



Price Projections – A Risk Management Strategy for Beef Cattle Producers

Chris Prevatt, State Specialized Agent, Beef Cattle and Forage Economics

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The climate for marketing feeder calves over the last decade has been nothing short of breath taking. The amount of economic information and news that is available and taken into account on a daily basis to determine price can be simply overwhelming.

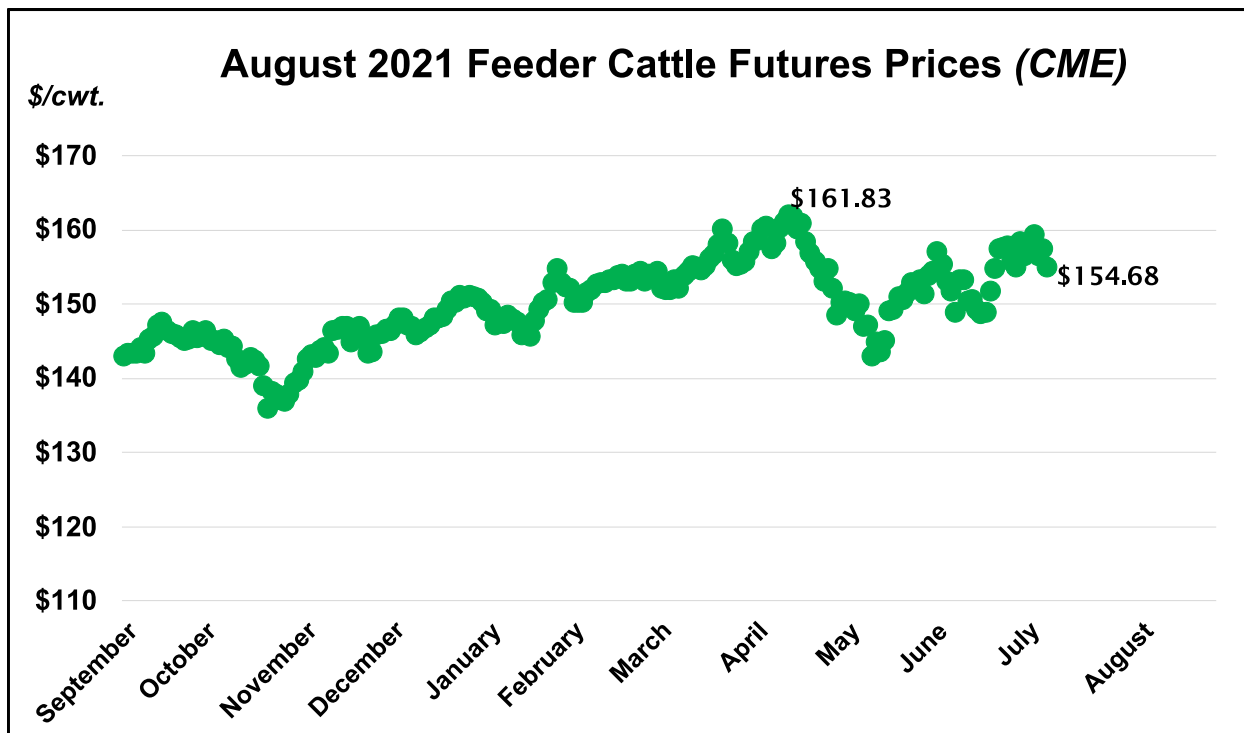
I think that it's safe to say that when we look back over the last ten years there has been a significant amount of volatility. For producers, that volatility has been both good and bad. Very good in some cases and very bad in others. There have been times of significant feeder calf price increases, such as the bull run from January 2010 to the summer of 2015, the price recovery that occurred from October 2016 through 2017, and the reopening of the U.S. economy from government mandated shutdowns from April 2020 through August 2020. Then there are the significant feeder calf price declines, who can forget the price collapses that occurred during the second half of 2015 and 2016? And recently it was the pandemic induced price collapse from January 2020 through April 2020. Thus, in our near memory there have been very good days to market feeder cattle as well as some very bad days.

In fact, every year during the last decade there has been a trading range of at least \$20 per hundredweight in the CME Feeder Cattle Futures August Contract that I track daily with the Florida Cattle Market Price Watch. To help put this in perspective, for a 575 lb. Feeder Steers that amounts to a minimum price movement of \$115/head each year.

Two Risk Management Strategies

There are several risk management strategies that producers can consider implementing when marketing their cattle. Today, I want to focus on two very basic, yet crucial risk management strategies when developing a marketing plan for your beef cattle operation.

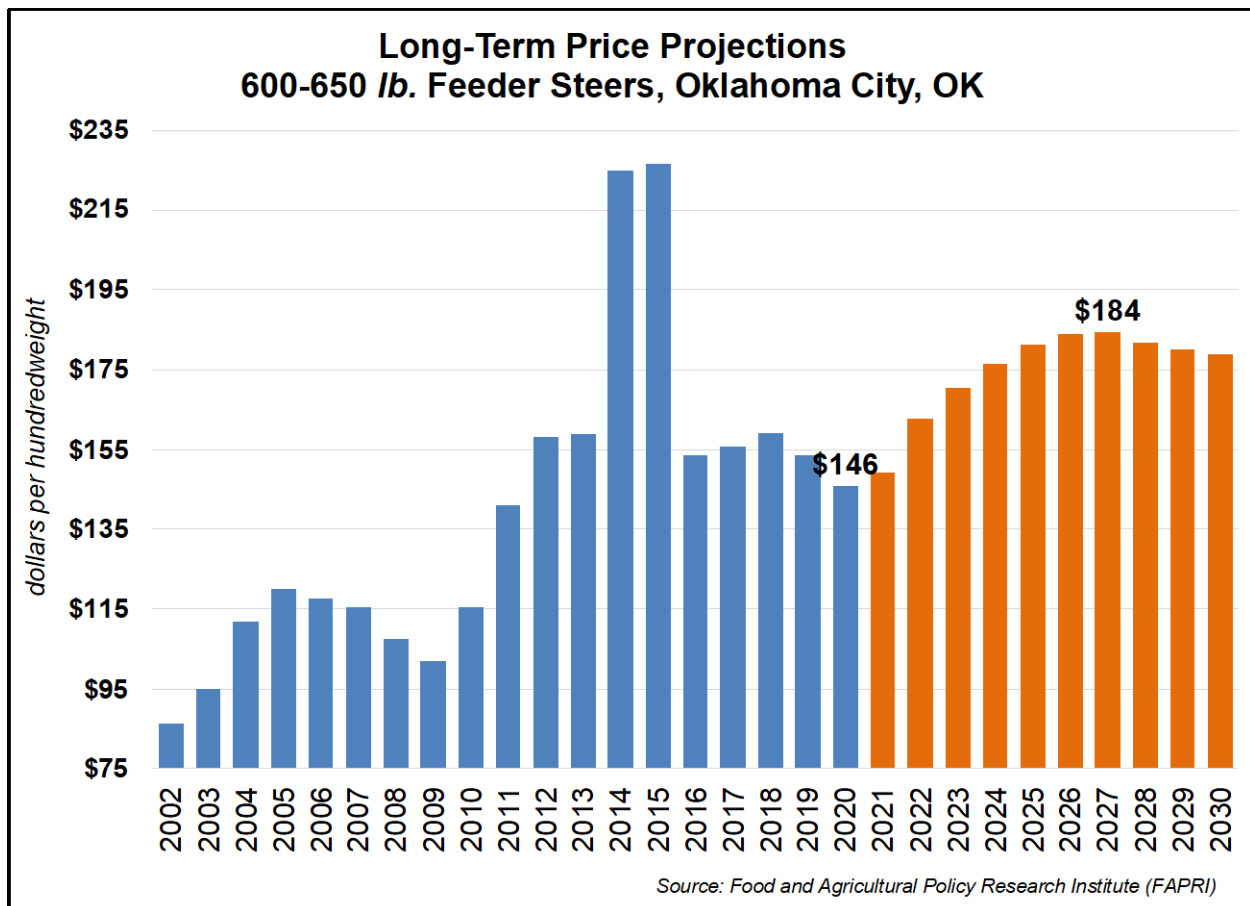
The first strategy to incorporate is short-term price projections. The chart below looks at the CME Feeder Cattle Futures Contract for August 2021. In terms of providing a short-term price projection, the CME Feeder Cattle Futures Contract provides us with the market's expectations of an 800-lb. Feeder Steers (Basis: 12-State Region of Northern and Southern Plains) at a future date, which in the case of this example is August 2021.



Comparing the future price (CME Feeder Cattle Futures) with the current market price (U.S. Feeder Cattle Price Index) provides us with the market’s expectation of price movement in the near-term. To evaluate the current market price the U.S. Feeder Cattle Index Price provided by the USDA’s Agricultural Marketing Service is utilized. It is made up of actual sales of Feeder Cattle via auctions, direct trade, video sales, internet sales within the 12-State Region of Colorado, Iowa, Kansas, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, and Wyoming. The price for the U.S. Feeder Cattle Index Price is a 7-day computed weighted average price for an 800-lb. Feeder Steer and provides a proxy for the current U.S. feeder cattle cash market.

On June 30, 2021 the 7-day computed weighted average of the U.S. Feeder Cattle Index Price was \$146.31 per hundredweight and the settlement price of the August 2021 CME Feeder Cattle Futures Contract was \$154.68 per hundredweight. This information indicates to producers that between June 30th and the expiration of the August 2021 Feeder Cattle Futures Contract (last Thursday of the contract month) the market is expecting cash prices to increase from \$146.31 per hundredweight to \$154.68 per hundredweight. The market is pricing in a \$8 per hundredweight, \$67 per head, and \$4,185 per truckload unit over the next 55 days. Thus, for producers the short-term expectation for feeder cattle is for prices increasing.

The second strategy to incorporate is long-term price projections. Each year the Food and Agricultural Policy Research Institute (FAPRI) a set of 10-year price projections for agricultural commodities. The chart below was released in March 2021 and provides us with price projections for 600-650 lb. Feeder Steers (Oklahoma City) over the next 10 years.



A significant takeaway from this chart is that the long-term trend for feeder steers is higher. Knowing and understanding that prices are poised to move higher, in general, over the next 10 years provides producers guidance with which management decisions can be made. With the lows projected to have occurred in 2020 near \$146 per hundredweight, and the highs projected to occur in 2027 near \$184 per hundredweight. These price projections share with us the expectation that 600-650 lb. Feeder Steers (Oklahoma City) are projected to increase by \$38 per hundredweight, \$238 per head, or \$19,000 per truckload unit from the 2020 low to the 2027 high.

Looking forward, given the information available I would expect market prices for feeder calves to increase as we move through and further away from the pandemic to greener pastures. However, even as market prices continue to move higher annually, given the recent history, prices will likely also continue remain volatile. There will continue to be windows for marketing feeder calves near the high-end of the market each year, but there will also be times where holding and adding additional weight could be to your advantage. This stresses the need to develop an understanding of where prices for your feeder calves are and where they are projected to go.

In the short-term the futures market continues to predict an increase in feeder calf prices. This suggests that producers have the opportunity to hold cattle and add additional weight. Long-term projections are also positive, so this information represents an opportunity for producers to keep a few extra replacement heifers with the expectation of marketing their future calves at higher prices over the next decade.