

In The Cattle Markets

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Feeder Cattle Odds and Ends

The May feeder cattle futures and options contracts expire later this week. The contracts will settle to the CME Feeder Cattle Index, which now includes various cattle that were previously excluded from the index, mainly any cattle labeled as “fancy, thin, fleshy, gaunt or full.” A trace-back confirmed that some fleshy 8-weights from Billings, MT were added to standard 8-weights in a recent index. The CME has been reporting the side-by-side totals for most of the past year, and the series has been collected by the LMIC during that time. Logic dictates that adding additional cattle would mean that the new index procedure should have more cattle than the old procedure. The last date using the old procedure was April 18, 2019. The new index included 1,042 more head and was \$0.13 higher than the old index on that date. Thus more head are represented in the index now, and the price is similar to before because, for example, the lower price for a few thin calves would be offset by the higher price for a few fancy calves.

A chart of the full side-by-side comparison (not shown) is a little messy. There are several dates where the volume with the added data is less than the volume in the stated index. An examination says they align with major holidays, so it is not much of a concern and only affected the modeled index, not the reported or actual index used. Ignoring times when the volume is lower than the stated difference, the typical volume difference was about 1,200 head, and the typical price difference was plus or minus \$0.25 per cwt. Looking at the contract settlement dates from August 2018 to March 2019 was reassuring, as the volume differences ranged from 186 to 1,710 head and the price [index] differences ranged from \$-0.10 to \$0.07 per cwt.

Across all feeder cattle contracts, the futures open interest is up compared to last year and similarly allocated across contracts. Options open interest is up from last year as call option volume increases offset put option volume decreases. There is put option open interest through March 2020 at this time, but the volume in the deferred months remains low. The open interest is highest for the August futures contract, the nearby for the summer months. The implied volatility for August is currently about 13.7 percent, up from about 12.6 percent last month. A year ago the volatility was 19.9 percent, meaning options were much more expensive at that time.

The trading volume and lower volatility would also affect the dates available and premiums for Livestock Risk Protection (LRP). In April, the Risk Management Agency announced some changes to LRP to take effect starting July 1, 2019. The largest change visible change is the premium subsidy schedule. It is currently 13 percent but will increase to 20 percent on the highest coverage levels to 30 percent on the lowest coverage levels. The rated LRP premium

is higher than a put option premium (before commissions), reflecting program administration costs. However, LRP is typically a little cheaper when factoring in the subsidy.

The Markets

In the cash market, fed cattle traded lower for the week. Feeder cattle also traded lower, but with fewer normal markets reporting. The live cattle futures were mixed last week with the nearby lower and the deferred contracts higher. The nearby feeder cattle futures were lower while the deferred contracts were steady. In South Dakota the price for 500-599 lb. steers averaged \$172.52, up from the week before. That price had been staying around \$180 per cwt since mid-March. Finding prices was a little different as the USDA-AMS has continued transitioning to Market Analysis & Reporting Services or MARS. Under the newer formatting, there is additional details for some prices. For example, in the “South Dakota Weekly Cattle Auction Summary” the number of head for slaughter cattle is now reported.

		Week of	Week of	Week of
		5/17/19	5/10/19	5/18/18
<i>Data Source: USDA-AMS Market News</i>				
5-Area Fed Steer	all grades, live weight, \$/cwt	\$116.65	\$120.34	\$114.73
	all grades, dressed weight, \$/cwt	\$185.87	\$192.14	\$184.02
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$220.23	\$223.49	\$231.94
	Choice-Select Spread, \$/cwt	\$11.82	\$13.92	\$23.17
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$143.61	\$145.71	\$148.49
	Nebraska 7-market, \$/cwt	\$140.07	\$149.83	\$150.17
	Oklahoma 8-market, \$/cwt	\$138.93	\$141.85	\$138.07
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$176.74	\$176.11	\$180.01
	Nebraska 7-market, \$/cwt	\$179.67	\$179.74	\$180.68
	Oklahoma 8-market, \$/cwt	\$164.86	\$165.06	\$165.01
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.72	\$3.50	\$3.72
	DDGS, Nebraska, \$/ton	\$114.50	\$122.50	\$165.00