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In The Cattle Markets

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Commitment of Traders

When looking at trading activity in recent weeks, the volume and open interest is quite similar for live cattle and feeder cattle futures compared to a year ago. Live cattle option open interest stands out more, as the put option open interest is much higher than last year. With slightly fewer cattle on feed perhaps a few more are hedged (or protected by put option coverage) compared to last year. However, feedlots are not the only market participants, and the overall scope of traders may give some insights into prices.

Most of the observations that follow focus on the settlements on Tuesday, October 5, 2021. Trade activity and positions from that date would be reflected in the Commitment of Traders (COT) reports on Friday, October 8, 2021. Trading volume for futures that day totaled 48,450 live cattle contracts and 14,623 feeder cattle contracts. Live cattle had greater volume, more listed contract months and likely more market segments that use the contracts for hedging compared to feeder cattle. Differences in open interest are even more pronounced, as there were 290,019 live cattle and 41,756 feeder cattle contracts in ending open interest. Extrapolating the number of contracts out to a number of head, they are not too dissimilar to the number on feed and placements at the national level.

In live cattle, the open interest held by producers (very large feedlots and processors) has been declining by those with short positions and increasing by those with long positions. The opposite has been happening with managed money; with more shorts and fewer longs. In feeder cattle, the largest share of open interest is held by managed money. In recent weeks they have reduced long positions and added short positions. The next largest segment are non-reportable holders, which would encompass smaller producer-hedgers. As a group, they have had fewer short positions in recent weeks that would not be inconsistent with seasonally lifting hedges.

Options volume was much smaller with 8,674 live cattle and 1,200 feeder cattle options trading. The open interest totaled 141,228 live cattle and 19,152 feeder cattle options, both about half of the open interest of the underlying respective futures open interest. Hedgers may use puts for output risk and use calls for input risk. Some insights can be gained by comparing the open interest directly reported by the CME Group to the COT. In the COT, the options are reported on a futures-equivalent basis. Technically the open interest for options is weighted by the delta for specific types of options, their maturities and strike prices. Thus, when a hedger holds an out-of-the-money put option, it's delta could be 0.25 and it would be equivalent to 25% of a futures contract. In the COT, the two main reports give either the futures totals or the combined futures and options. Thus, you must back out the options open

interest and then know that it is the delta-weighted version of the full open interest. The CME Group website has a tool that provides this breakout and isolates options.

The combined open interest for live cattle was 334,237 contracts, leaving delta-adjusted open interest for options of 44,218 contracts. For feeder cattle the combined open interest was 47,981 contracts, giving a delta-adjusted open interest for options of 6,225 contracts. In general, the delta is about 0.3 across all options. Just using the COT figures would miss any delta-related effects. Both open interest amounts are informative. A hedger using put options would typically add to open interest when initiating a hedge. Then, should the price increase, the delta value would fall influencing its COT value, but not its effectiveness as a hedging instrument.

Many commodity indexes include live cattle and some include feeder cattle. The COT includes a supplement with a breakdown of index traders that includes futures and options. For live cattle, about one-third of open interest is long positions of index traders. Generally, these would be fund managers that buy and hold futures, then repeatedly roll to new contracts, always maintaining some exposure to cattle. Their net exposure is about opposite that of commercial traders at this time. For feeder cattle, the contracts held by index traders is much smaller compared to live cattle contracts and the balance is more evenly split between long and short positions (though they are still net long).

The Markets

The markets finished higher for the week. In the cash trade, fed cattle were higher while boxed beef prices were lower. Feeder cattle prices were higher. Live cattle futures prices were higher for the week, which carried over to higher feeder cattle futures. The cash corn price was steady for the week.

<i>Data Source: USDA-AMS Market News</i>		Week of 10/8/21	Week of 10/1/21	Week of 10/9/20
5-Area Fed Steer	all grades, live weight, \$/cwt	\$122.96	\$122.56	\$108.26
	all grades, dressed weight, \$/cwt	\$195.37	\$195.17	\$169.67
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$286.42	\$297.79	\$216.03
	Choice-Select Spread, \$/cwt	\$21.81	\$26.85	\$11.36
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	--	\$152.68	\$148.62
	Nebraska 7-market, \$/cwt	--	\$161.60	\$151.86
	Oklahoma 8-market, \$/cwt	\$154.01	\$153.36	\$141.14
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$169.50	\$167.90	--
	Nebraska 7-market, \$/cwt	--	\$179.32	\$162.80
	Oklahoma 8-market, \$/cwt	\$159.11	\$157.17	\$146.96
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$5.44	\$5.45	\$3.63
	DDGS, Nebraska, \$/ton	\$205.00	\$200.00	\$165.00