Post Rock Extension District Column

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When Price Risk Management Really Matters

Feeder cattle markets this year have reminded everyone just how quickly things can change. In early October, futures were flirting with record highs. Two weeks later, prices dropped nearly $40 per hundredweight—about $350 to $400 per head for a 900-pound feeder. Periods like this underscore the importance of price risk management. It's not about predicting the market; it's about protecting your business when it turns the other way. Many compare today's market to 2014–2015. Prices peaked in late 2014 and then fell sharply through the second half of 2015—by more than $95 per hundredweight than the 2014 high. We can't yet say whether today looks more like 2014 or 2015. In hindsight, you didn't "need" to manage price risk in 2014, but you certainly did in 2015. The point is that surprises can happen at any time, and preparation helps avoid the pain producers felt in that downturn.

High prices have never lasted forever. Even when supplies are tight, and fundamentals look bullish, new information—such as policy changes, inventory levels, feed costs, export trends, or shifts in consumer demand—can turn the market faster than expected. Volatility is a part of the current environment, and while prices may recover, they may also not. There's no one right approach to managing price risk. Some operations opt for self-insurance—relying on off-farm work or strong balance sheets to weather market fluctuations. Others manage risk through diversification, spreading production and income sources across different enterprises. Still others prefer to directly manage price risk through contracting, hedging, or the use of Livestock Risk Protection (LRP) insurance. The key is to have a plan that aligns with your risk tolerance, liquidity, and business objectives.

Hedging and LRP insurance can play a role, with the use of LRP increasing substantially in recent years. The best choice depends on operation size, cash flow, and marketing strategy. LRP offers flexible coverage and an effective price floor, with smaller lot sizes with no margin calls. An LRP premium must be paid, but the cost is shared with the government, and premiums are not due until the end of the contract period. Futures and options offer more flexibility in terms of timing, but they require effective margin management. Some producers use a combination.

The goal of price risk management isn't perfection; it's reducing exposure. Over time, a consistent risk management plan helps smooth income and protect working capital, allowing you to stay focused on production decisions rather than reacting to market shocks. Even in strong years, ask yourself: what happens if the market falls $20, $30, or $40 per hundredweight? If that would create cash flow problems, it's time to revisit your plan. For current LRP tools, basis trends, and updated market charts, visit AgManager.info. Thanks to Jenny Ifft, Brian Coffey, and

Glynn Tonsor for sharing information related to Livestock Risk Protection. For further information, please contact me at any of the Post Rock Extension District Offices in Beloit, Lincoln, Mankato, Osborne, or Smith Center.

Post Rock Extension District of K-State Extension serves Jewell, Lincoln, Mitchell, Osborne, and Smith counties. Blaire may be contacted at blairet@ksu.edu or by calling Beloit 738-3597, Smith Center 282-6823, Lincoln 524-4432, Mankato 378-3174, or Osborne 346-2521. Join us on Facebook at "Post Rock Extension" along with our website www.postrock.ksu.edu.