MARKET ADVISOR

by Tim Petry, North Dakota State University Extension Service

COVID-19, Volatile Prices and Price Risk Management

Learn more about price risk management tools available to cattle operations of all sizes.

Cattle prices have been quite volatile the last several years. Many fundamental factors highlighted in previous columns affect cattle prices, but recent events have been particularly impactful on prices.

International trade issues and disputes with tariffs and trade agreement negotiations come to mind. Animal disease issues such as African Swine Fever (ASF) have been important. The Tyson packing plant fire caused price volatility. Corn price volatility with the recent Corn Belt derecho storm and large Chinese corn purchases has been important, especially for feeder-cattle prices. But at the forefront has been the COVID-19 pandemic.

Some cow-calf producers may sell most their annual calf crop on one day. So, an entire year's income may be dependent on the market that day. Recent unexpected events with price volatility highlight the need for a marketing plan, which may include price risk management strategies.

There are fewer risk management tools available for cow-calf producers, since there is no futures market contract for calves. Smaller-scale producers are limited in available tools, because they may not have truckload-size lots of the same weight and grade of calves to sell.

A price risk management tool available to cattle producers is Livestock Risk Protection (LRP), offered by the USDA Risk Management Agency (RMA). For those who have looked at LRP in the past, RMA recently made changes that make it more usable.

LRP was designed to insure against declining market prices. It functions similar to futures market put options, except the insurance contract is purchased from an approved livestock insurance agent instead of a futures market broker. It is available to cattle producers in all states. A list of livestock insurance agents can be found at *www.rma.usda.gov/Information-Tools/Agent-Locator-Page.*

LRP contracts may be especially useful for producers with smaller numbers of cattle to be insured against price declines, because the minimum number required is one head. The maximum number that can be insured in a crop year (July 1-June 30) is 12,000 feeder cattle or fed cattle. Feeder-cattle coverage is available for less than 600 pound (lb.) and from 600 to 900 lb. beef steers, beef heifers, predominately dairy cattle and predominately Brahman cattle. Contracts for each market class may be available for maturity dates 13, 17, 21, 26, 30, 34, 39, 43, 47 or 52 weeks in the future. Note on any given day not all contract lengths may be available.

LRP insurance is market-based, so coverage prices and premiums change daily. Producers select coverage levels that range between 70% and 100% of an expected price, similar to futures market options strike prices.

Coverage prices and premiums are posted daily on the RMA website at *https://public.rma.usda.gov/livestockreports/main.aspx.*

Premium subsidies were 13% for many years, but now have been increased to from 25% to 35% depending on coverage level. Premiums once due before submission are now due at maturity.

Policies may be purchased when coverage prices are posted weekdays after 3 p.m. Central Time and are available until 9 a.m. the next day.

At the end of the insurance period, if the actual ending value is below the coverage price, an indemnity is paid for the difference.

More information on LRP is available at *www.rma.usda.gov/Commodity/Cattle.* Several extension offices in important cattle-producing states have more information.

LRP informational presentations are available on my website at *www.ndsu.edu/livestockeconomics/presentations.* AJ

Editor's note: Tim Petry is a livestock marketing economist with the North Dakota State University Extension Service.