



# Livestock Risk Protection (LRP)

A Price Risk Management Tool  
for Livestock Producers



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**Agribusiness and  
Applied Economics**

**EXTENDING KNOWLEDGE >> CHANGING LIVES**

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**EXTENSION**

# DO YOU HAVE 2020 VISION?



African Swine Fever



Exports

Record Meat  
Production



Trade Agreements



Drought/Blizzards/Floods

**Consumer Demand**

 **Corn Prices**

**COMPETING MEATS**

# Price Risk Management Tools

- Cash forward contract
- Video and internet auctions
- CME futures
- CME options
- Livestock Risk Protection (LRP)
- Which one or combination fits your marketing plan?
- **“If you don’t manage risk, risk will manage you”**

# PICK YOUR POISON

Cash

Forward Contract/  
Video Auction

LRP

Futures/Options

Easy



Difficult



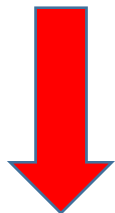
# Which Is Best?

Depends on expected price trend



Uptrend:  
(Bull)

cash market

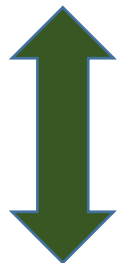


Downtrend:  
(Bear)

futures

cash forward contract

video and internet auction



?:

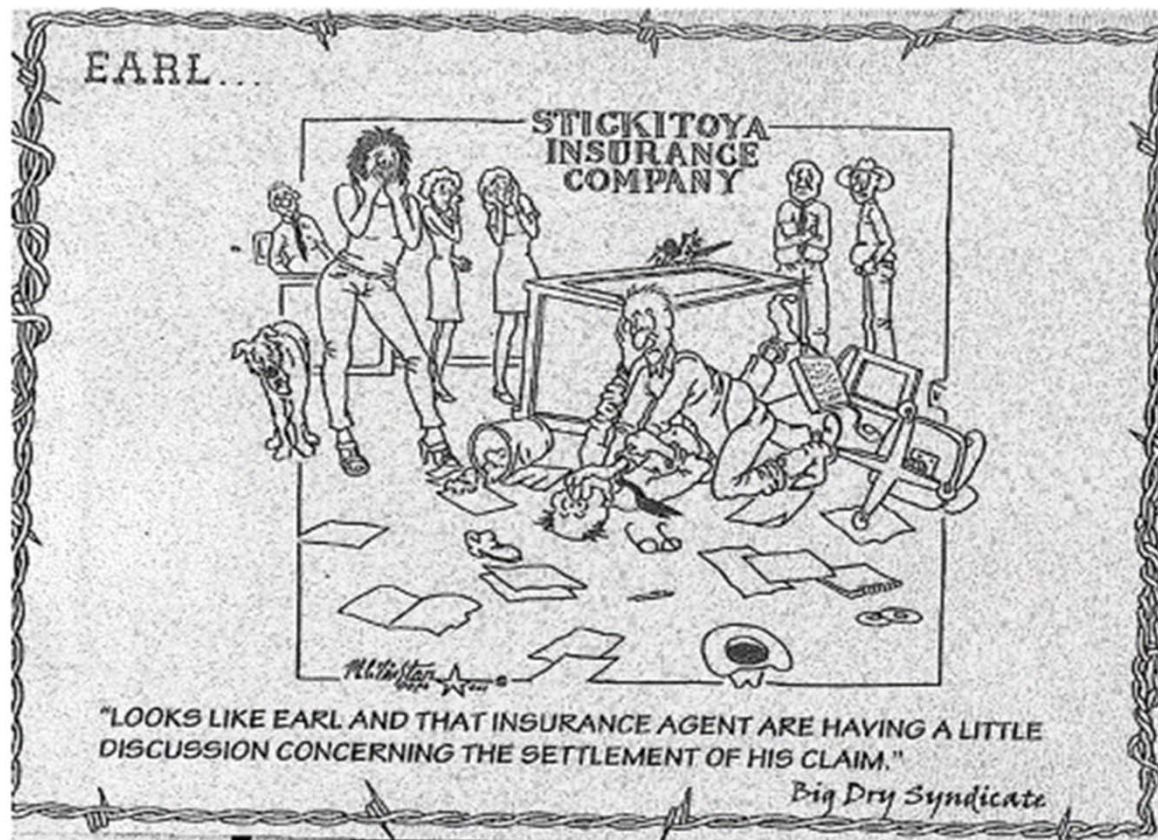
options or LRP

(will always be 2<sup>nd</sup> best)





LRP – revenue insurance program that is reinsured and subsidized by the Federal Crop Insurance Corporation (FCIC)



# LRP

- Insures against price declines
- Similar to put options
- Premium is subsidized
- Sold by livestock (crop) insurance agents who do not have to offer
- List of approved agents at:

[www.rma.usda.gov/Information-Tools/Agent-Locator-Page](http://www.rma.usda.gov/Information-Tools/Agent-Locator-Page)

# LRP CONTRACTS

- Feeder Cattle (beef, dairy, Brahman)
  - Under 600 lbs
    - Beef steers or heifers
  - 600 to 900 lbs.
    - Beef steers or heifers
- Fed cattle
- Hogs
- Lambs



# LRP – Feeder Cattle

- Based on Chicago Mercantile Exchange (CME) feeder cattle price index which is available at [www.cmegroup.com/market-data/reports/cash-settled-commodity-index-prices.html](http://www.cmegroup.com/market-data/reports/cash-settled-commodity-index-prices.html)
- 700 to 899 lb., M & L #1&2, feeder steers at markets reported by USDA-AMS
- Same “basis” considerations as futures and options

# CME Feeder Cattle Index Spreadsheet

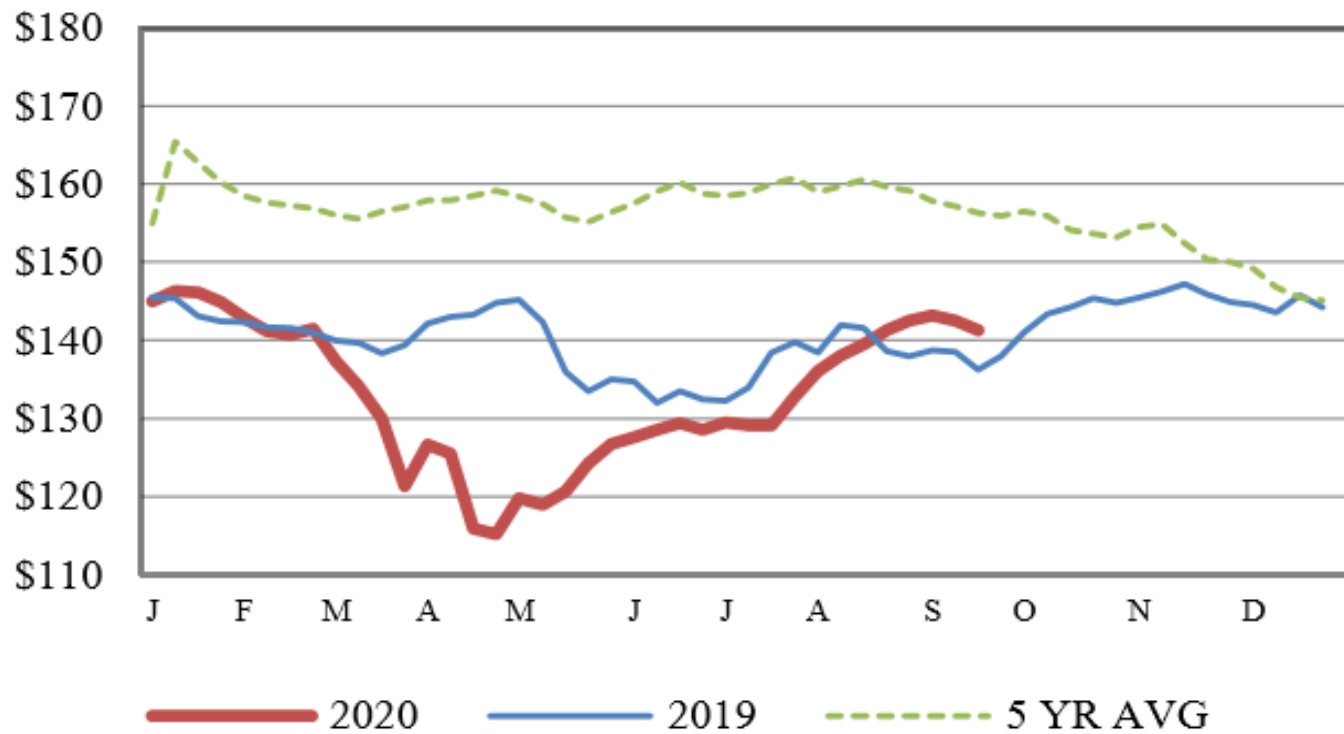
DATE	LOCATION	TTL HEAD	TTL WEIGHT	WTD AVG WEIGHT	TTL PRICE	WTD AVG PRICE
9/24/2020	APACHE	67	50044	747	6955165.14	138.98
9/24/2020	AVA	7	4957	708	677892.50	136.75
9/24/2020	BILLINGS	32	25414	794	3476923.20	136.81
9/24/2020	BUTLER	46	35142	764	5034293.78	143.26
9/24/2020	CLOVIS	187	149177.9983	798	19757332.34	132.44
9/24/2020	DALHART	438	366637.0037	837	49338077.36	134.57
9/24/2020	DENISON	73	56226	770	8064460.74	143.43
9/24/2020	DICKINSON	139	115540	831	16540104.40	143.15
9/24/2020	LAMONI	279	229799	824	33045197.42	143.80
9/24/2020	MITCHELL	234	187130	800	27069872.02	144.66
9/24/2020	NAPOLEON	300	244968	817	37043483.40	151.22
9/24/2020	NEW CAMBRIA	291	232291.9976	798	34212007.52	147.28
9/24/2020	PRATT	629	509381.9904	810	73032975.26	143.38
9/24/2020	SALINA	321	250236	780	36131743.48	144.39
9/24/2020	SUPERIOR VIDEO (NC)	358	282150	788	42384750.00	150.22
9/24/2020	SUPERIOR VIDEO (SC)	1248	1004760	805	148352274.60	147.65
9/24/2020	SAN ANGELO	128	94981	742	11629890.22	122.44
9/24/2020	TULIA	454	360992.0008	795	49549323.16	137.26
9/24/2020	WOODWARD	667	541558.9951	812	73354327.32	135.45
9/24/2020	DAILY TOTALS	5898	4741386.986	804	675650093.86	142.50
9/24/2020	SEVEN-DAY TOTALS	28043	22653602.96	808	3222104457.42	142.23

# CME Feeder Cattle Index



United States Department of Agriculture  
Agricultural Marketing Service

## CME FEEDER CATTLE INDEX (\$/CWT)



# JAN 2021 FDR CAT/CME FDR CAT INDEX

GFF21 - Feeder Cattle - Daily OHLC Chart



# JAN-21 FDR CAT/DEC-20 CORN FUTURES





# N.D. Feeder Cattle Basis

## “Rule of Thumb”

- E to W along I-94
- 800 lb. M&L1 Steers = Par
- Highway 2 deduct \$2 to \$4



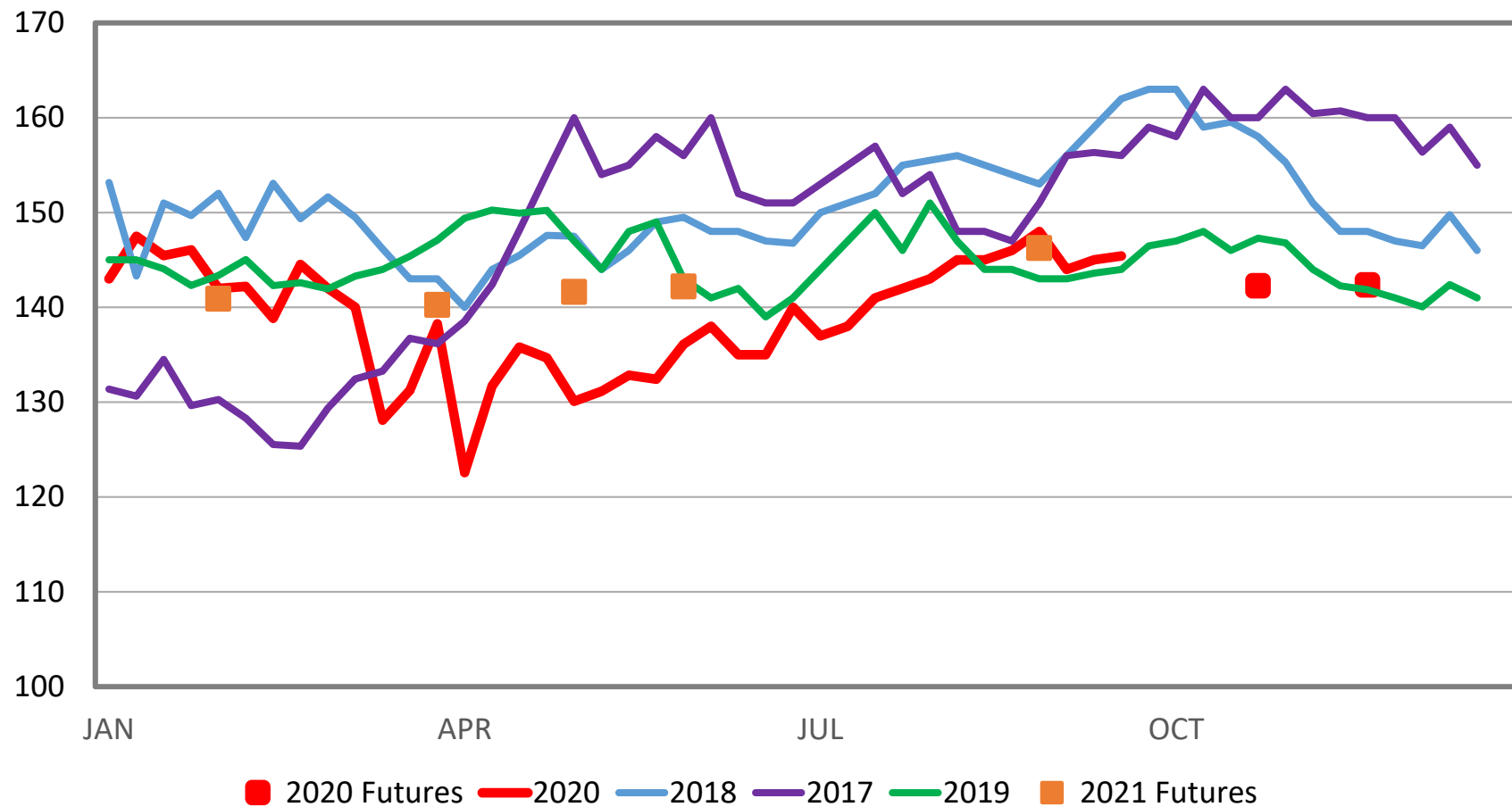
## STEERS - Medium and Large 1 (Per Cwt / Actual Wt)

<u>Head</u>	<u>Wt Range</u>	<u>Avg Wt</u>	<u>Price Range</u>	<u>Avg Price</u>
6	389	389	179.00	179.00
20	431	431	176.50	176.50
6	470	470	170.50	170.50
24	509-517	510	158.75-162.00	159.16
8	649	649	148.00	148.00
22	695-696	696	140.50-148.00	145.96
18	704-714	710	140.00-141.00	140.44
45	753-784	772	139.00-148.50	145.41
271	811-840	820	142.00-156.25	152.67
91	860-896	868	132.50-146.00	142.50
72	922-942	924	128.50-141.50	140.21
261	951-994	968	128.25-138.25	133.88

**CME FC INDEX-\$142.23**

# MED. & LRG. #1 FEEDER STEER PRICES

## 750-800 Pounds, N.D., Weekly



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# CME Index and LRP

	Beef Steers	Beef Heifers	Brahman	Dairy
Under 600 lbs	110%	100%	100%	50%
600-900 lbs	100%	90%	90%	50%

## Insurance Period

Policies **may** be available for the following weekly lengths:

13, 17, 21, 26, 30, 34, 39, 43, 47, 52

## Policy Size

- **One** up to 6,000 head per policy
- 12,000 maximum per year (July 1 – June 30)



# Coverage Prices and Rates

Change daily and are posted on the USDA Risk Management Agency (RMA) web site

<https://public.rma.usda.gov/livestockreports/main.aspx>

Coverage levels will range from 70-100% of expected price

# NEW Premium Subsidy Rates

<u>Coverage Level %</u>	<u>Subsidy Rate %</u>
95-100	35
90-94.99	40
85-89.99	45
80-84.99	50
70-79.99	55

Effective 9-14-2020/Retroactive to 7-1-2020

# Beginning Farmer

- 10% additional premium subsidy
- 5 yr. or less actively farming
- Does not include years when
  - under 18
  - full time military
  - post-secondary education

# Over 600 lb. Feeder Steers



35% Subsidy

LRP Coverage Prices, Rates, and Actual Ending Values - Report for 09/24/2020

X.65

State	County	Endorsement Length	Commodity	Type	Practice	Crop Year	Exp. End Value	Coverage Price	Coverage Level	Rate	Cost Per CWT	End Date
38 North Dakota	998 All Counties	17	0801 Feeder Cattle	810 Steers Weight 2	201 Endorsement Ending in January Yr1	2021	140.915	\$140.020	0.993600	0.042165	5.904 <b>3.84</b>	01/21/2021
38 North Dakota	998 All Counties	17	0801 Feeder Cattle	810 Steers Weight 2	201 Endorsement Ending in January Yr1	2021	140.915	\$138.020	0.979500	0.035930	4.959 <b>3.22</b>	01/21/2021
38 North Dakota	998 All Counties	17	0801 Feeder Cattle	810 Steers Weight 2	201 Endorsement Ending in January Yr1	2021	140.915	\$136.020	0.965300	0.030525	4.152 <b>2.70</b>	01/21/2021
38 North Dakota	998 All Counties	17	0801 Feeder Cattle	810 Steers Weight 2	201 Endorsement Ending in January Yr1	2021	140.915	\$134.020	0.951100	0.025631	3.435 <b>2.23</b>	01/21/2021
38 North Dakota	998 All Counties	17	0801 Feeder Cattle	810 Steers Weight 2	201 Endorsement Ending in January Yr1	2021	140.915	\$132.020	0.936900	0.021474	2.835	01/21/2021
38 North Dakota	998 All Counties	17	0801 Feeder Cattle	810 Steers Weight 2	201 Endorsement Ending in January Yr1	2021	140.915	\$130.020	0.922700	0.017874	2.324	01/21/2021
38 North Dakota	998 All Counties	17	0801 Feeder Cattle	810 Steers Weight 2	201 Endorsement Ending in January Yr1	2021	140.915	\$128.020	0.908500	0.014849	1.901	01/21/2021

JAN FDR CAT Futures - \$140.90/CME FC INDEX-\$142.23

<https://public.rma.usda.gov/livestockreports/main.aspx>

# Indemnity

- Payment based on difference between **COVERAGE PRICE (CP)** and **CME CASH INDEX PRICE (CI)**

$$\text{CP} = \$140/\text{cwt}$$

$$\text{CI} = \$135$$

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\$ 5/cwt payment

- Producers must submit 04-LRP-Claim Form within 60 days of end of contract



# Fed Cattle (Steers or Heifers)

- 1000 – 1400 lb., Select or higher, YG 1-3
- Based on 5-area weighted average 35 to 65 percent choice steer price  
[www.ams.usda.gov/mnreports/ams\\_2477.pdf](http://www.ams.usda.gov/mnreports/ams_2477.pdf)
- Released each Monday morning
- Any # up to 6000 head per policy  
12000 maximum per year



## 5 Area Weekly Weighted Average Direct Slaughter Cattle

Agricultural Marketing Service  
Livestock, Poultry, and Grain Market News

September 28, 2020

[LM\\_CT150](#)

Email us with accessibility issues regarding this report.

Texas/Oklahoma/New Mexico; Kansas; Nebraska; Colorado; Iowa/Minnesota feedlots  
(Includes all transactions regardless of delivery day)  
For: Week Ending Sunday, 9/27/2020

Confirmed: 103,174      Week Ago: 89,803      Year ago: 73,845

### Negotiated Cash Sales

	Head Count	Weight Range	Price Range	Avg Weight	Wtd Avg Price
<b>STEERS: LIVE FOB</b>					
Over 80% Choice	25,178	1,250 - 1,625	103.00 - 107.00	1,496	105.08
65 - 80% Choice	8,958	1,275 - 1,585	105.00 - 105.00	1,455	105.00
35 - 65% Choice	4,927	1,200 - 1,575	104.00 - 105.00	1,343	104.98
0 - 35% Choice		-	-		
Total all grades	39,063	1,200 - 1,625	103.00 - 107.00	1,468	105.05

# FEB LV CAT/5-AREA STEER PRICE

LEG21 - Live Cattle - Daily OHLC Chart



**LRP Coverage Prices, Rates, and Actual Ending Values - Report for 09/24/2020**

38 North Dakota	998 All Counties	21	0802 Fed Cattle	820 Steers & Heifers	202 Endorsement Ending in February Yr1	2021	114.982	\$113.480	0.986900	0.043832	4.974 <b>3.23</b>	02/18/2021
38 North Dakota	998 All Counties	21	0802 Fed Cattle	820 Steers & Heifers	202 Endorsement Ending in February Yr1	2021	114.982	\$111.480	0.969500	0.035980	4.011 <b>2.61</b>	02/18/2021
38 North Dakota	998 All Counties	21	0802 Fed Cattle	820 Steers & Heifers	202 Endorsement Ending in February Yr1	2021	114.982	\$109.480	0.952100	0.028955	3.170 <b>2.06</b>	02/18/2021
38 North Dakota	998 All Counties	21	0802 Fed Cattle	820 Steers & Heifers	202 Endorsement Ending in February Yr1	2021	114.982	\$107.480	0.934800	0.023037	2.476	02/18/2021
38 North Dakota	998 All Counties	21	0802 Fed Cattle	820 Steers & Heifers	202 Endorsement Ending in February Yr1	2021	114.982	\$105.480	0.917400	0.018392	1.940	02/18/2021
38 North Dakota	998 All Counties	21	0802 Fed Cattle	820 Steers & Heifers	202 Endorsement Ending in February Yr1	2021	114.982	\$103.480	0.900000	0.014341	1.484	02/18/2021
38 North Dakota	998 All Counties	21	0802 Fed Cattle	820 Steers & Heifers	202 Endorsement Ending in February Yr1	2021	114.982	\$101.480	0.882600	0.011332	1.150	02/18/2021

**FEB LV CAT-\$114.82/5 AREA CASH- \$104.98**

<https://public.rma.usda.gov/livestockreports/main.aspx>

# Cattle LRP Timetable

MARKET CLASS	MARKET DATE	LRP CONTRACT			
		13	17	21	26
Under 600	Nov 15	AUG	JUL	JUN	MAY
Over 600	Feb 15	NOV	OCT	SEP	AUG
Fed	May 15	FEB	JAN	DEC	NOV

# Steps to LRP

1. Submit eligibility application form with insurance agent
2. Select a SCE (coverage prices and premiums are available **after 3 p.m.** (CST) except holidays)
  1. Number of head
  2. Policy length closest to marketing date
  3. Estimated average market weight
  4. Choose coverage price
3. Pay premium to agent
4. Agent submits SCE form electronically (hours are between **4 p.m. and 9 a.m.** (CST), Tues-Sat only)

# LRP

## Advantages

- Small numbers can be hedged
- ↑600, ↓600 steers **AND** heifers, dairy
- Premium subsidized 35-55 percent
- No brokerage or margin
- Receive higher prices in bull market
- Available in months where no futures/options
- All coverage prices available daily

## Disadvantages

- Not “flexible” like futures and options
- Must own the livestock

2021: COVID-19, Corn and Demand Issues?  
Causing Volatility and Risk , especially on  
seasonal basis. Flexible marketing plans  
should include risk management tools



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