

# **BEEF-CATTLE OUTLOOK & FEEDER CATTLE PRICE RISK MANAGEMENT**

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**December 15, 2020 7:00 p.m.**



# Quarterly Forecasts (LMIC: 12/9/20)

Year Quarter	Comm'l Slaughter	% Chg. from Year Ago	Average Dressed Weight	% Chg. from Year Ago	Comm'l Beef Production	% Chg. from Year Ago
2020						
I	8,399	5.9	825.0	2.1	6,929	8.0
II	7,393	-13.8	818.9	3.0	6,054	-11.2
III	8,535	-0.1	833.0	2.8	7,110	2.7
IV	8,451	-0.6	836.6	1.6	7,071	1.0
<b>Year</b>	<b>32,779</b>	<b>-2.3</b>	<b>828.7</b>	<b>2.4</b>	<b>27,164</b>	<b>0.0</b>
2021						
I	8,223	-2.1	827.8	0.3	6,807	-1.8
II	8,071	9.2	807.6	-1.4	6,518	7.7
III	8,247	-3.4	821.7	-1.4	6,777	-4.7
IV	8,115	-4.0	835.9	-0.1	6,783	-4.1
<b>Year</b>	<b>32,656</b>	<b>-0.4</b>	<b>823.3</b>	<b>-0.7</b>	<b>26,885</b>	<b>-1.0</b>
2022						
I	8,130	-1.1	832.3	0.5	6,767	-0.6
II	7,947	-1.5	810.1	0.3	6,438	-1.2
III	8,042	-2.5	826.3	0.6	6,645	-1.9
IV	7,918	-2.4	840.7	0.6	6,656	-1.9
<b>Year</b>	<b>32,037</b>	<b>-1.9</b>	<b>827.4</b>	<b>0.5</b>	<b>26,506</b>	<b>-1.4</b>

**2020 Per Capita  
Consumption: +0.9%!**

Q1: +5.5%

Q2: -8.3%

Q3: +6.8%

Q4: -0.2%

**Trade continues  
smoothing role:  
(compare Domestic  
Production & Domestic  
PC Cons by quarter)**

**Also see:**

<https://www.agmanager.info/livestock-meat/marketing-extension-bulletins/trade-and-demand/overview-us-beef-production-export>

Data Source: Livestock Marketing Information Center

## Quarterly Forecasts: Cattle (LMIC: 12/9/20)

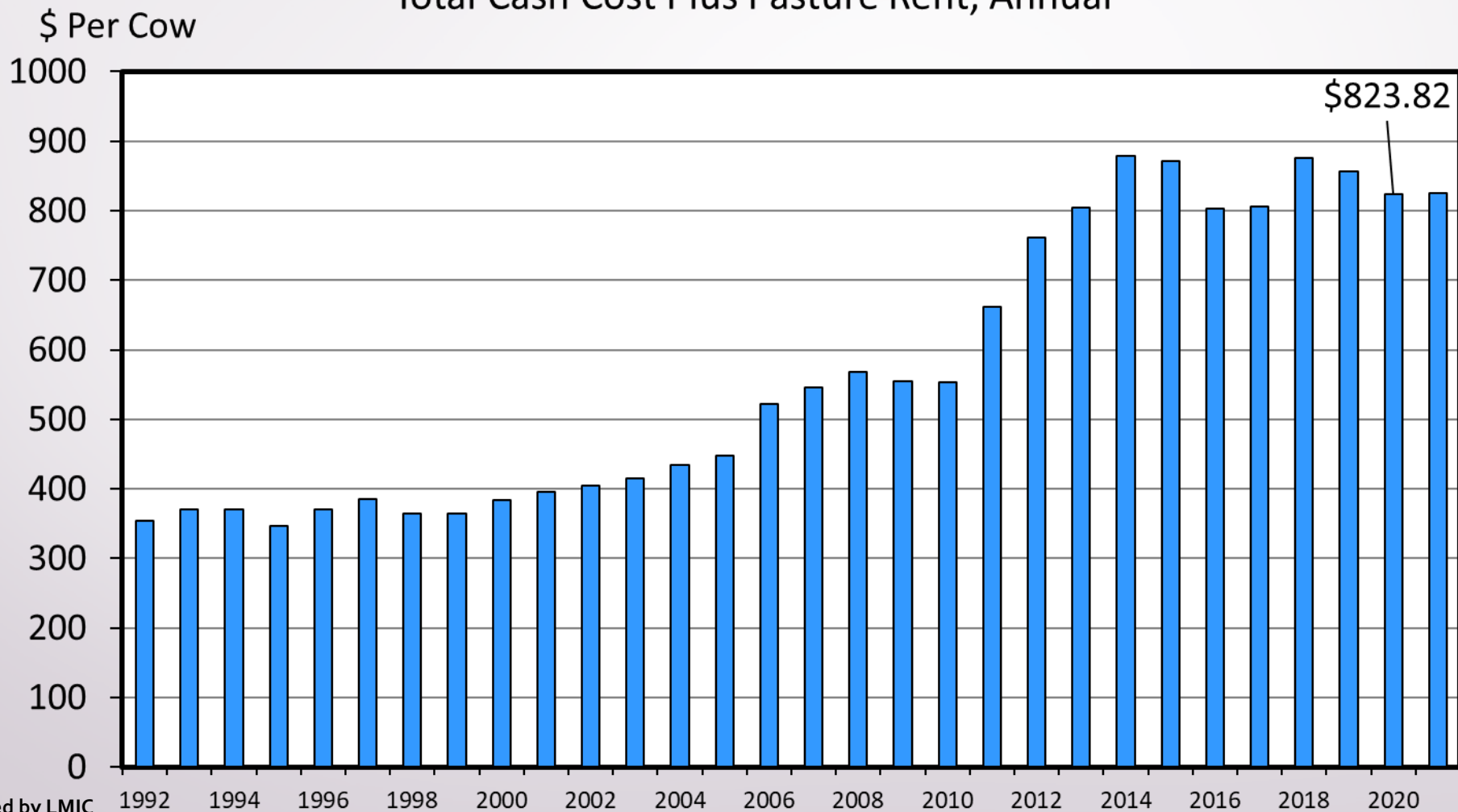
Year Quarter	Live Sltr. Steer Price	% Chg. from	Feeder Steer Price	
	5-Mkt Avg	Year Ago	7-800#	5-600#
<b>2020</b>				
I	118.32	-5.5	138.90	166.38
II	105.79	-10.9	129.45	152.55
III	102	-3.4	142	157
IV	108-109	-5.6	138-140	152-154
<b>Year</b>	<b>108-110</b>	<b>-6.7</b>	<b>137-140</b>	<b>156-158</b>
<b>2021</b>				
I	111-116	-4.1	136-139	156-159
II	114-120	10.6	138-142	163-167
III	111-118	12.5	145-155	162-172
IV	115-123	9.7	149-159	164-174
<b>Year</b>	<b>114-119</b>	<b>6.9</b>	<b>144-147</b>	<b>163-167</b>
<b>2022</b>				
I	115-125	5.7	144-154	167-177
II	120-130	6.8	147-157	169-179
III	118-128	7.4	154-164	171-181
IV	122-132	6.7	156-166	174-184
<b>Year</b>	<b>119-129</b>	<b>6.4</b>	<b>150-160</b>	<b>170-180</b>

Data Source: Livestock Marketing Information Center

One needs to know costs for context on output prices...

## ESTIMATED AVERAGE COW CALF COSTS

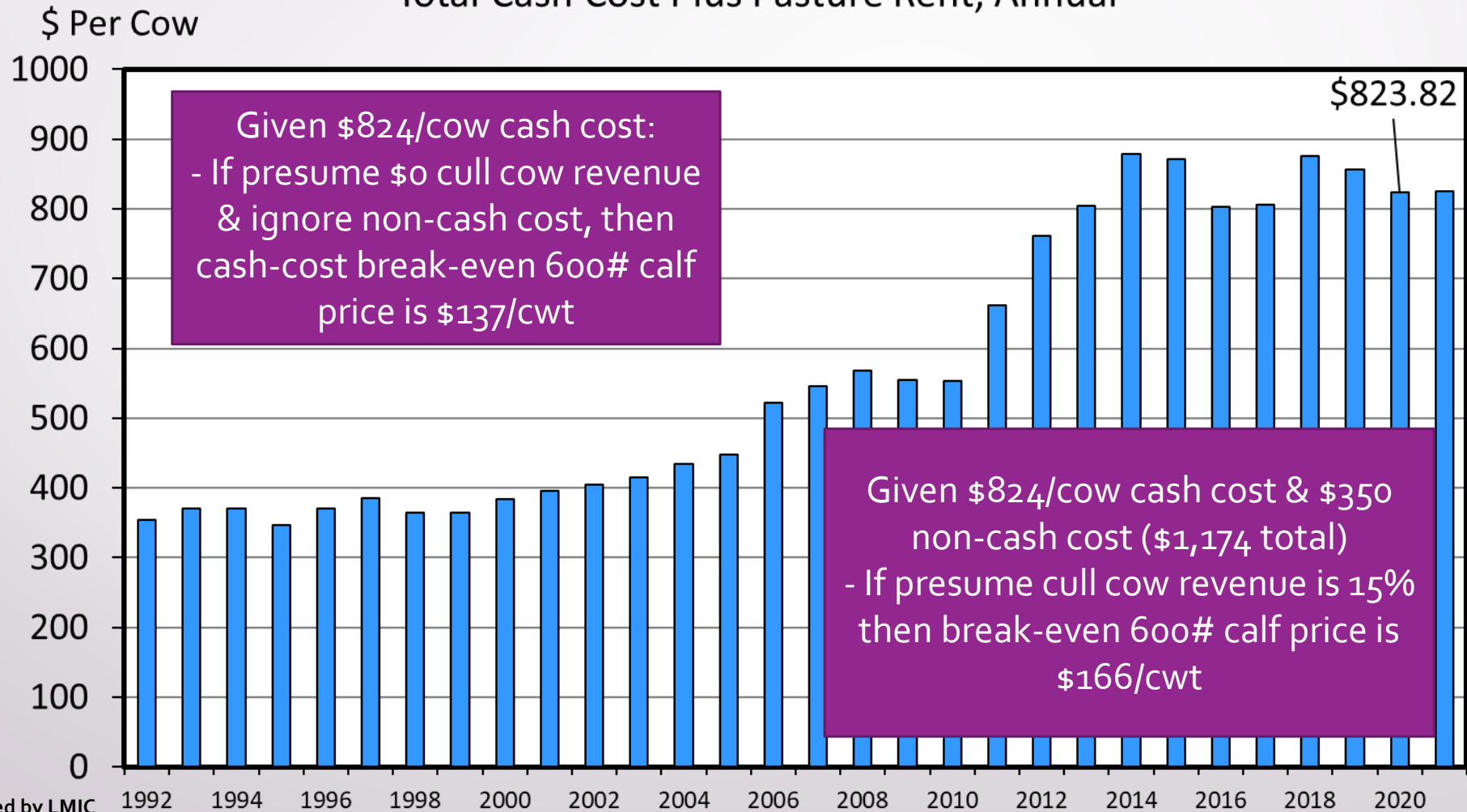
Total Cash Cost Plus Pasture Rent, Annual



# One needs to know costs for context on output prices...

## ESTIMATED AVERAGE COW CALF COSTS

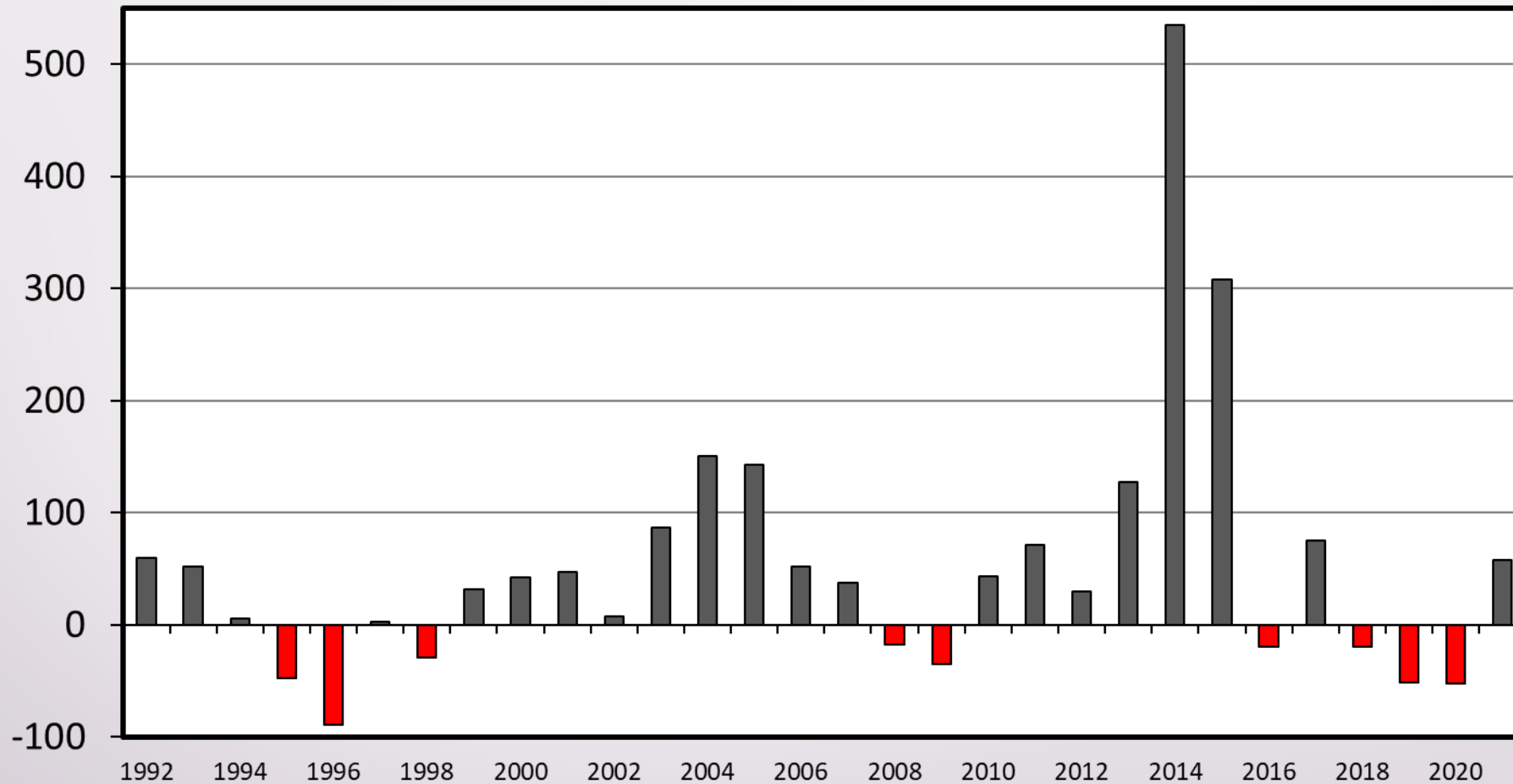
Total Cash Cost Plus Pasture Rent, Annual



# ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual

\$ Per Cow



Data Source: USDA & LMIC, Compiled by LMIC  
Livestock Marketing Information Center

2019: **-\$51**  
2020: **-\$53 (w/o CFAP \$)**  
2021: **+\$57**

# Want Feeder Cattle Price, Basis, & VOG Projections?

## Use BeefBasis.com

The screenshot shows the BeefBasis.com website interface. At the top, there are navigation links for HOME, ANALYTICS, DATA, MAPS, and ABOUT. A banner for account creation is visible. The main content area is titled "Price Forecasting" and contains a form with the following fields:

- 1. Sell Date: 2021-10-13
- 2. State: Kansas, Location: Farmers and Ranchers Livestock
- 3. Sex: Steer, Frame: Lg & Med/Lg, Mutcling: 1-2
- 4. Weight: 600 lbs, Heat: 80 head
- 5. Feeder Cattle Futures Price: \$ 147.725 /cwt, Corn Futures Price: \$ 4.1225 /bu

A "View Calculations" button is located at the bottom right of the form.

### Salina Market, as of 12/13

**10/13/2021 Sell @ Weaning @ 600 lbs**

- **Expected Cash Price: \$160.82/cwt**
  - **Expected Basis: \$13.09/cwt**
- **CME OCT Contract: \$147.73/cwt**

# Want Feeder Cattle Price, Basis, & VOG Projections? Use BeefBasis.com

Price Forecasting [Learn more about this tool.](#)

1 Sell Date: 2021-10-13

2 State: Kansas Location: Farmers and Ranchers Livestock

3 Sex: Steer Frame: Lg & Med/Lg Mutcling: 1-2

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**Q: How Can We Compare Sales Price Risk Management Alternatives?**


**A: use AgManager.info**



# KSU-Feeder Cattle Risk Management Tool

<https://www.agmanager.info/k-state-feeder-cattle-risk-management-tool>

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**KSU-Feeder Cattle Risk Management Tool**  
An Excel spreadsheet for evaluating feeder cattle risk management strategies  
AgManager  
Version- 12.14.2020

**INTRODUCTION**  
This spreadsheet was developed as a decision-aid tool for producers interested in managing feeder cattle price risk. It can be used to compare the Expected Net Selling Price using alternative risk management tools available for pricing feeder cattle.

**INSTRUCTIONS FOR THE USER:**  
Be sure to "Enable Content" and "Enable Macros" for the spreadsheet to function correctly. In the Comparison sheet all blue numbers are input by the user. All black numbers are calculated using data provided by the user. The spreadsheet automatically recalculates every time an additional input is entered. Thus, it is important to wait until all data have been entered and reviewed before interpreting any of the calculated results (i.e., black numbers). Most of the input cells (i.e., blue number) have a red diamond in the upper right hand corner of the cell. By moving your mouse cursor over this diamond, a brief description of

**FOR MORE INFORMATION:**  
To learn more about managing price risk and using LRP insurance visit [www.AgManager.info](http://www.AgManager.info) or click on the following link  
[P Insurance Information](#) [Price Risk Management Information](#)

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**ACKNOWLEDGEMENTS:**  
This spreadsheet was originally developed by Kevin Dhuyvetter, Ph.D., Agricultural Economist, Kansas State University. The authors gratefully acknowledge funding provided by USDA's Risk Management Agency (RMA) for initial development of this feeder cattle risk management tool.

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KANSAS STATE UNIVERSITY Agricultural Economics RMA

# Cow-Calf, Fall Weaning Price Hedging Considerations (as of 12/13/20)

## Comparison of Alternative Risk Management Strategies for Pricing Feeder Cattle

Print information

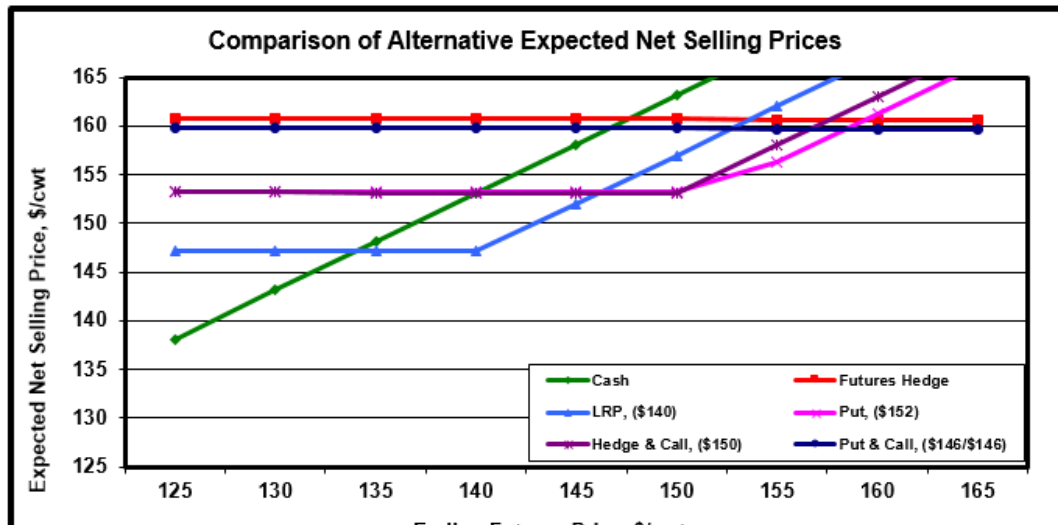
Current date	12/14/2020
Number of head (number of head to match futures contract = 83)	83
Expected weight at time of sale, lbs/head -- (use weight 2 for LRP)	600
Pounds of cattle expected to sell in cash market, lbs	49,800
Expected sale date	10/13/2021
Feeder cattle type	Steers
CME futures contract for hedging (Jan, Mar, Apr, May, Aug, Sep, Oct, Nov)	Oct
Commission for roundtrip (sell and buy) futures trade, \$/contract	\$60.00
Commission to buy or sell options contract, \$/contract	\$30.00
Futures price -- Oct CME feeder cattle contract, \$/cwt*	\$147.725
Expected basis (cash - Oct CME futures), \$/cwt#	\$13.09
LRP expected ending value for relevant time period^	\$147.463
End date for LRP contract	11/5/2021

CME feeder cattle option premiums			LRP coverage levels and premiums		
Strike price	Put	Call	Coverage Level	LRP cost	
\$/cwt	\$/cwt	\$/cwt	\$/cwt	-%-	\$/cwt
\$136.00			\$146.160	99.12%	\$9.390
\$138.00	\$5.625	\$14.450	\$144.160	97.76%	\$8.237
\$140.00	\$6.300	\$13.125	\$142.160	96.40%	\$7.116
\$142.00	\$7.075	\$11.900	\$140.160	95.05%	\$6.091
\$144.00	\$7.875	\$10.700	\$138.160	93.69%	\$5.175
\$146.00	\$8.725	\$9.550	\$136.160	92.34%	\$4.411
\$148.00	\$9.675	\$8.500	\$134.160	90.98%	\$3.702
\$150.00	\$10.675	\$7.500	\$132.160	89.62%	\$3.139
\$152.00	\$11.750	\$6.575	\$130.160	88.27%	\$2.640
\$154.00	\$12.925	\$5.750	\$128.160	86.91%	\$2.225
\$156.00	\$14.150	\$4.975	\$126.160	85.55%	
\$158.00			\$124.160	84.20%	
\$160.00			\$122.160	82.84%	

# Websites with information on feeder cattle basis  
<http://www.aqmanager.info/livestock/marketing/graphs/>  
<http://www.beefbasis.com/>  
 \* Website with futures prices and option premium quotes  
[http://www.cmegroup.com/trading/agricultural/livestock/feeder-cattle\\_quotes\\_globex\\_options.html](http://www.cmegroup.com/trading/agricultural/livestock/feeder-cattle_quotes_globex_options.html)  
 ^ Website with LRP coverage levels and premiums

	Futures	LRP	Put	Call	Put	Call
Number of contracts	1	83	1	1	1	1
Strike price(s), \$/cwt		\$140.16	\$152.00	\$150.00	\$146.00	\$146.00
Premium, \$/cwt		\$6.091	\$11.750	\$7.500	\$8.725	\$9.550

Expected Net Selling Prices						
Futures price	Cash	Hedge	LRP	Put	Hedge & Call	Put&Call
\$125.00	\$138.09	\$160.79	\$147.16	\$153.28	\$153.20	\$159.82
\$130.00	\$143.09	\$160.77	\$147.16	\$153.26	\$153.18	\$159.80
\$135.00	\$148.09	\$160.75	\$147.16	\$153.24	\$153.16	\$159.78
\$140.00	\$153.09	\$160.73	\$147.16	\$153.22	\$153.14	\$159.76
\$145.00	\$158.09	\$160.71	\$152.00	\$153.20	\$153.12	\$159.74
\$150.00	\$163.09	\$160.69	\$157.00	\$153.18	\$153.10	\$159.72
\$155.00	\$168.09	\$160.67	\$162.00	\$156.23	\$158.03	\$159.70
\$160.00	\$173.09	\$160.65	\$167.00	\$161.23	\$163.03	\$159.68
\$165.00	\$178.09	\$160.63	\$172.00	\$166.23	\$168.03	\$159.66
\$5.00	<= futures price increment			Signifies maximum price in row		



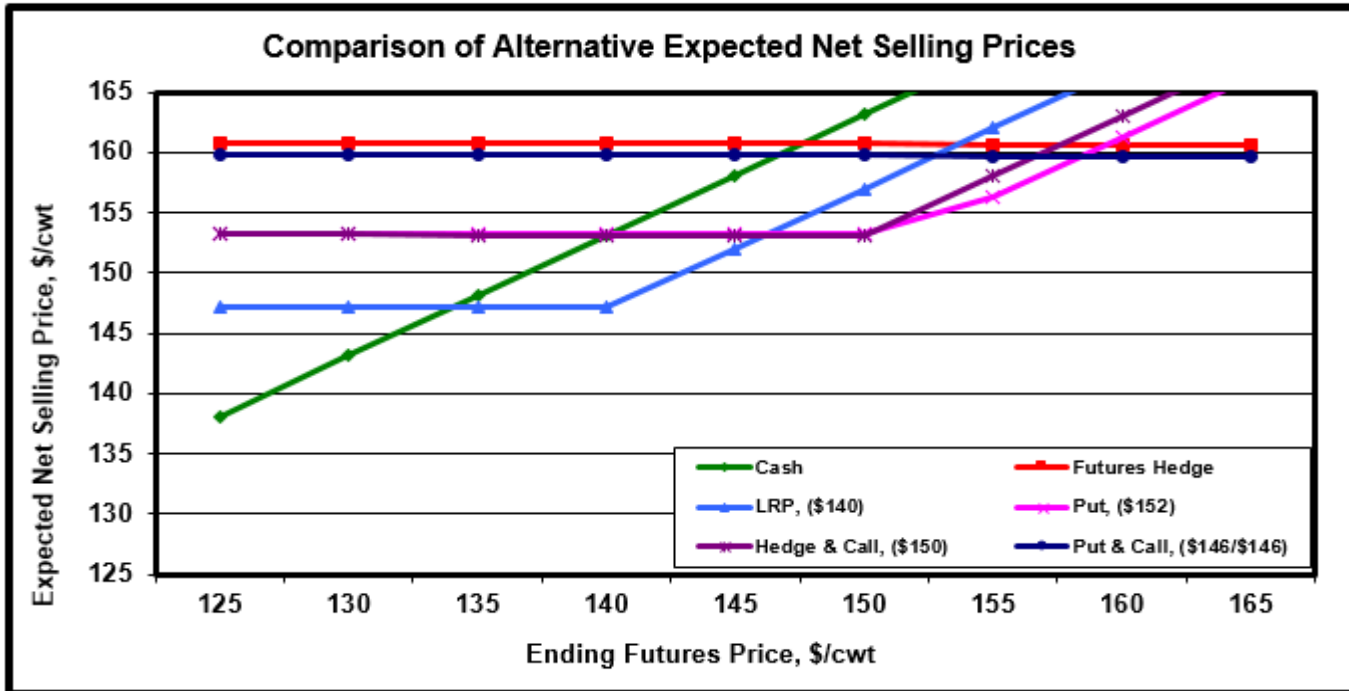
# Cow-Calf, Fall Weaning Price Hedging Considerations (as of 12/13/20)

- Case of 83 hd @ 600 lbs =
  - Compare alternatives:
    - a) 83 hd on LRP, b) 1 FC Futures Contract (+/- 83 hd per contract), c) 1 FC Options Contract or d) Cash
  - OCT FC: \$147.73 & Exp. Basis: +\$13.09 = Exp. Cash: \$160.82
  - LRP Coverage Price: \$140 & Premium: \$6.09
  - OCT Put Option @ \$152: \$11.75 premium

# Cow-Calf, Fall Weaning Price Hedging Considerations (as of 12/13/20)

Futures price	Expected Net Selling Prices					
	Cash	Hedge	LRP	Put	Hedge & Call	Put&Call
\$125.00	\$138.09	\$160.79	\$147.16	\$153.28	\$153.20	\$159.82
\$130.00	\$143.09	\$160.77	\$147.16	\$153.26	\$153.18	\$159.80
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\$155.00	\$168.09	\$160.67	\$162.00	\$156.23	\$158.03	\$159.70
\$160.00	\$173.09	\$160.65	\$167.00	\$161.23	\$163.03	\$159.68
\$165.00	\$178.09	\$160.63	\$172.00	\$166.23	\$168.03	\$159.66

\$5.00 <= futures price increment      Signifies maximum price in row



## Some Key Points

- **If OCT CME >= \$150**
- **Cash (“do nothing”) nets most**
- **Other approaches cost as they provided “unused” price protection**
- **If OCT CME <= \$145**
- **CME futures hedge nets the most**
- **Order of alternatives depends on market’s price decline and specific product/premium selections**
- **Presumes Basis=expectations (+\$13.09)**

# Cow-Calf, Fall Weaning Price Hedging Considerations (as of 12/13/20)

What if I have 40 head (+ ~1/2 of a CME contract)?

## Some Key Points

- **If OCT CME  $\geq$  \$150**
- **Cash (“do nothing”) nets most**
- **Other approaches cost as they provided “unused” price protection**
- **If OCT CME  $\leq$  \$145**
- **CME futures hedge nets the most**
- **Order of alternatives depends on market’s price decline and specific product/premium selections**
- **Presumes Basis=expectations (+\$13.09)**

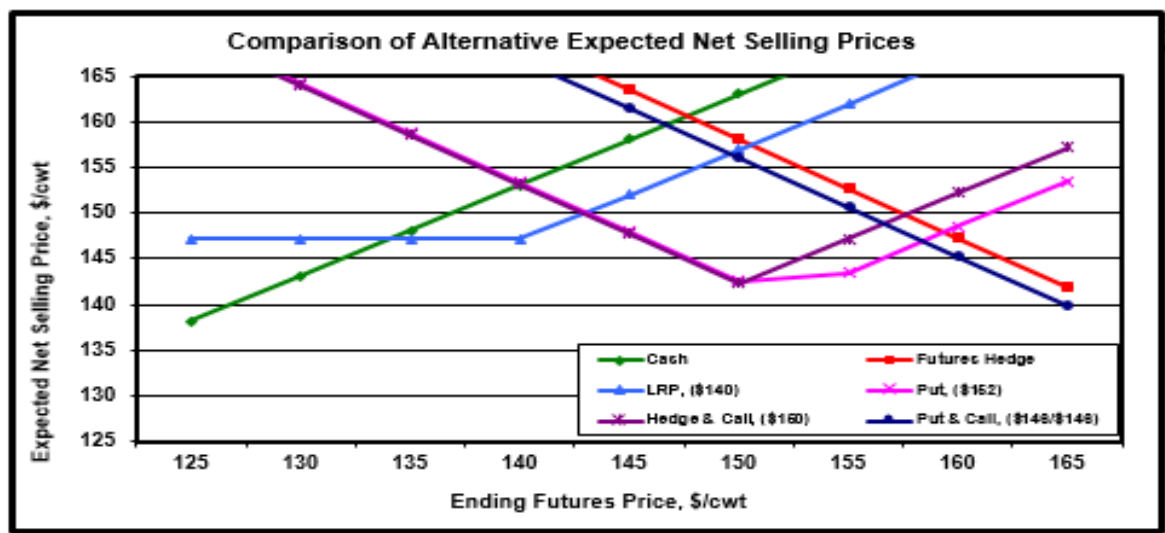
Cattle Print information

	Futures	LRP	Put	Call	Put	Call
Number of contracts		40				
Strike price(s), \$/cwt		\$140.16	\$152.00	\$150.00	\$146.00	\$146.00
Premium, \$/cwt		\$6.091	\$11.750	\$7.500	\$8.725	\$9.550

Futures price	Expected Net Selling Prices					
	Cash	Hedge	LRP	Put	Hedge & Call	Put&Call
\$125.00	\$138.09	\$185.18	\$147.16	\$169.61	\$169.43	\$183.18
\$130.00	\$143.09	\$179.77	\$147.16	\$164.19	\$164.02	\$177.77
\$135.00	\$148.09	\$174.35	\$147.16	\$158.78	\$158.60	\$172.35
\$140.00	\$153.09	\$168.93	\$147.16	\$153.36	\$153.18	\$166.93
\$145.00	\$158.09	\$163.52	\$152.00	\$147.94	\$147.77	\$161.52
\$150.00	\$163.09	\$158.10	\$157.00	\$142.53	\$142.35	\$156.10
\$155.00	\$168.09	\$152.68	\$162.00	\$143.49	\$147.23	\$150.68
\$160.00	\$173.09	\$147.27	\$167.00	\$148.49	\$152.23	\$145.27
\$165.00	\$178.09	\$141.85	\$172.00	\$153.49	\$157.23	\$139.85

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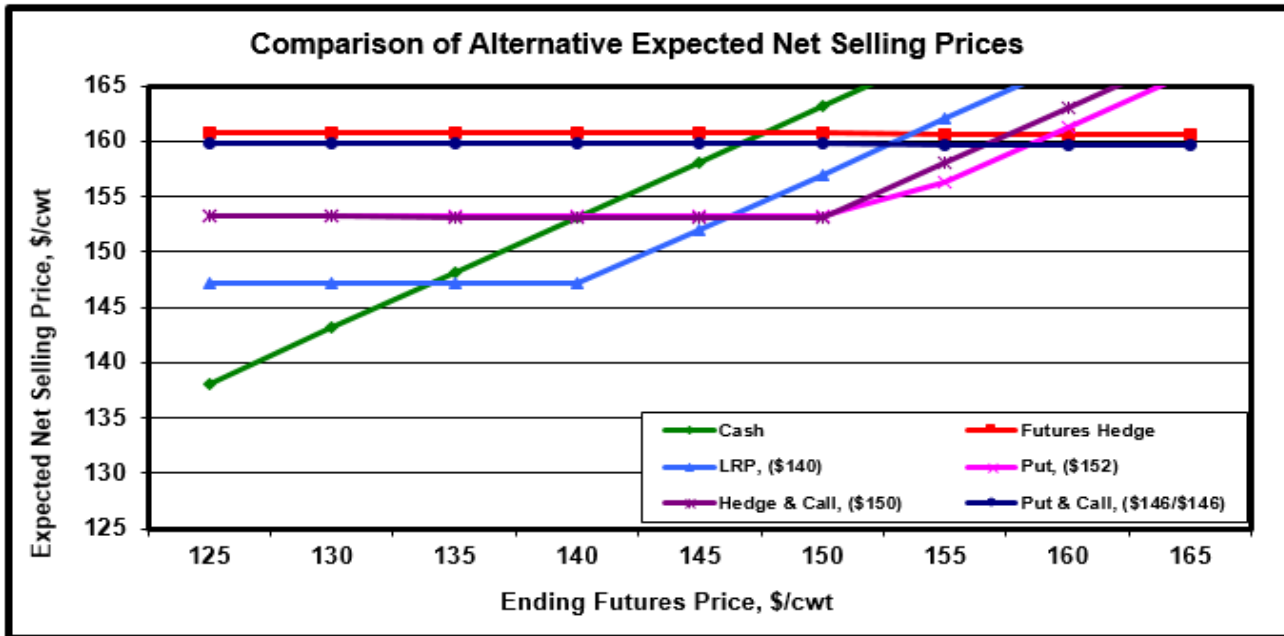


# Cow-Calf, Fall Weaning Price Hedging Considerations (as of 12/13/20)

## Case of 83 vs 40 head – reveals some appeal of LRP

Expected Net Selling Prices						
Futures price	Cash	Hedge	LRP	Put	Hedge & Call	Put&Call
\$125.00	\$138.09	\$160.79	\$147.16	\$153.28	\$153.20	\$159.82
\$130.00	\$143.09	\$160.77	\$147.16	\$153.26	\$153.18	\$159.80
\$135.00	\$148.09	\$160.75	\$147.16	\$153.24	\$153.16	\$159.78
\$140.00	\$153.09	\$160.73	\$147.16	\$153.22	\$153.14	\$159.76
\$145.00	\$158.09	\$160.71	\$152.00	\$153.20	\$153.12	\$159.74
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\$155.00	\$168.09	\$160.67	\$162.00	\$156.23	\$158.03	\$159.70
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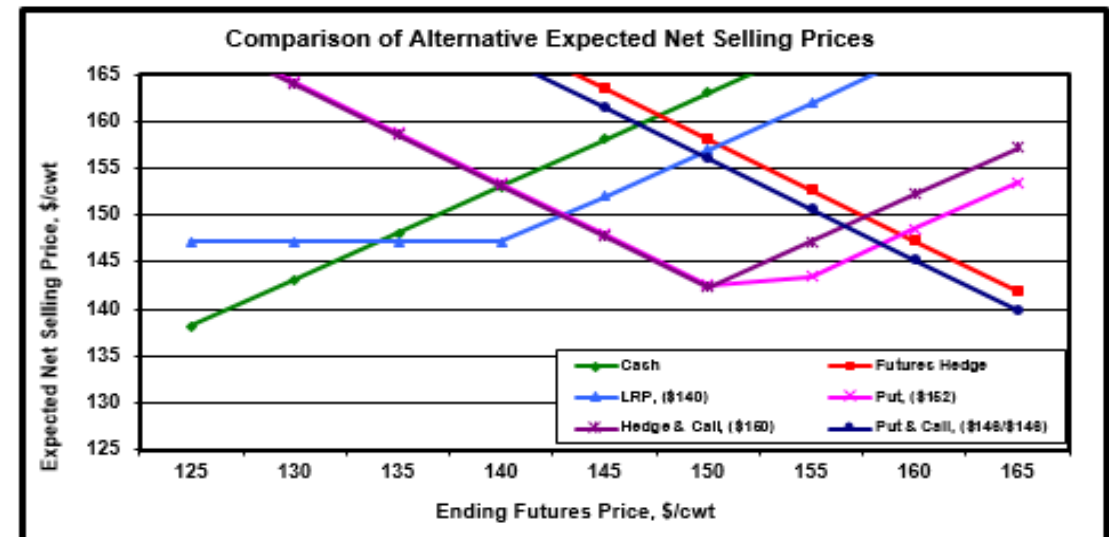
Cattle Print information

	Futures	LRP	Put	Call	Put	Call
Number of contracts	↑	40	↑	↑	↑	↑
Strike price(s), \$/cwt		\$140.16	\$152.00	\$150.00	\$146.00	\$146.00
Premium, \$/cwt		\$6.091	\$11.750	\$7.500	\$8.725	\$9.550

Expected Net Selling Prices						
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\$165.00	\$178.09	\$141.85	\$172.00	\$153.49	\$157.23	\$139.85

\$5.00 <= futures price increment      Signifies maximum price in row



# Wintering Program & Spring Price Hedging Considerations (as of 12/13/20)

- Salina, KS 12/13/20 situation:
  - Sell 800 lb steer on 3/17/21 = \$140.18 Expected Cash Price
    - Mar CME=\$140.55 & Exp. Basis=\$-0.37
- Considering price protection on March sale?
  - **USE: *FeederCattleRiskMgmtTool.xlsx***

# Broad Risk Points

- Risk is two-sided
  - KS operations who hedged feeders before March 1, 2020 avoided COVID19 market decline
  - Meanwhile, same operations may have received alternative CFAP (gov't \$) amounts
- Generally, absorbing some risk is “necessary”



# Take-Home Summary Points

- Opportunity or Threat?
  - “Same risks” are often viewed differently across people
- Some risks are quantifiable, many are not
- Everyone must appreciate:
  - Risks are two-sided
  - Your own operation costs to assess which risks are “smart to accept”
  - Your comparative advantage in selecting risks to accept



More information available at:



This presentation will be available in PDF format at:

<http://www.agmanager.info/about/contributors/individual/tonsor.asp>

Host of additional industry resources are cross-linked as well