

## In The Cattle Markets

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### Pricing Calves

During December of 2020 the price for 500-600 pound steers in South Dakota briefly averaged above \$190 per cwt for a couple of weeks, a level last observed in early 2016. The value of calves depends on the expectations for their ultimate value as finished animals. Thus, the price of calves expected in 2022 depends on where the trade thinks the price of fed cattle will be in mid-2023. The LMIC projections have the price of fed cattle higher in 2022 than in 2021 with a further increase expected in 2023. That bodes well for calf price expectations and the LMIC projections are for higher calf prices in 2022, but prices can still fluctuate.

There are several ways to transfer the risk of changing prices partially or fully to other market participants prior to the typical time of year when calves are sold (often November in the northern plains). A common way to transfer some risk is to use forward contracts – selling calves for delivery at a later time. Those are uncommon until late spring and early summer. Until then, the futures and options markets are more likely choices. Livestock Risk Protection (LRP), price insurance, is another choice.

There is no futures contract on calves, so the feeder cattle contracts are used with adjustments for basis or the price differential expected on calves versus heavier feeder cattle. The basis on calves followed a seasonal pattern in 2021, with the cash price for calves in South Dakota trading at a premium to the nearby feeder cattle futures price. The basis was at its widest level of \$36.83 per cwt in March and at its narrowest level of \$18.04 per cwt in November. Basis tends to be strong in South Dakota, reflecting its strategic location between cow-calf production and corn production regions. Basis is also tricky – it can follow averages like those for fed and feeder cattle. However, basis for calves also reflects the values of feedstuff like corn and hay that are needed to grow the calves to feeder weights. The current LMIC price projections for corn and hay are lower in 2022/23 than in 2021/22. That would imply a wider basis could be expected in November of 2022 on calves than was observed in November of 2021.

Currently there are futures listed through November of 2022, but the trading volume and open interest is low relative to the nearby contracts. Options are also trading through November, but most of the strike prices for that month have open interest in the single digits. An option pricing calculator would be helpful to come up with a fair bid price, to be used with a limit order, if a floor price is desired using options. Currently there are LRP quotes out through the end of October of 2021. LRP was modified to include coverage for unborn calves, which may make it more useful for producers. Note that the regular futures and options contracts cover 50,000 pounds or 90-100 head of calves. LRP is purchased on a per-head basis, so it can be a cost-effective choice.

## The Markets

The markets finished higher for the week. In the cash trade, fed cattle and feeder cattle were higher on light trade volume. Futures were mostly higher as the nearby live cattle were steady while the deferred months were higher. Feeder cattle prices were higher. The November 2022 contract has been trading around \$180 per cwt, behind only the 2014 and 2015 timeframe in terms of the price level.

<i>Data Source: USDA-AMS Market News</i>		<b>Week of 12/31/21</b>	<b>Week of 12/24/21</b>	<b>Week of 1/1/21</b>
<b>5-Area Fed Steer</b>	all grades, live weight, \$/cwt	\$139.59	\$135.64	\$111.51
	all grades, dressed weight, \$/cwt	\$220.89	\$217.30	\$175.67
<b>Boxed Beef</b>	Choice Price, 600-900 lb., \$/cwt	\$265.03	\$262.14	\$209.65
	Choice-Select Spread, \$/cwt	\$8.38	\$11.05	\$12.74
<b>700-800 lb. Feeder Steer</b>	Montana 3-market, \$/cwt	--	--	--
	Nebraska 7-market, \$/cwt	\$170.97	\$165.84	\$148.49
	Oklahoma 8-market, \$/cwt	--	--	--
<b>500-600 lb. Feeder Steer</b>	Montana 3-market, \$/cwt	--	--	--
	Nebraska 7-market, \$/cwt	\$186.95	\$184.57	\$162.73
	Oklahoma 8-market, \$/cwt	--	--	--
<b>Feed Grains</b>	Corn, Omaha, NE, \$/bu (Thursday)	\$5.97	--	\$4.80
	DDGS, Nebraska, \$/ton	\$210.00	\$213.50	\$226.00