



Making Risk Management Relevant

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Trends in Risk Management – August 2022

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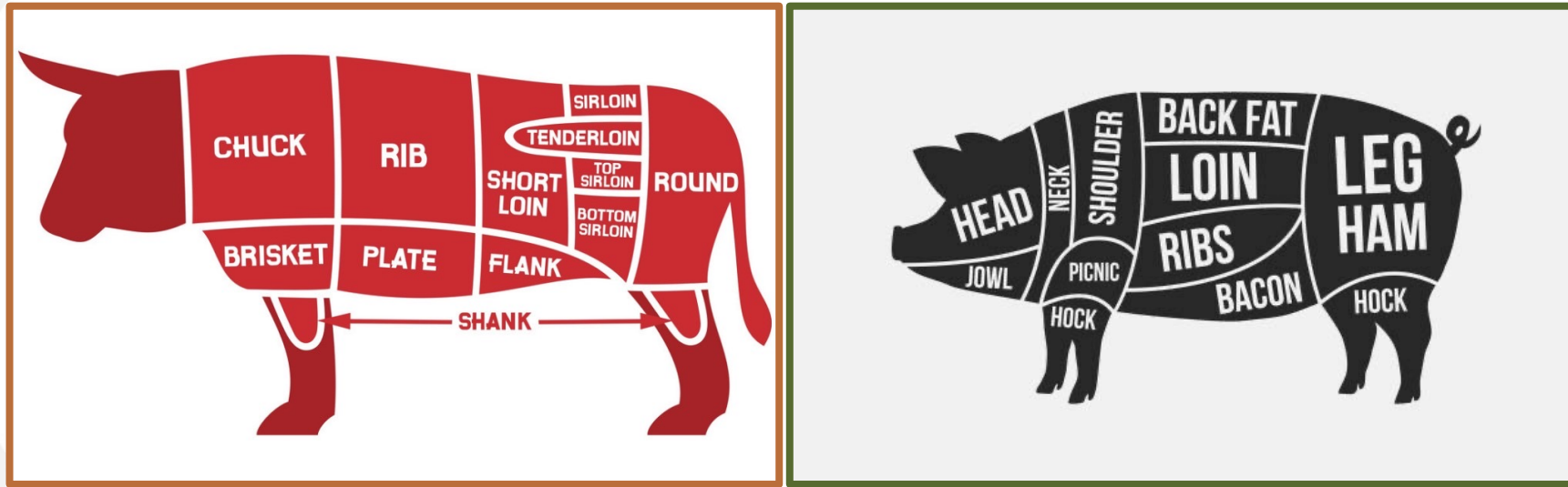
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Doing Whatever it Takes!

To Keep Your Business Viable For Future Generations

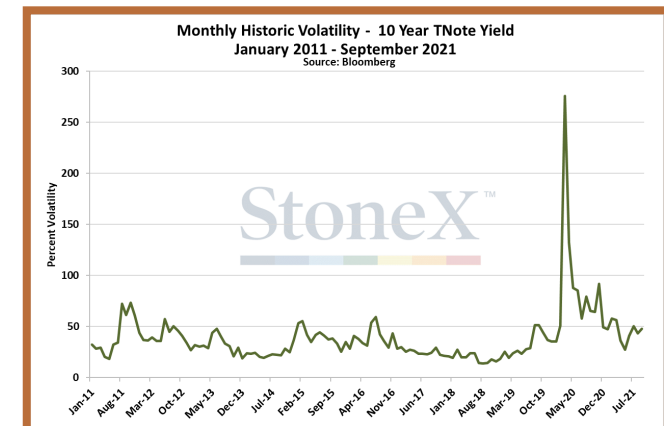
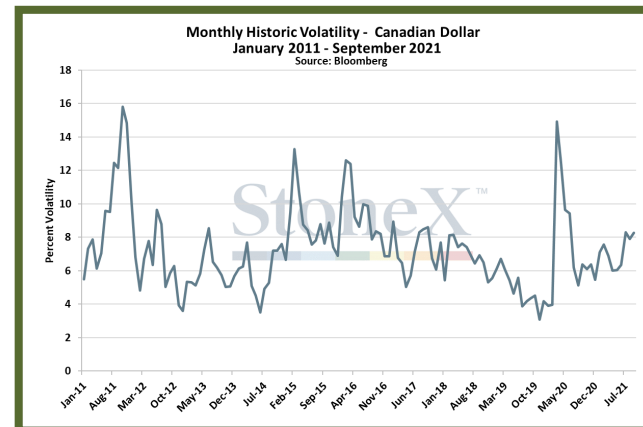
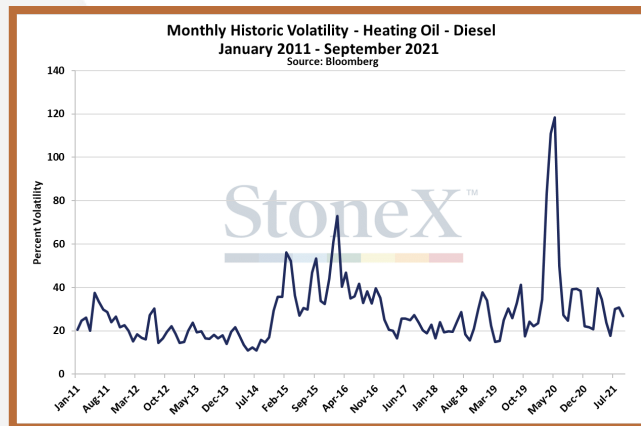
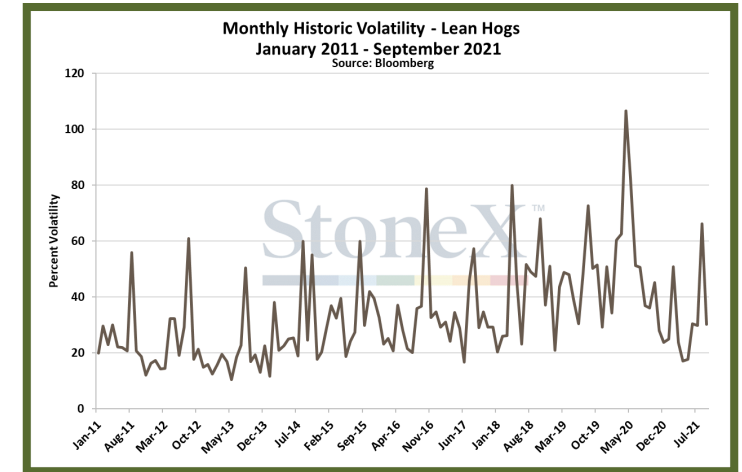
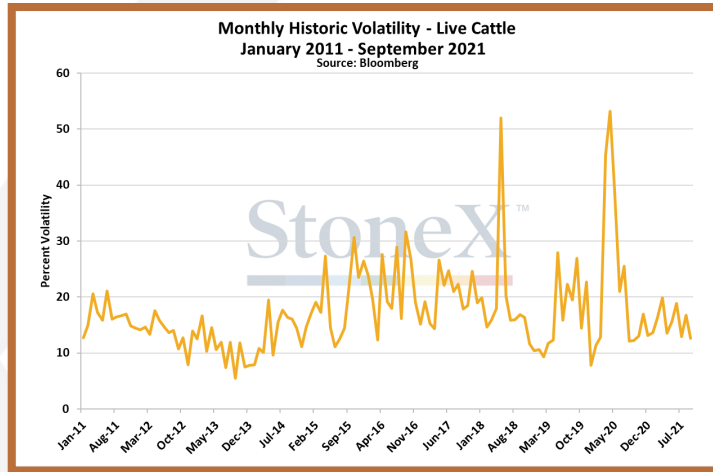


PRICE RISK MANAGEMENT:
The Ultimate Form of Sustainability!

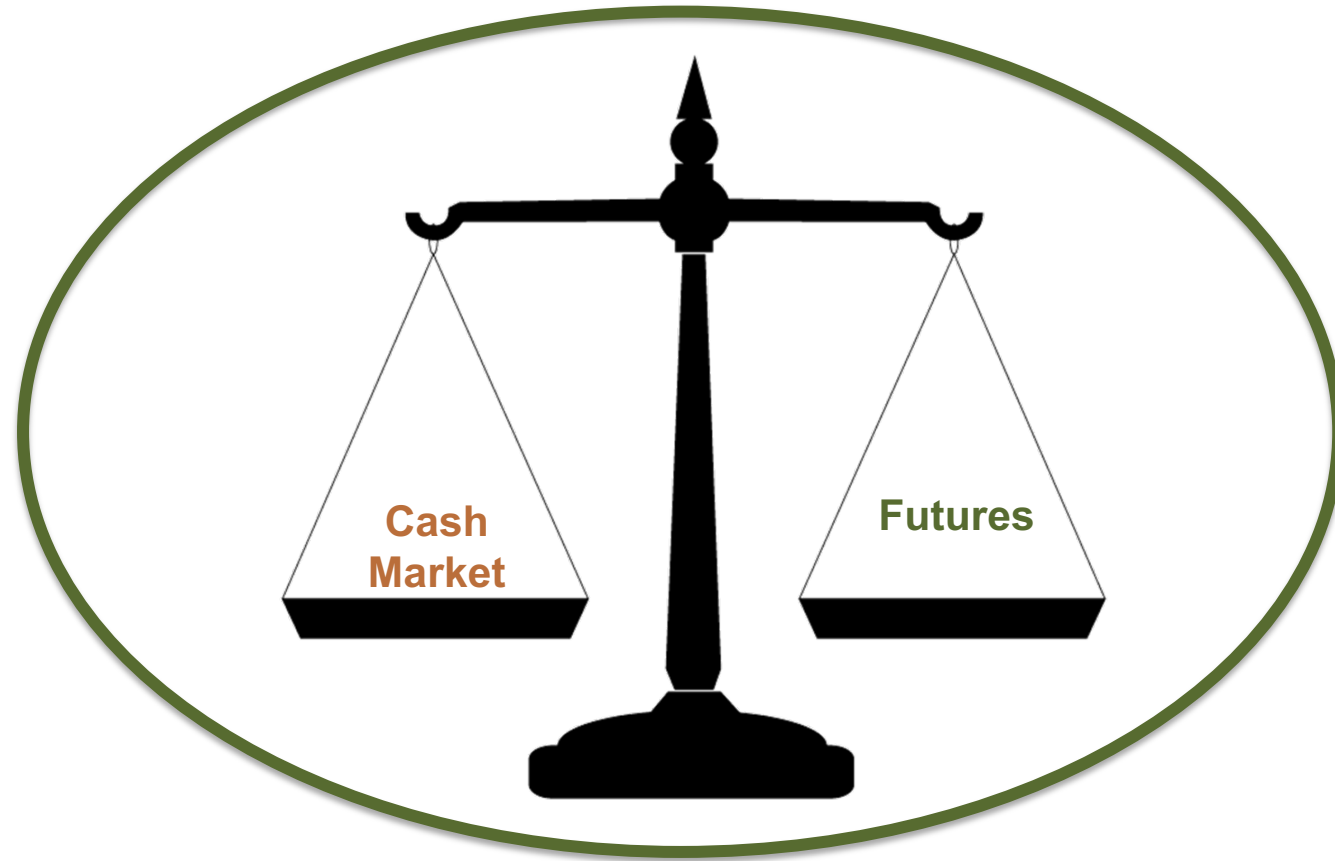
What is Volatility?

Measure of Your Market Risk

&
Market
Opportunity



Hedge



True Hedge Result = **NET RESULT** of the Two Market Positions



Platforms for Risk Management

- **Cash or physical market platform**
 - Spot market
 - Physical market contracts
- **Exchange-traded platform**
 - Futures
 - Options
- **Over-the-Counter (OTC) platform**
 - OTC swaps and options
 - Similar to futures and options, but traded “off exchange”
- **Insurance platform**
 - Livestock Risk Protection
 - Federally Re-Insured

The OTC Marketplace

➤ **What is an OTC?**

- A financial contract traded bilaterally “off-exchange”
- Price references a specific futures contract or market-respected index price
- Financially-settled (no physical delivery)
- Settlement dates and volumes are specified when the contract originates

➤ **Executed via registered Swap Dealers:**

- StoneX Markets (SXM)



OTC Products

➤ Swaps

- Financial contracts that reference a specific futures contract or market-respected index price.
- A futures “look-alike”.
- Examples would include Interest Rate swaps, DOE Diesel swaps, Pork Cutout swaps, etc.

➤ Options

- Like exchange-traded options, but more flexibility
- Asian options
- Short Dated options

➤ Structured Products

- Typically comprised of a combination of exchange-traded futures and options, OTC swaps, and/or OTC options.
- Customized to fit the unique risk profile of a customer.



- **Offer cattle producers swaps on their state's fed cattle market.**
 - Allows producers to mitigate basis risk as well as futures risk
- **Swaps are offered by state – TX, KS, NE**
- **Swaps settle vs the USDA's weekly weighted average price for that state.**
 - Released Monday the following week with trade volumes and weighted average fed cattle prices by state
 - Texas Fed Cattle USDA report LM_CT156
 - Kansas Fed Cattle USDA report LM_CT157
 - Nebraska Fed Cattle USDA report LM_CT158
- **No standardized contract size.**

- **Price, volume, and settlement dates to be negotiated up front.**
- **Swaps are established with a two-week settlement timeframe.**
 - For example: “Pricing Period: Week of August 5 or August 12”
 - Client must then notify StoneX on or before the Friday prior to the desired settlement week
- **Credits and debits will be cash settled at the end of the transaction.**

Beef Risk Management

- **U.S. Fresh 90%, 85%, 65%, 50% lean trimmings**
 - And custom blends of these
- ***Settlement to USDA report LM_XB460 “National Weekly Boneless Processing Beef and Beef Trimmings – Negotiated Sales”***
- **Participating parties – U.S. and International**
 - Livestock producers
 - Meat processors, grinders, and further processors
 - End users / Restaurants
 - Speculative market makers

LRP

Livestock Risk Protection



LRP - Fed Cattle

- Federally-reinsured livestock product that provides single peril risk protection against the decline in fed cattle price over the insurance period.
- Select from a variety of coverage levels and insurance periods to match the time the fed cattle would normally be marketed.
- Insurance may be purchased throughout the year. Premium rates, coverage prices, and actual ending values are posted online daily.
- LRP does not insure against death, loss, or poor performance. At the end of the insurance period, if the actual ending value is below the coverage price, an indemnity would be paid for the difference.



Availability

Ownership of insured cattle must be certified by the producer and may be subject to inspection and verification by Insurance Company.

- Available in all counties in all 50 states.
- Coverage may be purchased after the price guarantee is posted to the RMA site and before 9:00 a.m. CT of the following day.
- Coverage starts the day you buy a SCE and RMA approves the purchase.

New for 2023

- Producers can insure up to 12,000 head per SCE with a limit of 25,000 head per crop year.
- Increased weight limits for insurable livestock 1,000 #s - 1,600 #s.
- Modified the provisions defining Covered Livestock regarding ownership requirements, insurability and documents required for verification to receive an indemnity



Recent Updates

- Increased head limits (see above).
- Modified the livestock ownership requirement to 60 days.
- Premium may be paid at the end of the endorsement period (billing dates per the actuarials).
- Additional subsidies for US military veterans

Insurable Livestock

The steers and heifers are:

- Expected to grade select or higher
- Expected to have a yield grade of 1 to 3
- Expected to weigh 10 to 16 cwt (live weight)



PREMIUM SUBSIDY

35% for 95 - 100% Coverage Level
40% for 90 - 94.99% Coverage Level
45% for 85 - 89.99% Coverage Level
50% for 80 - 84.99% Coverage Level
55% for 70 - 79.99% Coverage Level
(Premium is due at the end of the endorsement period.)

INSURANCE PERIODS

Length available per SCE (in weeks)
13, 17, 21, 26, 30, 34, 39, 43, 47, 52

COVERAGE PRICES

Between 70% and 100% of the expected ending value

SALES PERIOD

While an application can be completed at any time, insurance does not attach until a SCE is purchased and approved by the RMA. Multiple endorsements may be purchased using a single application



By the Numbers

PREMIUM	
COMMODITY	Fed Cattle
TYPE	Steers & Heifers
ENDORSEMENT LENGTH	30
NUMBER OF HEAD	100
TARGET WEIGHT ¹	12.50
COVERAGE PRICE	\$ 115.15
INSURED VALUE ²	\$ 143,938.00
PREMIUM RATE	0.067955
TOTAL PREMIUM ³	\$ 9,781.00
SUBSIDY ⁴	\$ 3,423.00
PRODUCER PREMIUM ⁵	\$ 6,358.00
\$ / CWT	\$ 5.09
\$ / HEAD	\$ 63.58

Insured chooses Commodity, Endorsement Length and Coverage Price.

- Target Weight is the average weight in cwts the insured thinks the animals will be at the end of the coverage period (10 - 16 cwts).
- Insured Value = Number of Head x Target Weight x Coverage Price
- Total Premium = Insured Value x Premium Rate (Each Coverage Price has its own Premium Rate)
- Assuming a 95-100% Coverage level, Premium Subsidy = 35%
- Producer Premium = Total Premium - Subsidy

LOSS/INDEMNITY	
COMMODITY	Fed Cattle
TYPE	Steers & Heifers
ENDORSEMENT LENGTH	30
NUMBER OF HEAD	100
TARGET WEIGHT	12.50
COVERAGE PRICE	\$ 115.15
¹ ACTUAL ENDING VALUE	\$ 109.10
² INDEMNITY	\$ 7,563.00
\$ / CWT	\$ 6.05
\$ / HEAD	\$ 75.63

- Actual Ending Value for the day in which the coverage ends and is the price of fed cattle as calculated by the Agricultural Marketing Service (AMS) in a report titled the “5 Area Weekly Weighted Average Direct Slaughter Cattle.” The price series is the Live Basis Sales, Steers, “35 - 65% Choice” category.
- Indemnity is due if the actual ending value is less than the producer chosen coverage price. Indemnity is calculated by taking the difference between the Actual Ending Value and the Coverage Price (Coverage Price - Actual Ending Value) times the Number of Head insured and the Target Weight.



FEEDER CATTLE

Recent Updates

- Increased head limits (see above).
- Modified the livestock ownership requirement to 60 days.
- Premium may be paid at the end of the endorsement period (billing dates per the actuarials).

Insurable Livestock

Available weight levels include:

Less than 6 cwt

- | | |
|-------------------------|-----------------------------|
| • Steers | • Predominately Dairy |
| • Bulls | • Unborn Steers and Heifers |
| • Heifers | • Unborn Dairy |
| • Predominately Brahman | • Unborn Brahman |

Between 6 - 10 cwt

- Steers
- Heifers
- Predominately Brahman
- Predominately Dairy



LOSS/INDEMNITY	
COMMODITY	Feeder Cattle
TYPE	Steers Weight 2
ENDORSEMENT LENGTH	13
NUMBER OF HEAD	100
TARGET WEIGHT	7.5
COVERAGE PRICE	\$ 140.55
ACTUAL ENDING VALUE ¹	\$ 134.35
INDEMNITY ²	\$ 4,650.00
\$ / CWT	\$ 6.20
\$ / HEAD	\$ 46.50

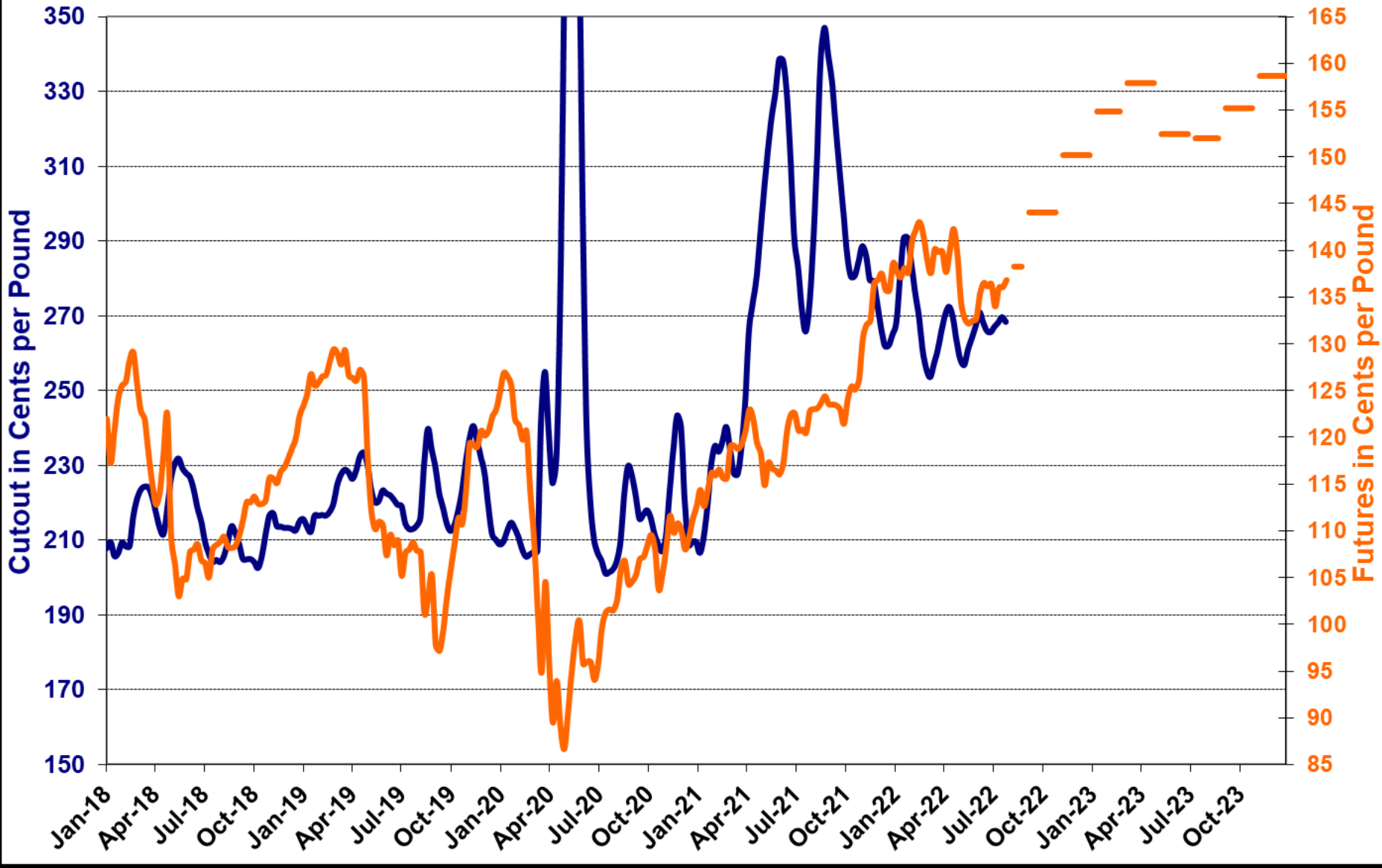
- Actual Ending Value for the day in which the coverage ends and is the weighted average price of feeder cattle as calculated by the CME for the Cash-Settled Commodity Index Prices.
- Indemnity is due if the actual ending value is less than the producer chosen coverage price. Indemnity is calculated by taking the difference between the Actual Ending Value and the Coverage Price (Coverage Price - Actual Ending Value) times the Number of Head insured and the Target Weight.



USDA Choice Beef Cutout vs CME Live Cattle Futures

StoneX[™]

StoneX[®]



For Information & Assistance



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Thank You!