Trade Uncertainly Makes 2018 Risky for Cattle Producers

By: Brandon Willis

Trade Wars on the Horizon?

Raising cattle has always been risky. Ranching isn't an industry for the faint of heart. Yet, an uncertain trade agenda and competing priorities among the President's cabinet and advisors is making 2018 riskier than it needs to be for cattle producers.

Trade is a complex issue. A good deal for one sector may pose risks for another. As a whole, the U.S. runs an annual trade deficit around $500 billion, however, agriculture is the bright spot with a $23 billion surplus predicted in 2018.

As the President pressures trading partners, the one bright spot – agriculture, could be an unintended loser. On March 8th, our competitors reaped the benefits of our nation's decision to pull out of the Trans-Pacific Partnership. Canada, Australia, and New Zealand negotiated lower duties on beef. In addition, with NAFTA's future unclear, the Korean Free Trade Agreement questioned, and disputes with China, uncertainly abounds in the trade world.

Nobody knows what, if anything, this will mean for the cattle industry. Ideally, renegotiations and posturing can benefit other sectors without harming agriculture. However, ranchers should be aware that the risks to trade are abnormally high. Recent publications are voicing the same concerns:

"The top five destinations for U.S. beef account for 83 percent of U.S. exports. Four of the five countries are at risk of trade disruption related to TPP, NAFTA and KORUS." *U.S Beef Exports are Growing, but So Are Trade Risks, CoBank Knowledge Exchange, January 2018*

"The last three years have experienced record volatility, and our expectations are for this to continue for the foreseeable future. With growing global protein supplies, it is essential that the U.S. have trade agreements in place that ensure a level playing field and access to the global marketplace. With all these factors in mind, it will be essential to have a risk management plan in place that minimizes the impact of market volatility." *CattleFax, December 2017 Newsletter*

Protect Yourself from Price Drops

If you are concerned about how trade uncertainty could impact beef markets, you should consider how to protect yourself if prices were to unexpectedly drop.

USDA's Livestock Risk Protection Program (LRP) is a price-insurance policy for cattle. LRP provides a method to establish a floor price for livestock, and it protects against unexpected price declines. LRP pays producers if a regional/national cash price index falls below a selected coverage price providing producers protection from unexpected market downturns.

LRP's advantages are its flexibility and simplicity. The benefits of LRP, compared to futures and options, include: (1) no margin calls, (2) up-front premium cost is definite compared to feeder cattle options, and (3) no quantity minimums. Bankers often prefer LRP due to its straightforwardness and certainty.

LRP flexibility includes:

- **Timing of purchase** – coverage may be purchased any time you own the calves
- **Length of coverage** – insurance options exist between 13-52 weeks
- **Number of head** – up to 1,000 head per contract and 2,000 annually
- **Ending-coverage price level** – insure between 70-100% of the CME projected prices

Interested in Learning What LRP Will Cost?

Visit www.ranchersinsurance.com to check daily LRP rates and prices. You can also call (435) 213-0463 for information or to sign up for LRP.

Final Thoughts

LRP is not a highly subsidized program. Other tools such as futures and options can also be used to manage price risk. The primary advantages of LRP are simplicity, flexibility, and peace of mind. If you can absorb unexpected price declines, then LRP may not be a tool that is right for you. However, if an unexpected market downturn is something that you cannot afford, LRP is a good option to consider.