent  
11 communication around which auctions are operating  
12 and the volumes conducted in these auctions. At  
13 present, we believe there will be adequate volumes  
14 for settlement in April, but certainly we'll  
15 continue to monitor the situation very closely.  
16 Thank you.

17 MS. MERSINGER: Thank you.

18 So staying on the cattle markets for a  
19 moment, so this is kind of for someone at CFTC. And  
20 we talked about the Holcomb fire and some of the  
21 swings in volatility that we saw on the market at  
22 that point and, of course, the swings in volatility

1 we are seeing with the COVID-19. If the Chairman or  
2 Dave or someone could give us some ideas of factors  
3 that would cause these swings in volatility in the  
4 cattle market.

5 CHAIRMAN TARBERT: I'll let Dave go ahead  
6 and answer that as the head of our Task Force.

7 MR. AMATO: Well, I think, Summer,  
8 basically the reason why at first we saw a little  
9 bit of a disconnect between the cash and the futures  
10 is because, like some of the gentlemen who have  
11 spoken previously have said, they're pricing  
12 different things. So the cash market is obviously  
13 pricing a spot price, and the futures price is  
14 pricing the end of April for, say, Live Cattle. And  
15 that time difference and with the tremendous  
16 uncertainty that we've all had - I mean, every day,  
17 it seems like, when we get up and we put our  
18 computers on, there's another packing plant that's  
19 been closed or another two or three. And so I think  
20 the futures market had been pricing in some of that  
21 uncertainty, and some of that uncertainty was  
22 leading to prices in the futures market to be at a

1 lower level than the cash market. But as we have  
2 now started to approach and get closer and closer to  
3 the last trading day, cash and futures are now  
4 spreading the price similar time events, and they're  
5 coming together.

6 But I mean, in terms of the Holcomb fire,  
7 like I mentioned in the previous answer, this is the  
8 Holcomb fire times 10 or 15 or 20 because of the  
9 number of plants that are at stake and the number of  
10 States that are involved and the number of employees  
11 that are out. And so I think all of that has  
12 created that volatility which is based on fear and  
13 uncertainty. And I think we are in times that are  
14 just incredibly uncertain. We don't know if by next  
15 month more packing plants will be online or will  
16 this continue and we'll continue to have more and  
17 more of these plants have to go offline. If that's  
18 the case, I think we'll see situations where cash  
19 and futures continue to get pulled down and we'll  
20 have the boxed beef prices probably be at very high  
21 levels because less and less product is moving  
22 through the system.

1 MS. MERSINGER: Thanks, David.

2 Just staying on the cattle market here and  
3 to go back and put USDA on the spot again, but also  
4 certainly I think Dave Amato could jump in here as  
5 well. Can you expand upon the current standing of  
6 the investigation that was started after the Holcomb  
7 fire and how USDA has decided to expand its review  
8 to similar circumstances that followed the outbreak  
9 of COVID-19? And also I'm kind of wondering what  
10 the status is of the CFTC's cooperation with various  
11 requests that the commission has received for  
12 investigations into the cattle market as well.

13 MR. HOSKINS: This is Dudley Hoskins,  
14 USDA. I will take the first part of that and get  
15 out of the way.

16 So unlike the rural broadband or ag labor,  
17 this is something I have some awareness on, but  
18 unfortunately, this is really something we as a  
19 Department are not prepared to comment on publicly.  
20 So in terms of timeline and process, the Secretary  
21 made some public statements following the Holcomb  
22 fire in August. There's some additional tweets and



1 conversations he's had publicly since the COVID  
2 epidemic was designated a national crisis.

3           Beyond those sort of public-facing pinch  
4 points, all we can tell you is the investigation is  
5 ongoing and the Packers and Stockyards Division are  
6 working with the full authorities under their  
7 statutory permissibilities, and they're doing that  
8 work in consultation with other partners in the  
9 Federal Government. So it is ongoing. The  
10 investigation will go as far and wide as the  
11 evidence takes them. The Secretary has been clear  
12 he does not anticipate putting any kind of fictional  
13 or manmade timelines on how far that investigation  
14 will go or how long it will last. So I think what  
15 he articulated earlier is really where the  
16 Department is on it publicly.

17           The Packers and Stockyard folks are doing  
18 their work. They will continue to do their work.  
19 If they find evidence of violations, they will take  
20 action on those. Where and if appropriate, they  
21 will refer certain actions to our federal partners  
22 in the Department of Justice. But beyond that, we

1 really can't speak to timeline or specificity or  
2 anything beyond that.

3           So I'll stop there. I'm not trying to be  
4 evasive, but that's really where the Department is.  
5 And thank you.

6           MS. MERSINGER: Thank you, Dudley.

7           Dave Amato, did you want to comment at all  
8 on kind of the status of the CFTC's role and the  
9 various -- kind of the cooperation and some of the  
10 requests that have come in that we've seen in the  
11 press on the cattle market?

12           MR. AMATO: Sure. The only thing I can  
13 add is we've cooperated with the USDA in the past on  
14 data requests and we'll continue to provide data as  
15 needed.

16           MS. MERSINGER: Thank you.

17           Jumping real quick to CME and the  
18 messaging efficiency program, markets continue to  
19 adjust. What has CME seen from both pre-market  
20 period activity, and do you have any updates on the  
21 MEP?

22           MR. LaSALA: Hi, Summer. It's Tom LaSala.

1 Can you hear me?

2 MS. MERSINGER: Yes.

3 MR. LaSALA: Okay, perfect.

4 So let me begin by stating that we're  
5 continuously monitoring our markets and have a  
6 dedicated team in market regulation specifically  
7 committed to monitoring activity in the pre-opening  
8 period. Price action in the pre-open is impacted by  
9 a number of factors, including news, market  
10 fundamentals, the number of participants that choose  
11 to enter the market, as well as the strength of  
12 those views, and additionally the time at which  
13 those participants choose to enter the market.

14 Where we see problematic activity in the  
15 pre-open, our practice is to contact the participant  
16 promptly to help ensure the activity does not  
17 continue as we then conduct a review or formal  
18 investigation.

19 I know that in speaking with my colleagues  
20 on the business side, that we already have a meeting  
21 scheduled with NCBA for next Wednesday, April 29th,  
22 to discuss both the pre-opening period, as well as

1 the messaging efficiency program.

2 So thank you.

3 MS. MERSINGER: Thank you. Can you tell  
4 us a little bit about the pre-opening, what it's  
5 for, and what the messaging efficiency program does?

6 MR. LaSALA: I'm more efficient with the  
7 pre-open. That's a period in time where parties can  
8 enter orders, and you're looking to effectively find  
9 price level. And during the time in the pre-open,  
10 which happens to be almost 2 and a half hours, of  
11 which the last 30 seconds are locked down, so you  
12 can no longer cancel or modify orders in the last 30  
13 seconds, what you're effectively looking for is an  
14 equilibrium price. And then the volume of those  
15 orders that are still existing in the market after  
16 the close-out that basically intersect will trade at  
17 that equilibrium price as soon as the market opens.

18 So, I mean, what we've seen, especially  
19 during these volatile times is very, very different  
20 perspectives insofar as what value is. Very  
21 different perspectives and I mentioned earlier not  
22 only, you know, you talk about the different

1 perspectives, but when participants choose to enter  
2 the market. So there's been somewhat, I'll say,  
3 behavioral differences that have come into play  
4 during this time where we're getting significant  
5 market volatility that's, I think, sensitized people  
6 in the market, their view and their participation in  
7 the pre-open. So it's one that we're communicating  
8 very significantly with market users, and as I  
9 mentioned, the meeting next week with NCBA -- we  
10 plan to have significant discussions with them about  
11 that at that time.

12 MS. MERSINGER: Thank you.

13 Going back to Chairman Tarbert for a  
14 minute. Chairman, there's been a lot of discussion  
15 about the CFTC and the USDA working together. Are  
16 you talking to other agencies during this time? Are  
17 you having regular conversations with the Hill, with  
18 other agencies? How are you working with other  
19 parts of the government during this time?

20 CHAIRMAN TARBERT: Thank you, Summer.

21 The answer is that we are working very  
22 closely with lots of other agencies in the U.S.

1 government, as well as our counterparts overseas.  
2 Now, I'd say when it pertains to agricultural  
3 issues, it's obviously USDA. But obviously, the  
4 energy sector has seen volatility as well. We've  
5 had frequent calls with the Department of Energy,  
6 and then every day, almost, I have a call with one  
7 of our other federal financial regulators. I just  
8 literally got off the phone 15 minutes before we  
9 started this Agricultural Advisory Committee meeting  
10 with the chairman of the SEC with whom I have  
11 frequent contact, but also the Federal Reserve, the  
12 banking regulators, the Treasury Department.

13           Again, we want to make sure as a financial  
14 regulator that the dislocations that we see due to  
15 the coronavirus in the real economy don't take what  
16 is obviously a historical and unparalleled economic  
17 crisis and turn it into a financial crisis. So  
18 right now the financial markets are performing well  
19 in the sense that they're working the way they were  
20 intended to work in most cases insofar as they're  
21 reflecting what's going on in the real economy, but  
22 they themselves are not adversely affecting the real

1 economy. They are not a source of systemic risk,  
2 which is affecting everyone else. And we want to,  
3 obviously, make sure we keep it that way. So when  
4 it comes to oversight of our clearinghouses, our  
5 market participants, major financial institutions,  
6 we're working very closely with our other  
7 counterparts here in the United States' regulatory  
8 community, but throughout the world.

9 MS. MERSINGER: Thank you.

10 And one last question here for the  
11 Chairman. How will the CFTC continue moving forward  
12 with the rulemaking priorities due to the disruption  
13 from COVID-19?

14 CHAIRMAN TARBERT: Sure. Great question,  
15 and it's one that I hit on a little bit in our last  
16 open meeting where we had five votes: three  
17 proposed rulemakings and two final rulemakings. And  
18 it's simply this.

19 Obviously, the COVID-19 pandemic has  
20 changed the world and has changed this country in  
21 the last month or so, and the CFTC has pivoted to  
22 make sure that we are absolutely responsive to any

1 needs to ensure that our markets remain orderly and  
2 liquid. So in other words, dealing with the issue  
3 at hand is job number one. That includes, for  
4 example, with respect to this audience, setting up  
5 the Livestock Task Force to monitor severe  
6 volatility in parts of the ag sector, and it also  
7 involves issuing relief where needed, temporary  
8 targeted relief to make sure that our markets remain  
9 orderly and liquid and that the American public, in  
10 a time when they're facing perhaps the most risk  
11 they've ever faced, they are able to use our markets  
12 to hedge. So that's job number one.

13           That said, this agency can certainly walk  
14 and chew gum at the same time. That's why we're  
15 having this call today. And so while that's job  
16 number one, we also are going to continue to move  
17 forward on the policy agenda which has lasted in  
18 some cases for a number of years. So we know that  
19 many people on this call have certain things they  
20 want to see done, and we're fully committed to doing  
21 that. And so what we have done is basically pivoted  
22 our resources to focus first and foremost on COVID-



1 19 and its effects, and we'll continue to do that.

2           And then rather than start new, big  
3 projects, new proposals, what we've done is  
4 essentially decided anything that's basically sort  
5 of either proposed or in good enough shape that it  
6 can be proposed in, let's say, the next 2 months,  
7 we're going to go ahead and propose that and then  
8 pivot and focus on finalizing everything that we  
9 propose. So in other words, we're going to begin  
10 what we started, but we're not going to start  
11 anything new and big. And that's a way that I think  
12 we can balance making sure that this agency is  
13 responsive to COVID-19, but at the same time not  
14 losing sight of the bigger policy issues that many  
15 people have wanted us to resolve for a number of  
16 years.

17           MS. MERSINGER: Thank you, Chairman.

18           And as we are approaching on the almost 2-  
19 hour mark here, I'm going to go ahead and wrap up  
20 the call. Thank you all for joining today. I know  
21 this is a very busy time for everyone, and we  
22 appreciate your participation. And with that, the

1 meeting is adjourned. Thank you.

2 (Whereupon, at 4:55 p.m., the meeting was

3 adjourned.)

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