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Fast traders, meat packers scrutinized for U.S. cattle market swings

By Tom Polansek | CHICAGO

Jan 19 U.S. cattle producers have called on CME Group Inc and federal legislators to rein in price volatility they say has rendered the world's largest livestock futures market ineffective.

Two groups of cattle producers agree volatility last year was extreme and a problem, but clash on the cause. The National Cattlemen's Beef Association blames price swings on high-frequency traders, and R-CALF USA says the nation's largest meat packers fueled price swings.

CME Executive Chairman Terrence Duffy will face complaints about the sharp moves next week at an annual meeting of the National Cattlemen's Beef Association, a trade group representing more than 175,000 producers and feeders in California.

In a letter last week, the group told Duffy that CME needs to do more to police high-frequency traders, including introducing a one-second delay between trading actions and cracking down on traders who cancel orders too often.

"The effectiveness of cattle futures contracts as a viable risk management tool is being called into question due to concerns over high-frequency trading," the letter said.

Meat producers and feeders use CME's futures contracts to offset the risk of owning cattle. High-frequency traders are speculators who can move trades in a fraction of a second.

CME constantly reviews its agricultural products to ensure they meet customers' risk management needs, a spokesman said.

"We continue to work directly with our customers and industry groups to address their concerns about recent cattle market volatility," he said.

Markets gyrated repeatedly in the second half of 2015. Live cattle futures dropped 9 percent to a two-year low in one week at the end of September and early October, only to gain back almost all the losses the following week.

Changes are already on the way. On Feb. 1, CME will implement new rules on order messaging in cattle markets, after producers earlier raised concerns about high-speed trading.

Meat producers, merchants and processors held about 61 percent of the open interest in live cattle futures last week, according to U.S. Commodity Futures Trading Commission data.

Some traders said the producers were just upset that prices have declined.

High frequency traders soothe volatile markets by providing "omnipresent liquidity," said Bill Harts, chief executive officer for Modern Markets Initiative, a trade group that represents high-speed and algorithmic traders.