

The Live Cattle futures contracts in the early part of 2018 has been on a roller coaster ride. Starting in mid-February the June contract went from a high of \$118.90 per cwt. and started falling rather precipitously through the first week of April, landing a low of \$97.08. The June contract has bounced back some, and is currently sitting near \$104.50 per cwt. The April contract shows a similar pattern, with prices eroding in late February and March and recently increasing slightly.

Corresponding cash markets have maintained relative firmness compared to the sharp declines seen in nearby contract and the June contract. Evidence of this is seen in the change in the basis relative to historic norms.

Using the weekly Kansas cash market (reported by USDA's Agricultural Marketing Service) an example the weekly basis moves when the live cattle contract first started to decline were still within where historical basis norms. However, as the April contract downturn accelerated, the cash market did not decline at the same rate. Typically, the April Live Cattle contract trades at a discount to the Kansas market and on a weekly basis, using the five year averages, is between \$0.83 and \$2.41 per cwt. over the futures market in the months of March and April. During those same weeks, the volatility in basis can be large up to \$5.23 per cwt. plus or minus the average basis for certain weeks of the year.

This is important to note because the volatility in the basis this year has been outside normal variation. In mid-March, the basis significantly widened against the April contract, with cash markets selling in some weeks more than \$7.00 per cwt. above the April Live Cattle contract. The last six weeks before April expiration has had basis moves outside of the standard deviation for any given week, meaning the premium in the cash market has been far greater than not only the average but has been between 3% to 180% higher than the upper side of the normal basis range for those weeks this year.

Fourteen weeks away from the expiration of the June contract, the basis differences are even wider. Typically, the month of April shows about a \$9 per cwt. premium to the June contract, and this year that number has been over \$15 per cwt.

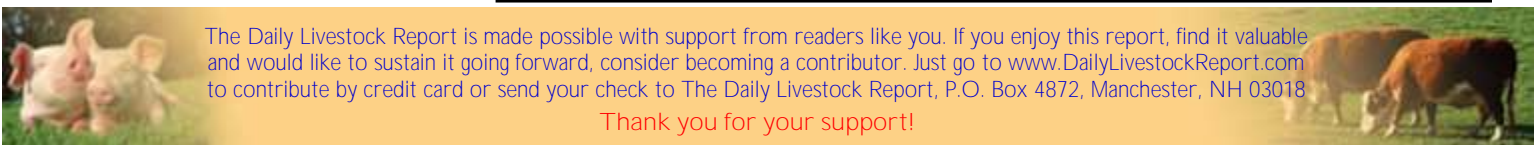
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As the June contract moves towards expiration we would expect that basis gap to close. However, in the most recent week the basis gap between the cash and the June contract was \$17.60 per cwt., more than \$8 per cwt higher than the five year average basis for that week and nearly \$6 per cwt. higher than the average plus one standard deviation. This is the highest basis on record for that week, dating back to 1994.

In the next ten weeks the difference between these two will get smaller, but which will give more the cash market or the futures? There could be some opportunities here to manage risk in these price relationships that appear to be outside their normal relationships for this time of year. The basis is attractive enough that it will incentivize hedged fed cattle to move to market quickly.



June Weekly Basis for Western Kansas Fed Cattle									
Source: CME and USDA AMS, Calculations by LMIC									
Week	Week Ending	2013	2014	2015	2016	2017	2018	Avg. 12-16	Std Dev
14	03/31/18	5.46	13.68	12.13	9.81	16.32	16.26	9.23	3.88
13	04/07/18	5.38	11.41	14.14	8.57	15.56	15.29	9.06	3.73
12	04/14/18	5.93	11.86	11.82	10.86	13.59	15.63	9.34	3.00
11	04/21/18	5.49	10.63	10.46	11.63	14.71	17.60	8.89	2.82
10	04/28/18	6.18	10.39	10.25	9.70	17.84		8.70	1.97
9	05/05/18	5.76	8.52	9.43	7.26	16.56		7.33	1.66
8	05/12/18	5.34	8.34	10.29	9.26	12.19		7.43	2.68
7	05/19/18	5.13	7.51	8.85	9.39	10.98		7.33	1.86
6	05/26/18	3.85	5.51	8.99	9.17	7.92		6.02	2.97
5	06/02/18	3.06	6.20	7.36	6.28	9.91		5.31	1.85
4	06/09/18	1.58	6.38	1.91	6.41	5.69		3.96	2.34
3	06/16/18	0.32	3.39	-0.52	5.78	6.31		2.01	2.56
2	06/23/18	-0.30	2.72	-1.69	3.13	2.38		0.61	2.18
1	06/30/18	-0.67	2.94	-2.43	0.78	-1.26		0.11	1.97



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