



Hedging Simplified

How to manage market risk on drought restocking purchases after the rain comes



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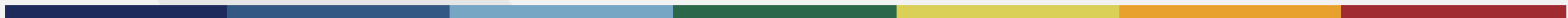
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The Cattleman's Advisory

THANK YOU

Published by: [Kirk Donsbach](#)

2020-06-14 03:17:57 UTC

Weekly Cattle 6/12/2020

Cash trade was reported at \$103-108. This would be close to the middle of last week's range of 100-118. Dressed sales were \$160-170. Dressed prices are \$10-17 lower than last week. The

Get Insights from a Montana Cattleman!

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My Story

- Licensed Associated Person for StoneX
- 400 head cow/calf operation in Roy MT
 - 50 head of home raised yearlings





5 Basic Principals To Success

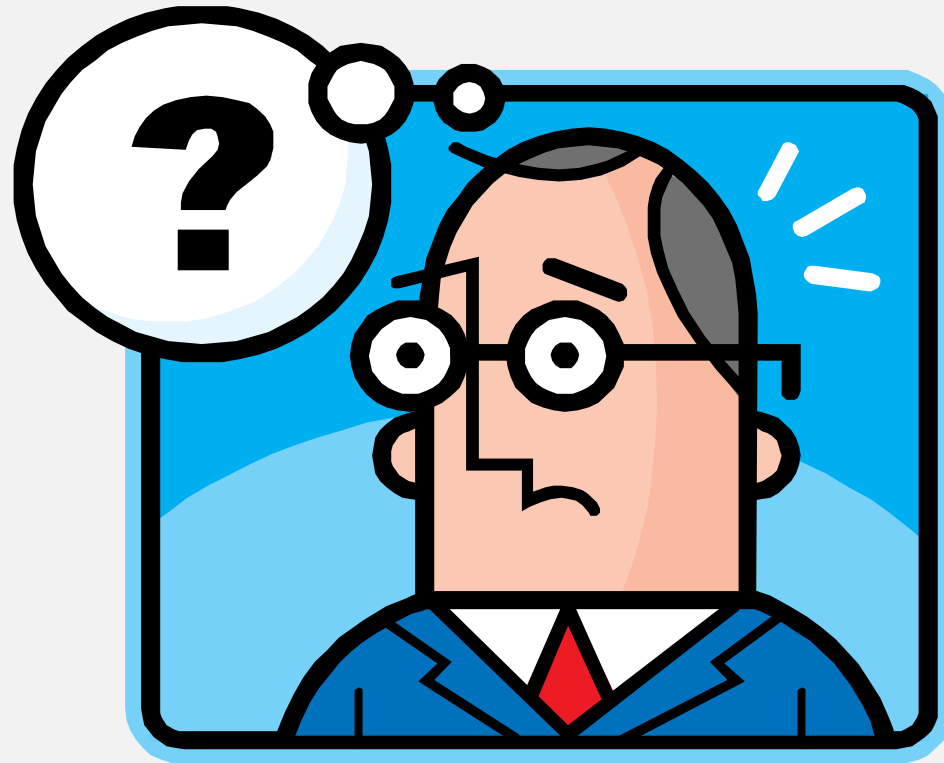
1. Assume 50/50 chance market prediction is correct
2. Consistency and process are the keys to success.
3. Every producer in this room is directly affected, and inadvertently participates in the Futures market.
4. Every day we have a choice to do something. Doing nothing is taking a position that the market will hold steady or increase.





What is Hedging Anyway?

- Protects the Asset value of either cash or your production

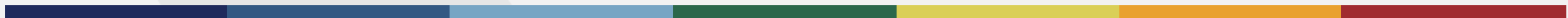




LRP

Government subsidized insurance that uses CME Feeder Cattle Futures and a **Price Adjustment Factor** to produce an **Expected Ending Value**.

This product is settled against the CME Feeder Cattle Index multiplied by the **Price Adjustment Factor**





Livestock Reports (LRP and LGM)

Provides LRP's coverage prices/rates and LGM's Expected and Actual Gross Margins. Actual LRP ending values are also provided at the end of each insurance period.

- [LRP Coverage Prices, Rates and Actual Ending Values](#)
- [LGM Expected and Actual Gross Margins](#)

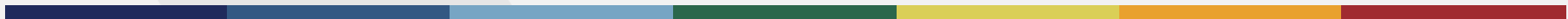
State	County	Endorsement Length	Commodity	Type	Practice	Crop Year	Exp. End Value	Coverage Price	Coverage Level	Rate	Cost Per CWT	Producer Premium Per CWT	End Date	Actual End Value
30 Montana	998 All Counties	39	0801 Feeder Cattle	817 Unborn Steers & Heifers	310 Endorsement Ending in October Yr2	2022	192.084	\$188.910	0.983500	0.049314	9.316	6.06	0/13/2022	

Sourced 1/13/22 rma.usda.gov



Futures

- Move in relation to the cash market
- Subject to delivery
- Subject to margin
- Value of account changes penny for penny/dollar for dollar with market moves
- Functions as a sale







Options

Futures derivative that changes in value at a percentage of the underlying futures contract

Long Put Option- The right but not the obligation to sell a futures contract at a specified price

Long Call Option- The right but not the obligation to buy a futures contract at a specified price





Basis

- The difference between the futures price and the cash price you will get for your cattle.
- Know your basis - Normal MT 600# calf is plus \$20 in March
 - Weight (slide)
 - Shipping costs
 - Quality / Reputation
 - Quantity
 - Feed costs (corn)
 - Emotion
 - Variable from year to year









Basis

Sourced Beefbasis.com 9/29/21

StoneX[®]

GO



1

State: ?
MT

Location: ?
Billings Livestock Commission (2630)

Muscling: ?
1-2

2

Weight: ?
550-600

Sex: ?
Steers

Frame: ?
Medium and Large

3

From:
1996


To:
2021

Month:
Mar

Run Calculator

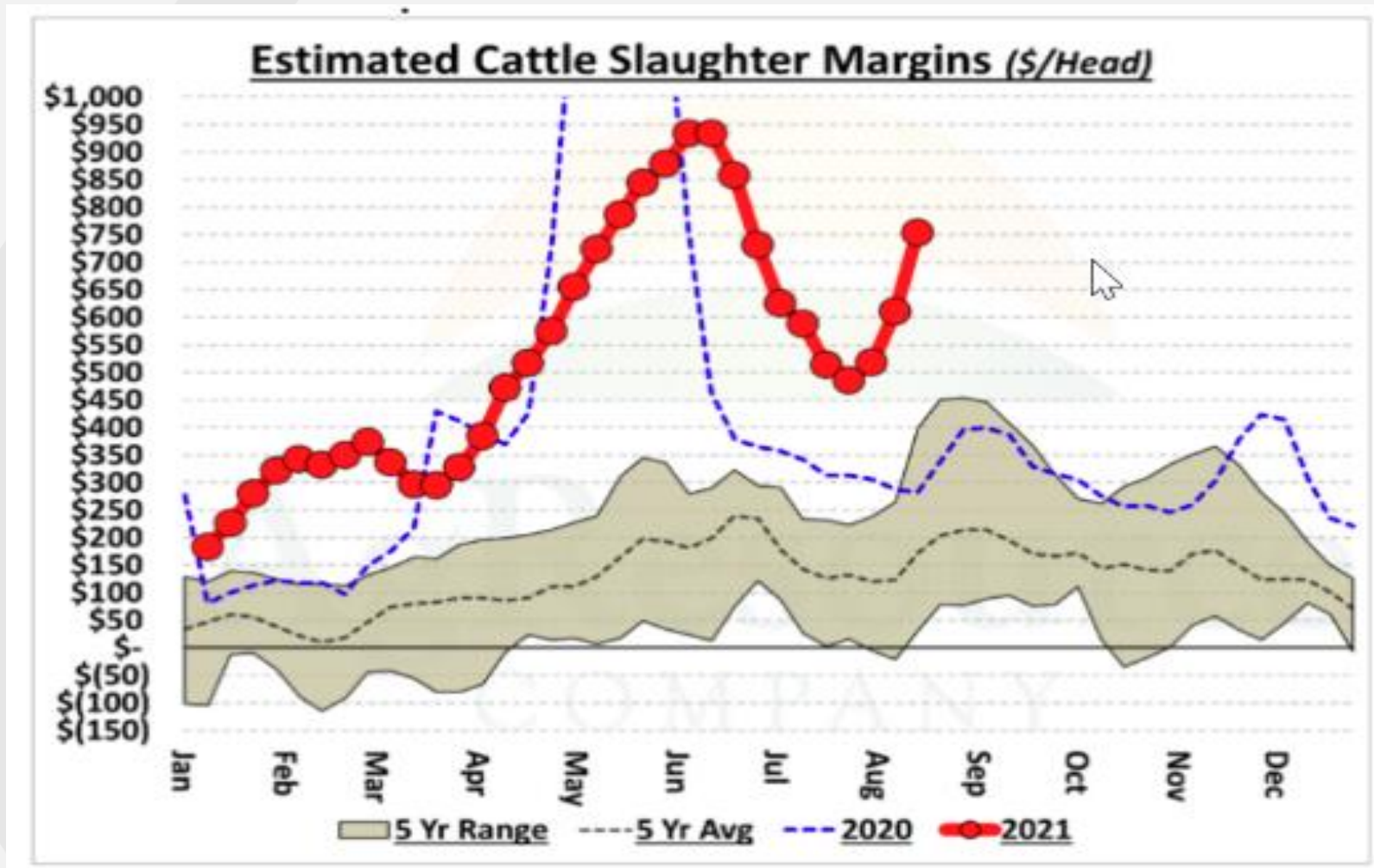
Set Results ^

Basis Statistics: 2004 - 2021	Results	Transactions	Basis Range
Weighted Basis Average	19.92	100%	-3.74 to 40.33
Simple Basis Average	21.20	80%	-3.74 to 29.05
Basis Std. Deviation:	11.22	70%	-3.74 to 25.28

Privacy - 1



Packer Leverage



Sourced Ag Resource Research Co

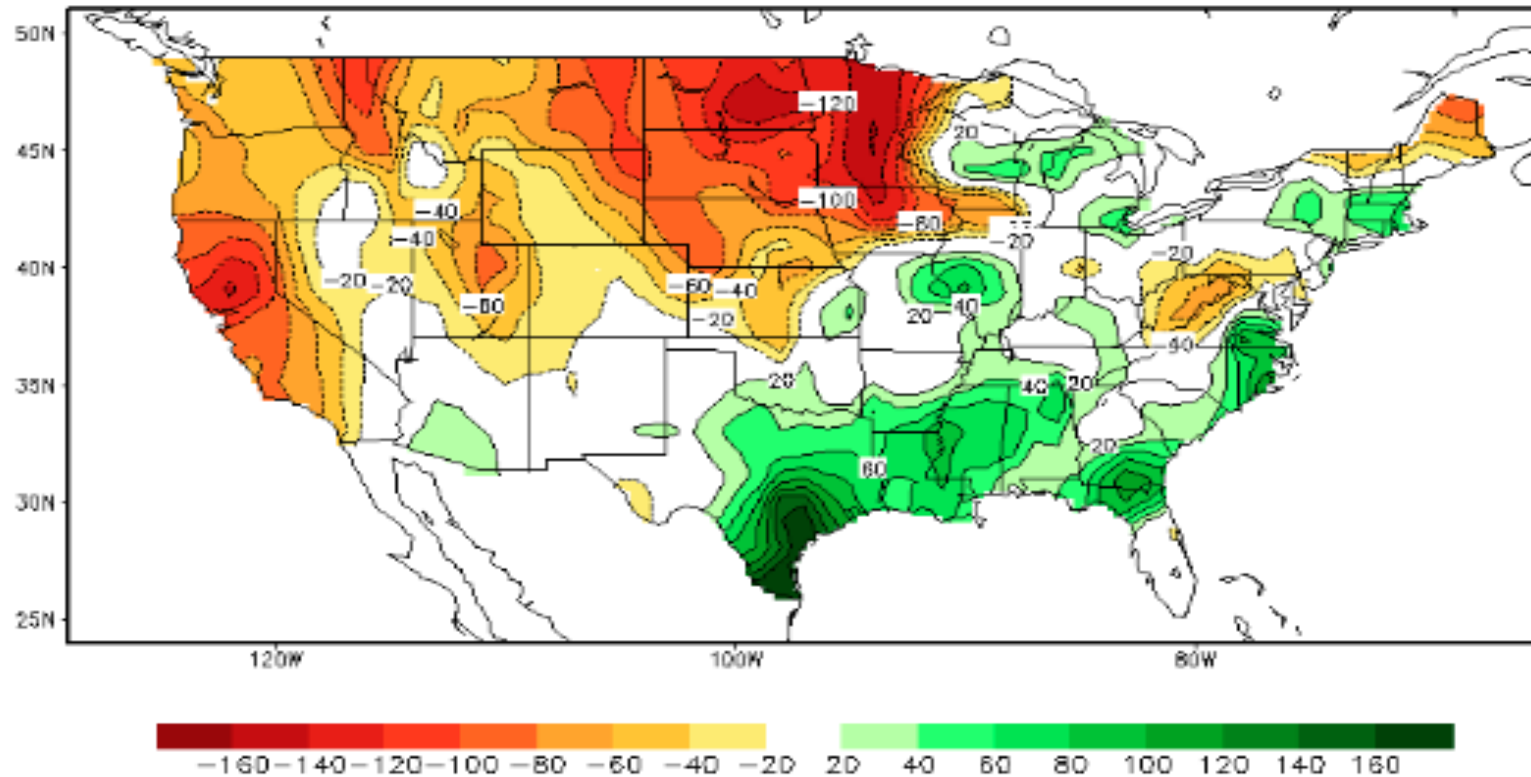


Packing Plant Expansion

- National Beef \$105 million Tama expansion; 2400 hd/day
- Central Valley Meat Hanford expansion; 3000 hd/day
- Cattlemen's Heritage Council Bluffs new 325 ml; 1500 hd/day
- JBS USA \$130 million Grand Island and Omaha expansion
;1000 hd/day
- Tyson and Cargil investing heavily in processing and distribution
-
- Small plants
 - Herzog Meat Co 20 hd/day to 75 hd/day via public grants



Calculated Soil Moisture Anomaly (mm) AUG 16, 2021



Sourced National Weather Service 8/16/21



Cattle Inventory

Cattle Inventory by Class and Calf Crop – United States: July 1, 2020 and 2021

Class	2020	2021	Percent of previous year
	(1,000 head)	(1,000 head)	(percent)
Cattle and calves	102,200.0	100,900.0	99
Cows and heifers that have calved	41,400.0	40,900.0	99
Beef cows	32,050.0	31,400.0	98
Milk cows	9,350.0	9,500.0	102
Heifers 500 pounds and over	16,200.0	16,000.0	99
For beef cow replacement	4,400.0	4,300.0	98
For milk cow replacement	4,000.0	4,100.0	103
Other heifers	7,800.0	7,600.0	97
Steers 500 pounds and over	14,700.0	14,500.0	99
Bulls 500 pounds and over	2,100.0	2,100.0	100
Calves under 500 pounds	27,800.0	27,400.0	99
Cattle on feed	13,600.0	13,400.0	99
Calf crop	35,135.5	35,100.0	100

Sourced USDA 9/29/21



Aug Feeder Cattle sourced Gain TDM 1/13/22





Strategies:

Hedge the sale with Put Options

STRIKE PRICE	PUTS						
	LAST	CHANGE	PRIOR SETTLE	LOW	HIGH	VOLUME	UPDATED
172000.0	4.150	-0.275 (-)	4.425	4.150	4.150	4	16:37:28 CT 13 Jan 2022
174000.0	4.900	-0.175 (-)	5.075	4.900	4.900	7	16:37:52 CT 13 Jan 2022
176000.0	-	-	5.800	-	-	7	16:37:42 CT 13 Jan 2022
178000.0	6.100	-0.500 (-)	6.600	6.100	6.250	2	16:37:25 CT 13 Jan 2022
180000.0	7.000	-0.475 (-)	7.475	7.000	7.475	8	16:37:49 CT 13 Jan 2022

Sourced CME Group 10/1/21



Put Option



Aug Feeder Cattle sourced Gain TDM 1/13/22

Hedge the sale with a Collar (buy put sell call – margined position)

CALLS				STRIKE PRICE	PUTS				
LOW	PRIOR SETTLE	CHANGE	LAST		LAST	CHANGE	PRIOR SETTLE	LOW	HIGH
-	8.200	-	-	180000.0	7.000	-0.475 (-)	7.475	7.000	7.475
-	7.175	-	-	182000.0	-	-	8.450	-	-
-	6.275	-	-	184000.0	-	-	9.525	-	-
-	5.450	-	-	186000.0	-	-	10.725	-	-
-	4.725	-	-	188000.0	-	-	12.000	-	-

Buy

Sell

\$3.725 out of Pocket cost

Option Collar





Short futures



Aug Feeder Cattle sourced Gain TDM 1/13/22



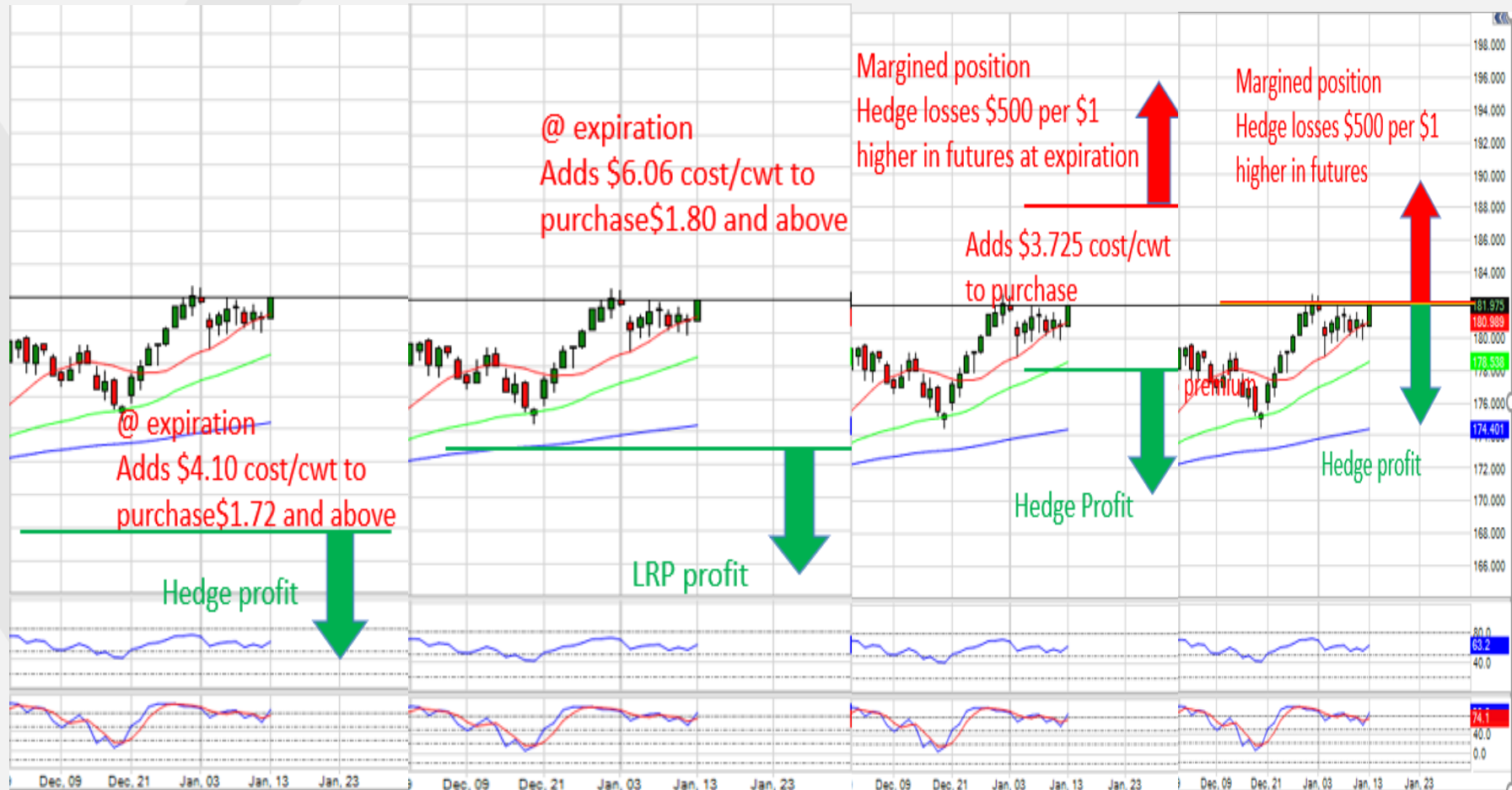
Comparison

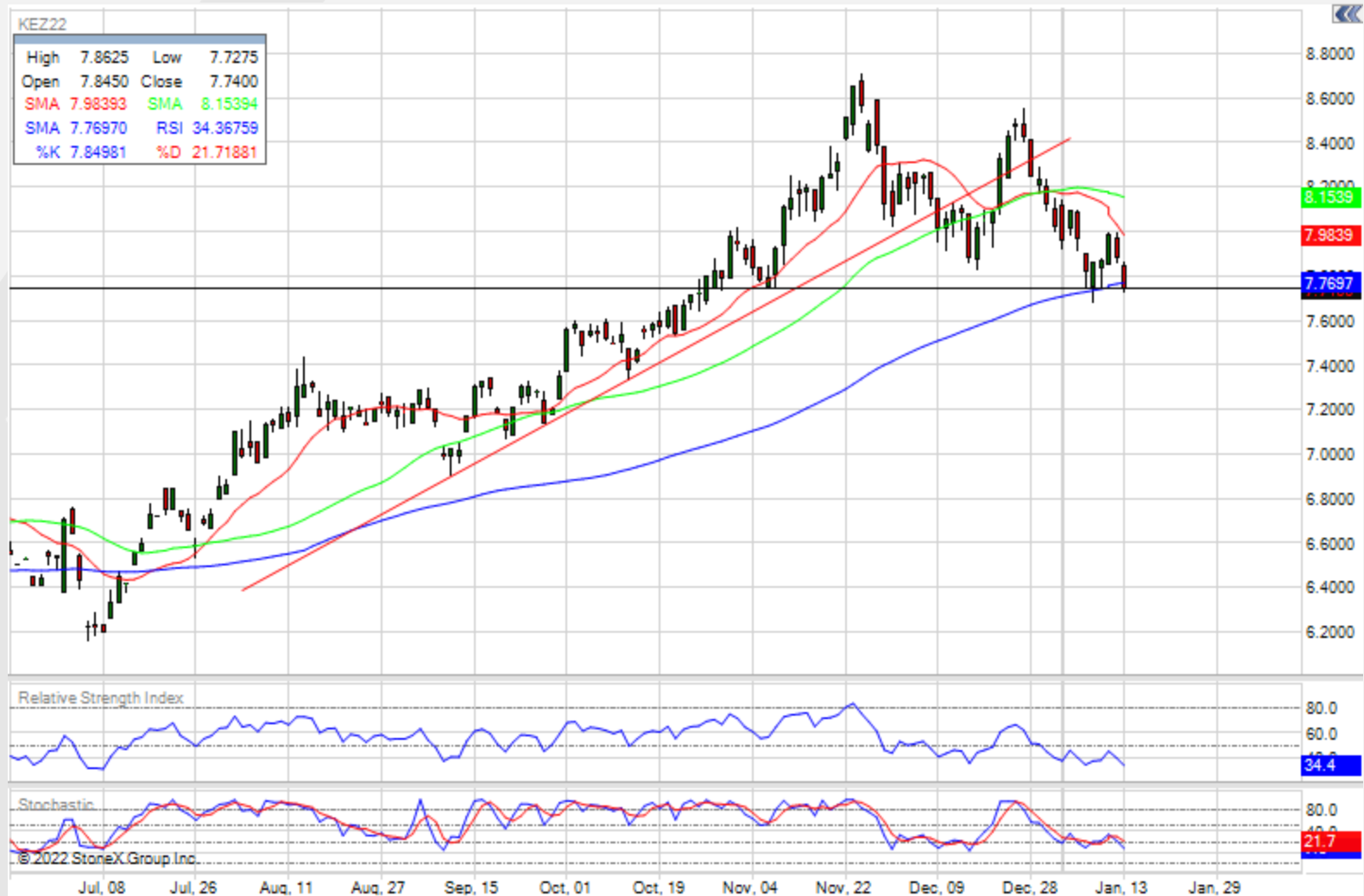
Long Put

LRP Ins

Long put/short call

Short futures





KEZ22 sourced Gain TDM 1/13/22



WASDE REPORT

USDA December 1 Stocks (in Billion Bushels)

	USDA Dec 1 2021	Average Trade Est.	Estimate Range	USDA Dec 1 2020	StoneX Est***
Corn	11.647	11.602	11.200-11.951	11.294	11.692
Soybeans	3.149	3.129	2.975-3.227	2.947	3.217
Wheat	1.390	1.421	1.315-1.690	1.703	1.396

Winter Wheat Seedings (in million acres)

	USDA Jan 2022	Average Trade Est.	Estimate Range	USDA Dec 2021	StoneX Est***
All Winter	34.40	34.255	33.4-35.55	33.648	33.490
HRWW	23.80	24.034	23.4-24.97	23.494	24.080
SRWW	7.07	6.555	5.79-7.00	6.648	5.790
White	3.56	3.577	3.418-4.0	3.506	3.620

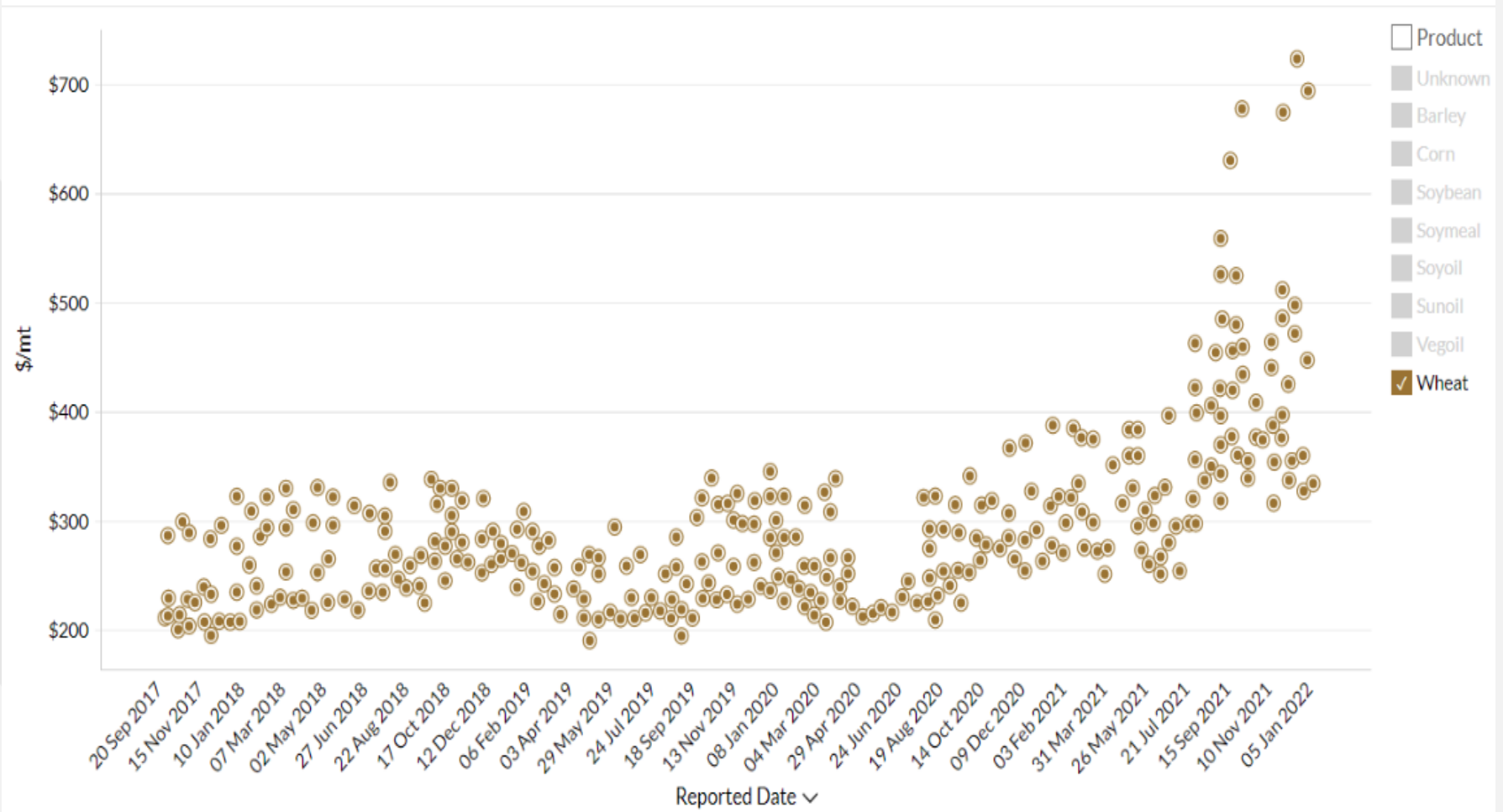
WASDE sourced USDA





Wheat world tenders

price by reported date



sourced Agricensus.com 1/13/22



KC wheat option pricing

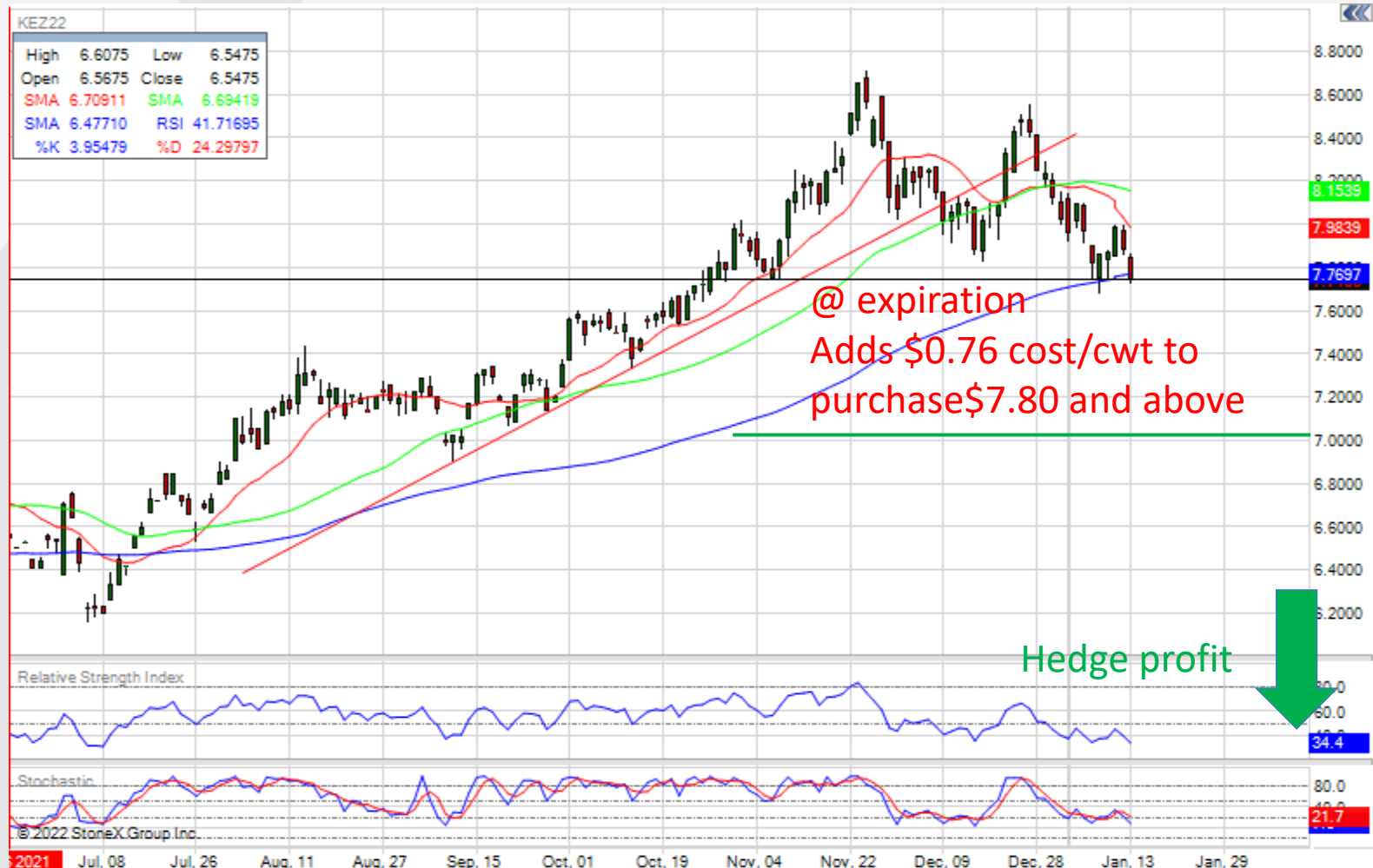
CALLS				STRIKE PRICE	PUTS			
LOW	PRIOR SETTLE	CHANGE	LAST		LAST	CHANGE	PRIOR SETTLE	LOW
-	95'7	-	-	730.0	-	-	50'4	-
-	90'4	-	-	740.0	-	-	55'1	-
-	85'4	-	-	750.0	-	-	60'0	-
-	80'5	-	-	760.0	-	-	65'1	-
-	76'0	-	-	770.0	-	-	70'4	-
-	71'5	-	-	780.0	-	-	76'1	-
-	67'3	-	-	790.0	-	-	81'7	-
-	63'4	-	-	800.0	-	-	87'7	-
-	59'6	-	-	810.0	-	-	94'1	-

Sourced CME Group 1/13/22





Put Option



KEZ22 sourced Gain TDM 1/13/22

Option Collar



KEZ 22 sourced Gain TDM 1/13/22



Short futures



KEZ22 sourced Gain TDM 1/13/22



Comparison

Long Put

Long put/short call

Short futures





What if?





Questions?





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