Lengthening the Marketing Window

Andrew P. Griffith

The most common question I receive has to do with where cattle prices are headed at any future date. Sometimes the question deals with next week's price and sometimes it is in relation to prices six or nine months down the road. This question is difficult to answer because the person asking the question is generally asking for a specific price for a specific time period, and cattle prices are constantly changing. Not only is this question difficult to answer, but answering it generally has little to no value because of daily price changes.

Producers should probably be asking questions related to obtaining longer marketing windows that may provide profitable pricing opportunities. Lengthening the marketing window for cattle may take the form of holding cattle longer and continuing to grow them, or it could take the form of using a price risk management tool such as the futures and options markets.

Lengthening the marketing window by holding cattle longer is fairly common for short periods of time such as a few weeks to a couple of months. However, this method requires physical resources of a place to keep animals and the animals are constantly growing which means the commodity is constantly changing. Additionally, the short time frame provided by this method of lengthening the marketing window may never result in a more beneficial price.

An alternative method of lengthening the marketing window for feeder cattle and live cattle is the futures and options market. Futures and options markets exist for live cattle, feeder cattle, corn, soybeans and many more commodities. These markets provide a price expectation for the future based on supply and demand expectations. The live cattle contract for futures and options provides an 18 month marketing window while the feeder cattle contract provides a 12 month window. Thus, when most people are reading this article, they could price live cattle as far out as October 2020 and feeder cattle as far out as May 2020 with the August 2020 contract quickly in tow.

The futures market price for each of the eight feeder cattle and nine live cattle contracts being traded at any given point are constantly changing. Sometimes contract prices make small changes while other times they may be rather large. The point is that the futures market provides an opportunity each and every day for a person to market cattle that they will physically sell in the future or purchase cattle that they will physically own in the future. (Think of the futures market as trading cattle on paper without the need for physical delivery. A person using the futures market can always market the physical commodity the same way they have always done as long as they offset their position in the futures market.)

Many producers know when they plan to physically sell cattle which is why futures and options can be useful at lengthening the marketing window. A producer who knows he will sell cattle in January 2020 can keep his eyes open for a profitable price using the January feeder cattle futures market and go ahead and lock in a price when the opportunity presents itself. Alternatively, if the producer does not want to lock in a price but wants price protection, the producer can purchase a put option which is similar to paying an insurance premium for the guarantee of a minimum price.

These two marketing tools can be used to lengthen the marketing window for feeder and live cattle. However, they do come at a cost and do not eliminate all risks. The small trading fee and the cost of purchasing an option are true out of pocket costs, but this is generally not what keeps someone from using these markets to market cattle. Many people who are selling cattle are afraid the market may continue to go up when they use futures or options to market cattle. If the market continues to go up after a person sold their commodity, they then feel like they made a poor decision, because they could have potentially made more in the market. It may be true they could have made more, but if a person is marketing at a profitable price then they will have a chance to try again next year.