

## **In The Cattle Markets**

**Kate Brooks, Assistant Professor**

**Department of Agricultural Economics, University of Nebraska - Lincoln**

### **Price Risk Management and LRP**

Every operation should develop and maintain a marketing plan. The plans can be very simple to very complex, depending on your situation and level of detail. These plans need to be flexible and updated as things change. Price risk management is one piece of this marketing plan that we will discuss in further detail.

Many producers may have grown complacent with managing market risk because they may not have found it beneficial due to increasing cattle prices over the past several years. As we move through the first part of 2016, volatility has continued and long-term price outlook has continued bearish with the increasing size of the cattle herd. As market conditions have changed, producers need to again consider their marketing strategies and consider managing their price risk.

In managing price risk, producers first need to consider their total costs of production. This will help to establish their price risk, and how to go about managing it. Producers should find a level of risk and pricing method they can accept. The best pricing methods may change from year to year and what your neighbor did may not be the best choice for you. There are several options for selling and pricing your cattle. Some producers may only use cash markets or cash forward contracts, while other producers may feel comfortable using the futures market or options market. Price protection through the Chicago Mercantile Exchange (CME) futures and options contracts can create new risks in the form of margin calls and may not be a good option for many smaller-scale producers. Livestock Risk Protection (LRP) Insurance is another option for these producers to consider to protect against downswings in the national cattle market price.

LRP Insurance is a single-peril insurance program offered by the USDA Risk Management Agency and is available from a licensed agent through the private crop insurance industry. An LRP policy is available for both feeder and fed cattle and is similar to a put option, allowing a producer to establish a floor price for protection while leaving upside price potential open. Unlike market contracts and options, LRP does not require a margin account or broker. LRP also has the advantage of not requiring a minimum number of cattle to be insured and 13% of the premium is subsidized. More information on LRP for feeder cattle can be found at: <http://extensionpublications.unl.edu/assets/pdf/g1723.pdf>, and for fed cattle at: <http://extensionpublications.unl.edu/assets/pdf/g2257.pdf>.

Planning is essential. Creating a marketing plan can help alleviate stress as well as emotion in implementing your marketing strategy. Understanding your cost of production will help

establish your pricing objectives and the triggers that make the marketing plan more valuable. Make sure you continually evaluate your plan and establish contingency or backup plans you can implement if there are price or market changes that differ from your original expectations.

### The Markets

Last week was a short trading week.

<i>Data Source: USDA-AMS Market News</i>		<b>Week of</b>	<b>Week of</b>	<b>Week of</b>	<b>% Chg</b>	<b>% Chg</b>	<b>Chg</b>
		<b>3/25/16</b>	<b>3/18/16</b>	<b>3/27/15</b>	<b>Prev.</b>	<b>Prev.</b>	<b>Prev.</b>
					<b>Week</b>	<b>Year</b>	<b>Week</b>
<b>5-Area Fed Steer</b>	all grades, live weight, \$/cwt	\$136.12	\$139.18	\$165.57	-2%	-18%	(\$3.06)
	all grades, dressed weight, \$/cwt	\$217.67	\$222.89	\$262.15	-2%	-17%	(\$5.22)
<b>Boxed Beef</b>	Choice Price, 600-900 lb., \$/cwt	\$226.62	\$231.77	\$248.92	-2%	-9%	(\$5.15)
	Choice-Select Spread, \$/cwt	\$8.81	\$10.16	\$3.16	-13%	179%	(\$1.35)
<b>700-800 lb. Feeder Steer</b>	Montana 3-market average, \$/cwt	\$156.50	\$164.49	\$224.59	-5%	-30%	(\$7.99)
	Nebraska 7-market average, \$/cwt	\$162.85	\$168.59	\$230.88	-3%	-29%	(\$5.74)
	Oklahoma 8-market average, \$/cwt	\$158.81	\$163.04	\$219.74	-3%	-28%	(\$4.23)
<b>500-600 lb. Feeder Steer</b>	Montana 3-market average, \$/cwt	\$201.64	\$204.63	\$287.05	-1%	-30%	(\$2.99)
	Nebraska 7-market average, \$/cwt	\$198.99	\$204.18	\$289.97	-3%	-31%	(\$5.19)
	Oklahoma 8-market average, \$/cwt	\$194.39	\$197.77	\$285.50	-2%	-32%	(\$3.38)
<b>Feed Grains</b>	Corn, Omaha, NE, \$/bu (Thursday)	\$3.53	\$3.54	\$3.89	0%	-9%	(\$0.01)
	DDGS Price, Nebraska, \$/ton	\$128.88	\$132.90	\$174.25	-3%	-26%	(\$4.02)