In The Cattle Markets

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Livestock Risk Protection (LRP) to Cost Less

Feeder cattle have been under seasonal price pressure, similar to last year. Thus, locking in cattle prices or spending money for insurance may not be a high priority at this time. However, it is never a bad time to plan nor to look for cost-effective ways to manage risk. Livestock Risk Protection (LRP), price coverage sold by insurance agents, is similar to the purchase of put options on cattle futures contracts. LRP is administered by the Risk Management Agency (RMA) with a federally-subsidized premium that is set to increase soon.

Interest in and usage of LRP has fluctuated since first being offered in the early 2000s. Nationally, coverage with the feeder cattle endorsement peaked at over 300,000 head in crop year 2014. Such a total was still less than 1 percent of the U.S. calf crop. Coverage for the most recent crop year, which ends on June 30, is unlikely to exceed 90,000 head. Demand for the product has fallen with lower prices. Demand in South Dakota remains relatively high at over 27,000 head covered in crop year 2019, but the absolute level covered remains low. Locally, producers and insurance agents seem pleased with how LRP works. Some producers have expressed disappointment after finding out buying LRP is very similar to buying put options. Coverage with the fed cattle endorsement has been small regardless of location or crop year.

In April, the RMA announced several changes to LRP, effective on July 1 with the 2020 crop year. The premium subsidy is the most relevant change. Until now, the subsidy has been small and LRP premiums have been very close to the cost of put option coverage with a brokerage fee. Thus, on a per cwt basis producers would have been indifferent between using LRP and put options. The subsidy is increasing to 20 to 35 percent, depending on the coverage level. An additional subsidy applies for beginning farmers and veteran farmers. The subsidy applies to the full cost of the coverage, but remains low compared to the subsidy on most crops. The highest subsidy rate applies to the lowest level of coverage, 70 to 79 percent of the base price. At this large deductible level the premium cost is already very low, so an increased subsidy is not likely to look more attractive. The 20 percent subsidy applies to the 95 to 100 percent coverage level. Based on recently available premiums, the higher subsidy will only reduce costs by 30 to 60 cents per cwt.

The main advantage of LRP will likely continue to be the ability to buy coverage on a per head basis. When using a standard futures or options contract, the size is fixed at 50,000 pounds for feeder cattle. Thus, a producer would need groups of 100 calves weighing 500 pounds to effectively use such contracts. With LRP, the same per cwt option cost is the base, but then it is applied per head, effectively reducing the cost when less than 100 head increments are covered. Smaller producers, producers selling steers and heifers at different times, producers backgrounding a portion of their calves and those only owning a share of a calf crop may have relatively small groups of calves to sell and thus insure. A higher subsidy makes the cost advantage of LRP even better in such situations.

The Markets

The markets finished lower for the week. In the cash trade, fed cattle were down $3.00 per cwt and the CME Feeder Cattle Index was also about $3.00 per cwt lower compared to last week. The futures traded lower for the week also. The implied volatility has increased in recent weeks, especially for feeder cattle. Corn continues to move higher. In fundamental news, cattle slaughter was one percent higher in May compared to a year ago. Weights remained steady. There were fewer steers slaughtered, but more heifers and more dairy cows. The heifer slaughter is consistent with the larger heifer mix on feed. The increased supply of beef has weighed on prices. Offsetting the increased production is a decrease of beef in cold storage, which suggests solid movement of beef at the retail level. Retail margins are higher than a year ago while wholesale and feedlot margins are lower. The *Cattle on Feed* report had placements at slightly above trade expectations. Placements of cattle weighing less than (more than) 700 pounds decreased (increased) compared to a year ago, continuing the recent trend of heavier weight placements.

Data Source: USDA-AMS Market News		**Week of 6/21/19**	**Week of 6/14/19**	**Week of 6/22/18**
5-Area Fed Steer	all grades, live weight, $/cwt	$110.48	$113.62	$108.74
	all grades, dressed weight, $/cwt	$180.39	$184.48	$173.21
Boxed Beef	Choice Price, 600-900 lb., $/cwt	$220.90	$222.11	$218.65
	Choice-Select Spread, $/cwt	$19.38	$15.86	$16.42
700-800 lb. Feeder Steer	Montana 3-market, $/cwt	--	--	$151.50
	Nebraska 7-market, $/cwt	$142.50	$153.61	--
	Oklahoma 8-market, $/cwt	$136.06	$139.04	$146.26
500-600 lb. Feeder Steer	Montana 3-market, $/cwt	--	--	--
	Nebraska 7-market, $/cwt	$167.36	$180.50	--
	Oklahoma 8-market, $/cwt	$155.24	$156.15	$165.36
Feed Grains	Corn, Omaha, NE, $/bu (Thursday)	$4.43	$4.33	$3.42
	DDGS, Nebraska, $/ton	$133.50	$132.50	$130.00