

## In The Cattle Markets

**Matthew Diersen, Risk & Business Management Specialist**  
**Ness School of Management & Economics, South Dakota State University**

### Fed Cattle Insurance

Price insurance for fed cattle has been available in various forms and offered in multiple states for twenty years. Livestock Risk Protection (LRP) insurance is currently available for fed and feeder cattle. Historically there was little incentive to use LRP compared to buying put options on live cattle. In contrast, demand for LRP for feeder cattle has been more robust through time as it is more suited for covering calves and lot sizes that do not always match the contract specifications of a feeder cattle futures contract.

An increase in the LRP premium subsidy has resulted in an increased number of fed and feeder cattle covered. Commodity years for LRP run from July through June. Thus, the 2022 year recently ended on June 30, 2022. The premium subsidy on LRP was only 13% until the commodity year 2020, when it increased to 20-35%, depending on the coverage level. The increase seemed to make little difference in usage. For the 2021 year, the subsidy increased twice and now ranges from 35-55% of the total premium. As a result, demand for LRP increased dramatically.

After some interest in the 2004 insurance year, the number of head covered using the fed cattle endorsement stayed below 30,000 of the more than 25 million head of steers and heifers slaughtered annually. In 2021 the volume of fed cattle covered was 180,660 head, breaking the level observed in 2004. Then, in 2022 there were 594,622 head of fed cattle covered. The volume of feeder cattle covered exceeded 2.0 million head in 2022. Texas, Nebraska, and Kansas are the top three feedlot states by volume. LRP on fed cattle was used often in Nebraska, Iowa, and Texas during 2022 relative to the total number of cattle on feed. The use of LRP in Nebraska and Iowa seems reasonable because of the time it has been available there and the presence of farmer-feeders and smaller feedlots.

One could be optimistic about an increased number of fed cattle covered by LRP in 2023 and beyond. However, a drawback to buying insurance is the one-sided nature of the outcomes. During the past couple of years, the prices for fed cattle have trended higher, resulting in infrequent payouts for insurance and low loss ratios. If feedlot operators do not see the payoff from buying the coverage, they may forgo coverage in the future. Anecdotally, this seems to have happened with feeder cattle coverage, where producers seem to forgo insurance after a year with LRP and higher prices. A significant difference between endorsement types is that a feedlot will likely look at coverage multiple times during the year for fed cattle. This difference would result in different start and end dates for coverage and increase the likelihood of collecting on the coverage over time. Thus, if a feedlot consistently bought the same level of coverage at multiple times, LRP would pay out consistently, allowing the feedlot to benefit from the subsidy and avoid large downward swings in fed cattle prices.

## The Markets

The cattle markets finished higher for the week. In the cash trade, fed cattle were higher on a live basis and on a dressed basis. Feeder cattle prices were mostly higher on limited volume. On the futures side, live cattle were higher while deferred feeder cattle were sharply higher. Cash corn was lower while on the futures side new-crop prices remained steady.

<i>Data Source: USDA-AMS Market News</i>		<b>Week of 8/5/22</b>	<b>Week of 7/29/22</b>	<b>Week of 8/6/21</b>
<b>5-Area Fed Steer</b>	all grades, live weight, \$/cwt	\$140.84	\$139.83	\$123.83
	all grades, dressed weight, \$/cwt	\$227.83	\$225.53	\$198.20
<b>Boxed Beef</b>	Choice Price, 600-900 lb., \$/cwt	\$267.58	\$268.44	\$289.00
	Choice-Select Spread, \$/cwt	\$26.63	\$25.69	\$18.43
<b>700-800 lb. Feeder Steer</b>	Montana 3-market, \$/cwt	--	--	\$164.61
	Nebraska 7-market, \$/cwt	\$198.99	\$187.23	\$170.03
	Oklahoma 8-market, \$/cwt	\$172.83	\$173.86	\$157.08
<b>500-600 lb. Feeder Steer</b>	Montana 3-market, \$/cwt	--	--	--
	Nebraska 7-market, \$/cwt	\$223.62	\$229.29	\$183.04
	Oklahoma 8-market, \$/cwt	\$190.74	\$188.47	\$173.27
<b>Feed Grains</b>	Corn, Omaha, NE, \$/bu (Thursday)	\$7.12	\$7.30	\$6.36
	DDGS, Nebraska, \$/ton	\$242.17	\$240.75	\$191.50