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RightRisk™

RightRisk News

How Much Risk is Right for You?

Managing 2023 Market Volatility

Current prices for agricultural commodities are strong. Average auction market prices in early May for 500-600 pound steer calves in Nebraska was $264 per cwt. Heifer prices were $30 lower at $234 per cwt. Elevator prices for corn in western Nebraska are in the high $6 per bushel range. Wheat prices at the elevator are around $8 per bushel. Hay prices are $200 to $300 per ton if you can find it. Severe drought and world market volatility over the last couple of years have pushed all of these markets higher. Growers and sellers of these commodities are anxious for harvest to arrive. All are hoping these prices hold and yields are good so they can capture a decent profit margin for their work.

Cattle prices in 2023

Cow-calf producers currently are optimistic about profits in 2023, despite challenges with forage availability and input costs. A price of $260 per cwt. for a 550-lb. steer is only good if you have a steer to sell. What prices will look like in October or November when they have weaned calves to sell is the primary concern for every producer. One indicator is the October Chicago Mercantile Exchange (CME) Feeder Cattle Futures price, coupled with the expected local basis. For example, the October futures contract price for feeder cattle was trading around $230 per cwt. during the first half of May. The Nebraska basis for 500-600 pound steers in October has been $15 to $36 above the CME contract settlement index for the period from 2018-22 (Table 1). This information would project a price for 5-weight steers in Nebraska in October somewhere from $245 to $266 per cwt. Cow-calf operators across the country can apply this same calculation to their specific circumstances by utilizing local basis information.

Producers might wonder about the reliability of a May price for the October feeder cattle contract as a predictor of the October price. The answer over the last five years is that it is fairly accurate, within $5 per cwt. for four of the last five years (Table 2). The exception was 2018 when it undershot the price by almost $13. Others may wonder how these numbers compared coming out of the 2012 drought. In both 2013 and 2014, the May price for October feeder cattle futures was considerably below the settlement index in October (below by $15.69 and $47.13, respectively). That is, prices moved higher than expected as 2013 and 2014 markets evolved. However, in 2015, as cattle inventories recovered, the May price was $23.20 per cwt. above where the contract ultimately settled in October. In 2015 price protection really paid off for those who purchased it, as prices moved downward at a pace that was not reflected in the expectations in May for fall prices.

Table 1: Historical Nebraska Average Auction Market Prices for 500-600 lb. Calves Compared to the Chicago Mercantile Exchange (CME) October Feeder Cattle Cash Settlement Index During the Last Two Weeks in October. All prices are in $/cwt.

Year	2018	2019	2020	2021	2022	Avg.
Steers	$177.94	$160.55	$156.67	$176.60	$210.25	$176.40
Heifers	$154.59	$142.15	$138.29	$153.60	$186.62	$155.05
Basis: Steers - Heifers	$23.35	$18.39	$18.38	$23.01	$23.63	$21.35
CME Feeder Cattle Cash Settlement Index	$154.77	$145.08	$135.47	$155.38	$174.16	$152.97
Basis: Steers - CME Index	$23.17	$15.47	$21.19	$21.23	$36.09	$23.43
Basis: Heifers - CME Index	($0.18)	($2.92)	$2.82	($1.78)	$12.46	$2.08

Data Source: Livestock Marketing Information Center (LMIC)

Cattle prices are currently strong and appear poised to remain strong throughout the year.

However, as 2015 demonstrated, we never know for sure when the market will turn. Cow-calf producers do not need to become aggressive about locking in prices just yet. However, it may be a good time to look at inexpensive options to establish floor price protection with tools like put options or Livestock Risk Protection (LRP) insurance. Several changes have been made to the LRP insurance program for cattle producers over the last four years, making it more affordable and easier to use. These improvements include increases in the premium subsidy rates, moving the premium due date from the beginning to the end of the coverage period, and several changes expanding its availability. Current LRP insurance contracts expiring in mid-October or mid-November offer opportunities to protect the CME feeder cattle price at around $230 per cwt. for a premium cost of a little over $5 per cwt.

Table 2: Chicago Mercantile Exchange (CME) October Feeder Cattle Contract, $/cwt.

Year	2018	2019	2020	2021	2022	Avg.
Oct Feeder Cattle Futures Contract Price in May	$142.00	$145.99	$135.15	$150.68	$177.78	$150.32
CME Feeder Cattle Cash Settlement Index	$154.77	$145.08	$135.47	$155.38	$174.16	$152.97
Difference: Contract Price in May - Settlement Index	($12.78)	$0.91	($0.32)	($4.69)	$3.62	($2.65)

Source: Livestock Marketing Information Center (LMIC)

2023 grain prices

Wheat harvest is only weeks away for many producers. Depending upon location, local harvest prices may be based on July or September futures contracts. For example, harvest contract delivery prices for hard red winter wheat in western Nebraska and southeastern Wyoming are usually based on the Kansas City July futures contract. When the July harvest materializes the cash delivery price is usually based on the September futures contract price.

As an example, the July 2023 Kansas City hard red winter wheat futures contract traded from the mid-$7 range per bushel to the mid-$8 range during the first two weeks of May this year. The basis for July harvest delivery to one of the local elevators ranged from minus $0.75 off the July futures contract price for the first week of May before contracting to minus $0.70 for the start of the second week of May. The 10th day of May saw a switch to the September futures contract with a basis of minus $0.65. This provided opportunities over the two weeks to contract for delivery in July at prices between $6.65 and $7.96 per bushel based on daily closing prices. The average daily closing price over the two-week span was $7.43 per bushel for July delivery.

Table 3: Example Nebraska Elevator Harvest Wheat Prices from 2018 – 2022 Comparing July Harvest Delivery Contract Price Offered During the First Two Weeks of May to the Cash Prices During the Last Two Weeks of July.

Year	2018	2019	2020	2021	2022	Avg.
Early May Harvest Contract						
High	$4.88	$3.49	$4.32	$6.82	$11.97	$6.30
Low	$4.30	$3.27	$3.97	$6.03	$9.98	$5.51
Average	$4.60	$3.41	$4.19	$6.44	$10.82	$5.89
Late July Cash Price						
High	$5.01	$3.94	$3.99	$6.20	$8.30	$5.49
Low	$4.33	$3.75	$3.85	$5.84	$7.50	$5.05
Average	$4.67	$3.86	$3.92	$6.02	$7.97	$5.29

Source: Author dataset.

A reasonable question is how this same scenario looked over the last several years. Table 3 depicts the numbers for 2018-2022 for the July delivery contract offered by an example western Nebraska elevator during the first two weeks of May, compared to the cash delivery price during the last two weeks in July of the same year. We can identify a good correlation between the May offer and the July cash price For 2018-2021. The 2018-2019 period represent years where contracting did not pay and 2020-2021 represent years where contracting did pay. Last year represented an exception where a nearly $3 drop occurred from the contracted prices offered in May to the cash prices offered in July. This year's volatility is somewhere between what was observed in 2018-2021 and in 2022. There is greater volatility this year than recorded in 2018-2021, but not quite as high as in 2022. Many wheat producers have already contracted quantities for delivery they are comfortable with this year given their production outlook and the risk associated with it. That is probably a good place to be at this point, especially if those contract prices took advantage of one of the price rallies that occurred earlier this spring.

Corn prices are typically more stable than wheat prices. December corn futures contract prices serve as a basis for many local elevator harvest prices. Table 4 shows the Chicago Board of Trade (CBOT) December corn futures contract price in 2018-2022 for early May, contrasted with early November. The only year the contract price in May was a good representation of the contract price in November was 2019. The only year the contract price in November was above the contract price in May was 2020. The other three years saw the contract price in November $0.27 to $0.62 per bushel below the contract price in May. Comparing basis to the local elevator cash price will vary by location but, nationally, we see local

Table 4: Chicago Board of Trade December Corn Futures Contract Price Offered During the First Two Weeks of May Compared to the First Two Weeks in November and the National Elevator Cash Price in November.

Year	2018	2019	2020	2021	2022	Avg.
Early May						
High	$4.22	$3.88	$3.37	$6.37	$7.53	$5.07
Low	$4.14	$3.72	$3.31	$5.43	$7.11	$4.74
Average	$4.19	$3.82	$3.34	$5.92	$7.34	$4.92
Early November						
High	$3.74	$3.89	$4.23	$5.79	$6.98	$4.93
Low	$3.67	$3.73	$3.98	$5.52	$6.53	$4.68
Average	$3.71	$3.79	$4.09	$5.65	$6.72	$4.79
November Cash Corn Price*	$3.41	$3.68	$3.79	$5.26	$6.49	$4.53

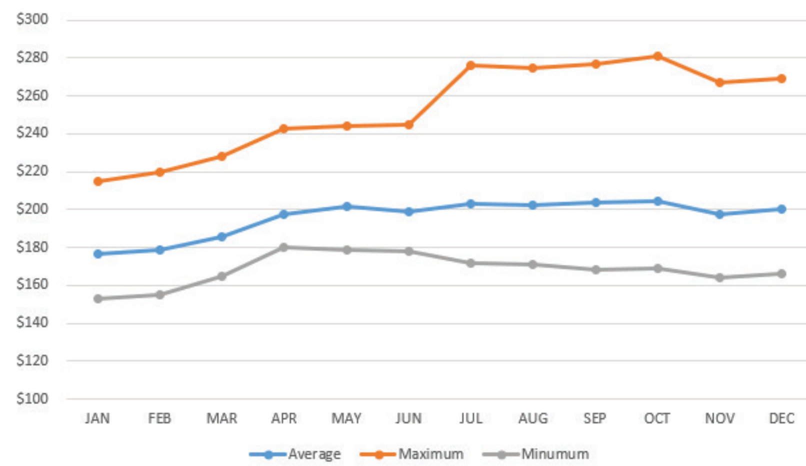
* Livestock Market Information Center (LMIC) Average National Cash Corn Price for November.

November cash price average $0.11 to $0.39 below the December futures contract price during the first two weeks in November. For 2023, December corn futures have remained strong in the $5 to $6 range with a slight downward trend emerging. Many producers have already contracted a portion of their expected harvest and history suggests they will not regret that decision.

Hay prices in 2023

Hay prices over the 2022-2023 winter feeding period were some of the highest in memory. With no futures market, producers are left with few data sources to turn to for future market trends. Figure 1 depicts the high, average, and low monthly price for alfalfa hay over the period 2018-2022 in the U.S. Prices tend to climb during first few months of the year as winter feeding is in full swing and then level off or trend slightly downward through the remainder of the year. The notable exception is 2022, which was the third straight year of extreme drought over much of the western U.S. The orange line in Figure 1 represents monthly average prices for 2022 as each month was a new five-year high. However, for buyers of hay in 2023, now is not the time to panic about possible hay prices later in the year. History suggests that prices normally remain steady or decline during the growing season. Cattle inventories have declined due to the drought and will take some time to rebuild. The most likely scenario is that hay supplies will catch up with demand and prices will return to normal seasonal patterns. Sellers of hay may wish to capitalize on selling opportunities that fit their marketing needs while the current uncertainty in the market persists.

Figure 1: National Average Prices for Alfalfa Hay 2018 - 2022.



Source: Livestock Market Information Center (LMIC).

Looking forward

Markets prices are high for many agricultural commodities and the uncertainty over the last three years has contributed to extreme volatility. Producers should expect at least some volatility to continue. A solid marketing plan will make use of the information available to better understand the nature of the volatility and the risks that are involved. Plans can be adjusted as more and better information becomes available. Plan now following your strategy for handling current volatility, identify some action steps to reconsider as the marketing year unfolds, and move forward to implement your best risk management plan for 2023 and beyond.

~ Other RightRisk News ~

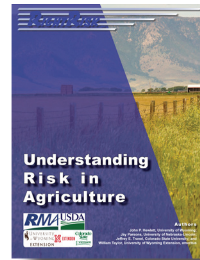
News Release - April 21 | RightRisk

Federal Reserve Beige Book: Summary on the Agricultural Sector

OVERALL economic activity was little changed in recent weeks. Nine Districts reported either no change or only a slight change in activity this period while three indicated modest growth. Expectations for future growth were mostly unchanged as well . . .

For more see: RightRisk.org\News

Highlighted Publication:
Understanding Risk in Agriculture



Risk is generally understood to mean future events for which the outcomes are unknown or uncertain. We might also describe risk as a case where the unknown future matters; if the outcomes did not matter there would be no risk. People tend to think that complex problems require complex solutions when faced with risk alternatives. This tendency compounds the challenges even further. With risk the opposite is true. Simple rules can not only help to clarify the choices open to us, but also make the consequences more obvious.

Understanding Risk in Agriculture is an ebook drafted to accompany the course with the same name. It is intended to help readers better understand risk and the implications for managing an agricultural business, as well as how the manager might account for it when making decisions about risk and consequences.

To read more or to access the text, see: **RightRisk.org > Courses > Understanding Risk in Agriculture**

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