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Why Cattle Feeders Are Willing to Forward Contract

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Often there seems to be a huge amount of distrust between cattle feeders who are willing to forward contract cattle to packers and those who will not use that method to merchandise their cattle. There seems to be this illusion that feeders who sell on a "hidden market", (forward contracted sales) are getting a much higher price than producers who are selling on a weekly cash market. But that doesn't make any sense. In the three state areas on Texas, Oklahoma and New Mexico, forward contracted sales account for about 45% of the sales each week. Would packers continue to pay dollars higher for 45% of his supplies on a weekly basis? It is very doubtful that packers would lower the price on the other 55% enough to pay a sharply higher premium for the 45% contracted cattle.

So, why forward contract cattle? There are benefits for both the packer and feeder. I think there are two main benefits for the packer. First, he insures a continuous and steady supply of cattle. This sharply increases the efficiencies of operating the huge plants they have today. The second benefit is that often the cattle are bought on a grid basis. With the packer's premium and discount on a grid sale a packer comes closer to paying the true value for the animal. Feedyards basically get the same benefits. There are more efficiency in operating their yard (up to 25% to 30% according to some reports). And a feedyard will get the true value of what he sales rather than selling on averages.