Hedge Effectiveness of Texas Live Cattle

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The greatest risk typically facing the fed cattle industry is price risk. In order to mitigate output price risk, producers look to hedging in the futures market. Hedges can effectively reduce price and revenue risk, although basis risk remains. Hedging becomes particularly important in the fed cattle industry because fed cattle are ‘non-storable’ both in a definition’s sense, and a literal sense. This study compared several theoretical hedging options using Texas cattle prices, over the July 2010- November 2015 period to determine which hedge provides the most price protection. Additionally, the effects of different hedge lengths with regard to net price were estimated.