



## **Marketing Feeder Cattle during the Second Half of 2021**

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Since early 2021, there has been a significant premium available in the futures market to encourage producers to market cattle during the second half of 2021. Let's take a look at marketing a load of 600-lb. Feeder Steers in August 2021. The August 2021 CME Feeder Cattle Futures contract price settled at \$152.95 per hundredweight on June 3, 2021. The prior day U.S. Feeder Cattle Index price was \$136.65 per hundredweight. Therefore, those participating (cattle producers, speculators, and other hedgers) in the futures market have willingly agreed to buy or sell feeder cattle in August 2021 at a contract price that is \$16.30 per hundredweight higher than what feeder cattle are being paid for today (early June). Regardless of basis or the additional pounds that could be added, this marketing strategy presents an opportunity for producers to capture an additional \$98 per head or \$8,150 per truckload unit for a load of 600-lb. #1-2 ML Feeder Steers. Knowing this information, producers must decide what their next move will be.

### **Option 1: Stay in the Cash Market**

In most years staying in the cash market provides the best outcome for cattle producers. Could there be more upside to the current market? Absolutely, the August 2021 Feeder Cattle Futures settlement price peaked at \$161.83 per hundredweight on April 7<sup>th</sup>, 2021. For our load of 600-lb. Feeder Steers that's \$8.88 per hundredweight, \$53 per head, or \$4,440 per truckload unit higher than where we are today. Domestic and global beef demand have been excellent so far in 2021. Domestic consumer demand for beef is robust as Americans are flocking to restaurants in droves as pandemic restrictions are lifted. The re-opening of high-end restaurants in city centers and higher consumer incomes will be particularly key to main price and for further feeder cattle price increases. Further improvements in seating capacity will also go a long way in increasing beef consumption. Global demand for beef has U.S. Beef Exports up 4% year-to-date (27.2 million pounds) through March 2021 while U.S. Beef Imports are down 10% year-to-date (77.6 million pounds) compared to 2020. The variables are very bullish beef prices.

### **Option 2: Utilize Risk Management Tools**

For producers to secure the opportunity presented by the futures market in the near-term, they would need to lock in their price using available risk management tools (CME Futures or Options, LRP, etc.) or forward contract their feeder cattle at an acceptable price. Another consideration that needs to be made is that the last time the U.S. Feeder Cattle Index price was

above \$150 per hundredweight was during the second half of 2018. Therefore, it's been almost three years since we've approached the levels that will be tested during the next few months. Sometimes traders' price the market too high and futures will erode the premium and trade back to cash. If that is the case, futures have a long way to fall. Lastly, if the premium does erode then it's important to understand that the futures market would have provided producers with an opportunity to market feeder cattle at levels that were higher than the cash market ever offered.

### Anything is Possible

**Risk.** Producers should continue to expect markets to be volatile as abrupt changes and big price swings have become the norm over the last decade. Volatility will likely remain high given the continued unknowns of the pandemic. This is especially true given that in the last 18 months we have seen -\$40 per barrel crude oil, extreme civil unrest, government mandates to shut down certain businesses, a massive labor shortage while unemployment remains high, missing products on shelves, and a collapse in processing capacity in meat packing facilities, risk is at a level that many in our lifetime have never seen. No one in the beef cattle supply chain wants to assume more risk right now for the same returns they were receiving prior to the pandemic.

### A Look at Marketing Feeder Cattle during Second Half of 2021

As we start looking at deferred fall feeder cattle futures, prices are even higher than those projected for August 2021. Table 1 compares the U.S. Feeder Cattle Index Price with the remaining 2021 CME Feeder Cattle Futures contract prices to determine the projected premiums that the futures market is offering for feeder cattle during the second half of 2021.

**Table 1. Comparing the U.S. Feeder Cattle Index Price with the 2021 CME Feeder Cattle Futures Contract Prices**

	Current Price, \$/cwt.	Change from Base, \$/cwt.	Change from Base, <sup>1</sup> \$/head	Change from Base, \$/truckload
<b>U.S. Feeder Cattle Index</b>	\$136.65	BASE	BASE	BASE
<b>CME FC August 2021</b>	\$152.95	\$16.30	\$97.80	\$8,150.00
<b>CME FC September 2021</b>	\$155.50	\$18.85	\$113.10	\$9,425.00
<b>CME FC October 2021</b>	\$157.38	\$20.73	\$124.35	\$10,362.50
<b>CME FC November 2021</b>	\$158.75	\$22.10	\$132.60	\$11,050.00

Updated: Thursday, June 3, 2021 6:00 PM

<sup>1</sup>Assumes a 600-lb. Feeder Steer, #1-2 ML

After analyzing the results above, those participating in the feeder cattle futures market today are indicating to the marketplace that they think prices should be a minimum of \$16 per hundredweight or \$98 per head higher by late Summer and \$22 per hundredweight or \$132 per head higher by late Fall compared to where the U.S. Feeder Cattle Price Index is today. For a load of 80 head of 600-pound feeder steers, that's an increase of between \$8,150 to \$11,050 per truckload unit.

Thus, with current projections indicating that the fall marketing window should be the best time to market feeder cattle during 2021 many producers may start considering preconditioning. This marketing alternative provides producers an excellent opportunity to extend ownership to capture the fall premium, while also adding additional weight to feeder cattle. However, preconditioning can be difficult for many to implement successfully. It's critical that operations evaluate their available resources, management, expected level of animal performance, and cost of production to determine if a preconditioning is right for their operation.

### **Bottom Line**

While the future for marketing feeder calves remains bright, there is no telling what may transpire in cattle markets in the near term as commodities remain extremely volatile. As we have seen in the past, short-term prices can fluctuate significantly due to all sorts of things. Recent examples include the COVID-19 pandemic, Tyson beef plant fire, global recessions, trade agreements, and severe weather. Eventually though the fundamentals (corn, live cattle, domestic consumer demand) will likely continue to have the greatest effect on the price paid for southeastern feeder calves. Each operation must now evaluate the information available for their individual operation and take the necessary steps to capture the opportunities that are presented during 2021.

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### **Upcoming Events**

Visit our calendar online to view all our upcoming events and their registration links:

July 6, 9:00 a.m. – 11:00 p.m., Youth Field Day – Virtual Program. Join us for this free Zoom event. Register on Eventbrite to attend!

July 10, 1:00 – 2:00 PM, Become a Bluebird Watcher! Session 6 (webinar): Eastern bluebirds as a window into avian ecology and behavior with guest speaker Dr. Katie Sieving. A research update will also be provided by Dr. Ellington.

July 13, 11:00 – 11:45 a.m., Ona Animal Science Program Highlight featuring Dr. Philippe Moriel presenting, "Heat stress on beef cattle."

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