

Livestock Marketing Strategies for Challenging Times

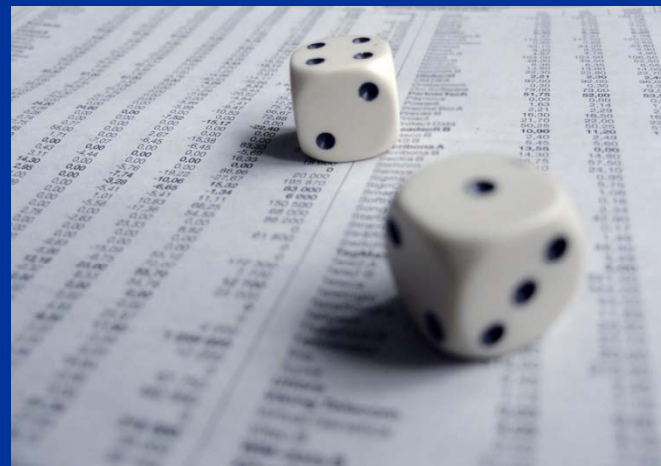
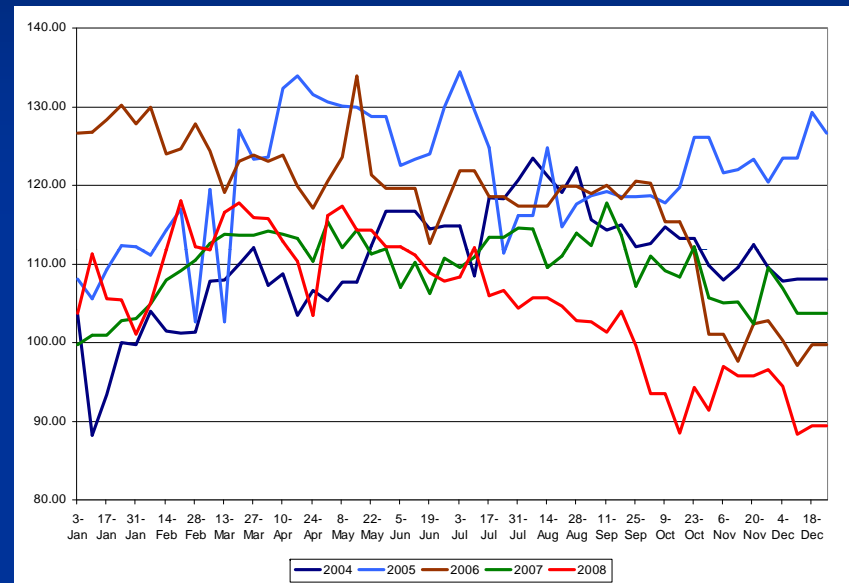
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Outline

- Price Risk
- Cattle Marketing
- Dairy Marketing
- Hog Marketing
- Summary

Price Risk



Understanding Risk In Agricultural Prices

- The futures market is a predictor of prices in the future
 - For example, in the spring cattle producers look at fall feeder cattle futures contract to get an idea of what calf and feeder cattle prices might be in the fall
 - How much do these futures contracts prices change from spring to fall
 - Specifically Nov Feeder Cattle Futures

Changes in Nov Feeder Cattle Futures from Spring to Fall, 1999-2008

- A Standard Deviation of 9.50
- This means that in 1 out of 3 years prices are likely to be more than \$9.50 per cwt higher or lower in November than what was expected in the spring
- That means \$50 more or \$50 less than you expected for a 550 lb calf
- You probably are not concerned about the \$50 more, can you financially withstand the \$50 less?

Milk Price Variability

| | 1989-1998 | 1999-2008 | 2006-2008 |
|--------------------------|-----------|-----------|-----------|
| Average Price | \$13.48 | \$14.77 | \$16.82 |
| Standard Deviation | \$1.33 | \$2.78 | \$3.44 |
| Coefficient of Variation | 9.83% | 18.81% | 20.44% |

Corn Price Variability

| | 1989-1998 | 1999-2008 | 2006-2008 |
|--------------------------|-----------|-----------|-----------|
| Average Price | \$2.50 | \$2.47 | \$3.45 |
| Standard Deviation | \$0.46 | \$0.89 | \$1.09 |
| Coefficient of Variation | 18.52% | 36.04% | 31.55% |

What Can You Do?

- Sharpen Your Pencil
- Evaluate all Marketing Alternatives
- Feed Cost Purchasing Alternatives



Cattle



Short term variability as overwhelmed long term cycle
Need to annually (or more frequently) evaluate alternatives

Preconditioning



Recent Economic Evaluations of Preconditioning

- Iowa State study 2006
 - \$6.15/cwt price premium 3rd Party Certification
 - \$3.40/cwt price premium rancher's claim
 - A 45 day program, with 100 lbs gain, returned \$35 per head
- Oklahoma State, Superior Livestock Auction 2001
 - \$4.00/cwt premium for VAC45 calves
 - \$1.10/cwt premium for "Vaccinated" calves
 - More than 50% calves were preconditioned

Precondition Program

Example

- Wean calves, Vaccinate, Return to Meadow for 15 days
 - Supplement with 7 lbs/day Alfalfa
- Bring into dry lot 30 days
 - 6.7 lbs Alfalfa, 6.7 lbs Grass hay, 1.5 lbs Corn
- Average 1.33 lbs Average Daily Gain for 45 days, 60 lbs

Precondition Program Example

| | Sell at Weaning | Precondition No Premium | Precondition \$4 Premium |
|-------------------|-----------------|-------------------------|--------------------------|
| Sale Weight | 500 | 560 | 560 |
| Sale Price \$/cwt | \$100 | \$98 | \$102 |
| Gross Return | \$500 | \$549 | \$571 |
| Cost | | \$40-50 | \$40-50 |
| Net return | \$500 | \$499-509 | \$521-531 |

On Ranch Retained Ownership Example Programs



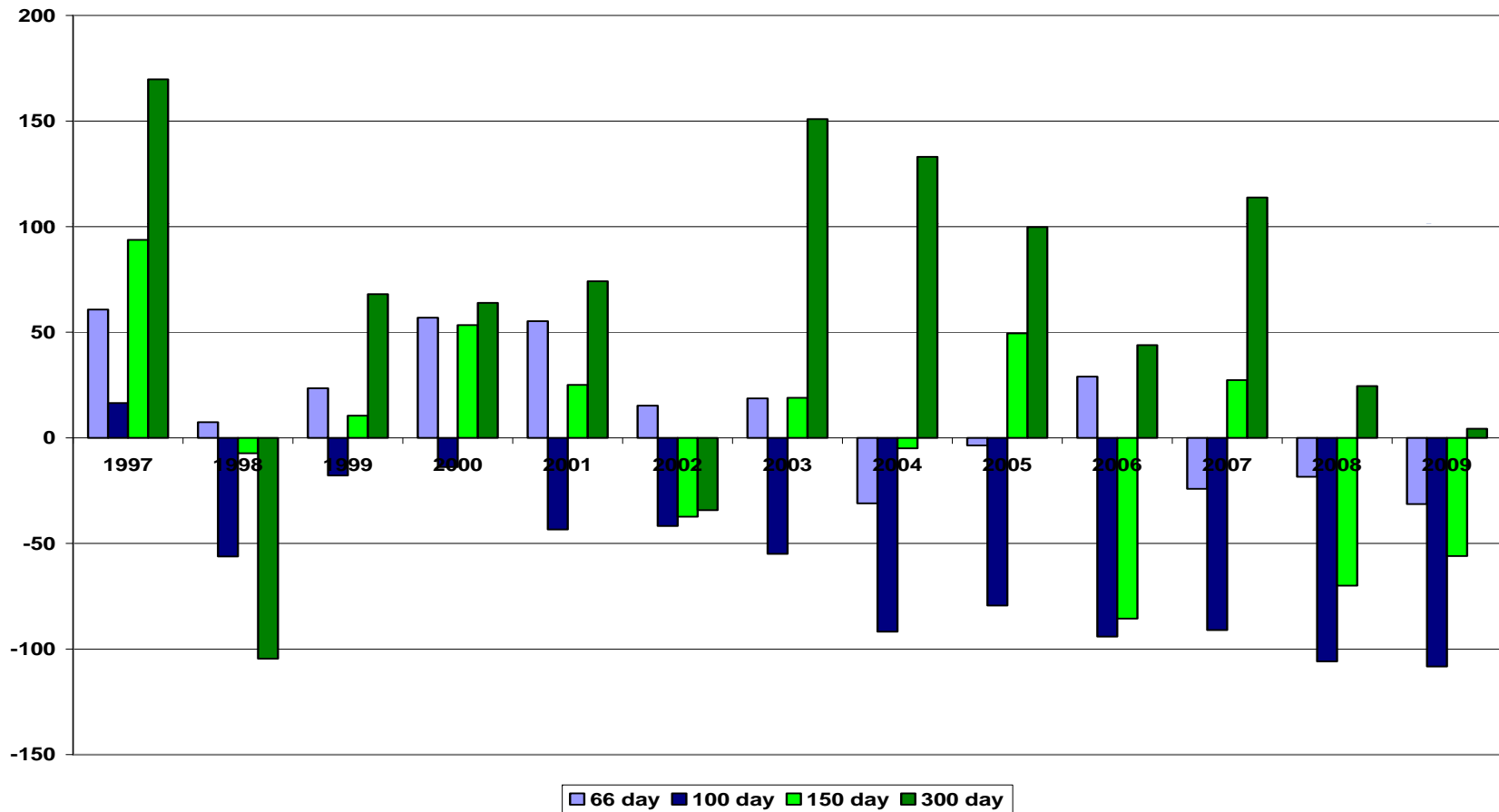
On Ranch Retained Ownership for 500 lb Steer

- 66 Days, sell in Jan
 - 1.5 lbs ADG, Market a 600 lb steer
 - 7 lb Grass Hay, 7 lb Alfalfa Hay, Trace Mineral
- 100 Days, sell in Feb
 - 2.0 lbs ADG, Market a 700 lb steer
 - 9 lb Alfalfa Hay, 5 lb Corn, Trace Mineral

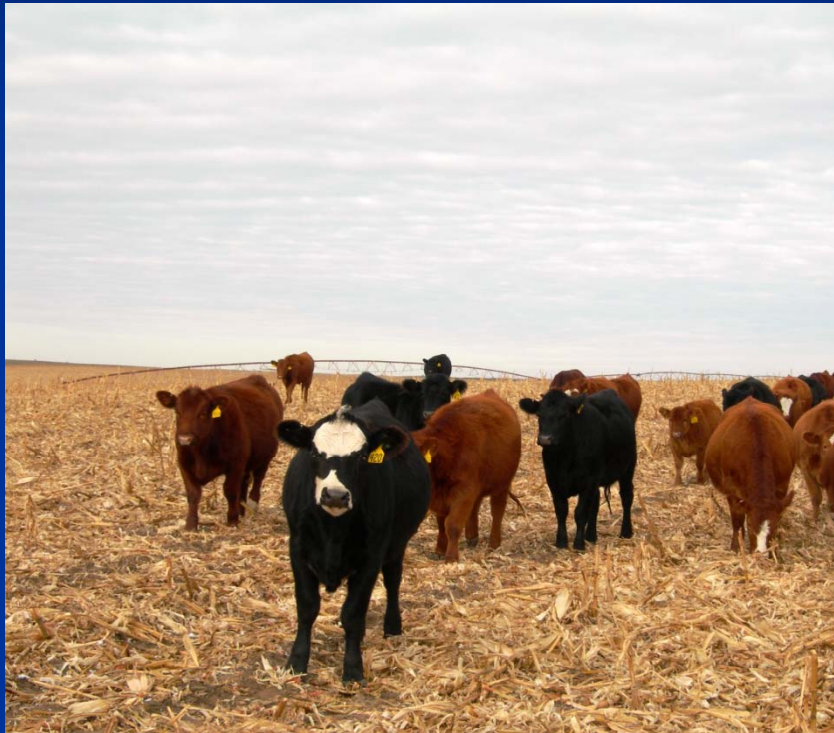
On Ranch Retained Ownership for 500 lb Steer

- 150 Days, sell in April for Grass Market
 - 1.5 lbs ADG, Market 725 lb steer
 - 8 lb Alfalfa Hay, 8 lb Grass Hay, Trace Mineral
- 150 Days on grass after winter program
 - 1.5 lbs ADG, Market 950 lb steer in September

On Ranch Retained Ownership Net Returns



Off Ranch Retained Ownership Example Programs



Wheat Pasture

- 120 Days, Nov 1 – Mar 1, 2 lb ADG, 740 lb Steer to Sell Mar 1
- Wheat Pasture Cost \$135/hd
- Transportation Cost \$ 20/hd
- Total Cost \$155/hd

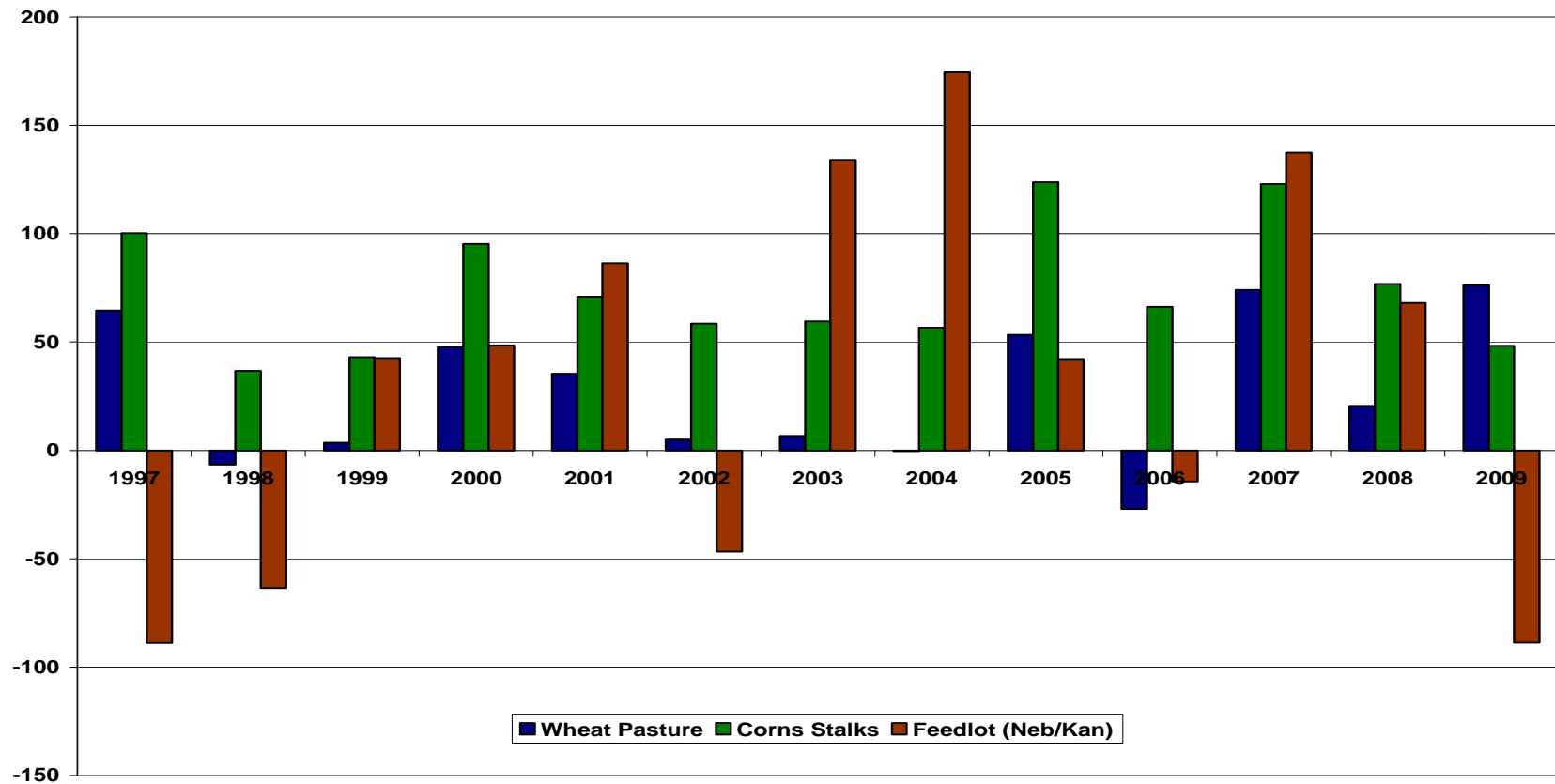
Corn Stalk Grazing

- 120 Days, Nov 1 – Mar 1, 1.5 lb ADG, 680 lb Steer to Sell Mar 1,
- Corn Stalk Cost \$30/hd
- DDG Supplement 4 lb/day \$30/hd
- Other (vet, int., death loss, supplies) \$40/hd
- Transportation Cost \$ 20/hd
- Total Cost \$120/hd

Feedlot Finishing

- 240 Days, Oct 15 – Jun 15, 3.0 lb ADG, 1220 lb Steer to Sell Jun 15
- Total Cost of Gain in a Feedlot \$60-65/cwt
- Transportation Cost \$ 20/hd
- Total Cost \$450-500/hd

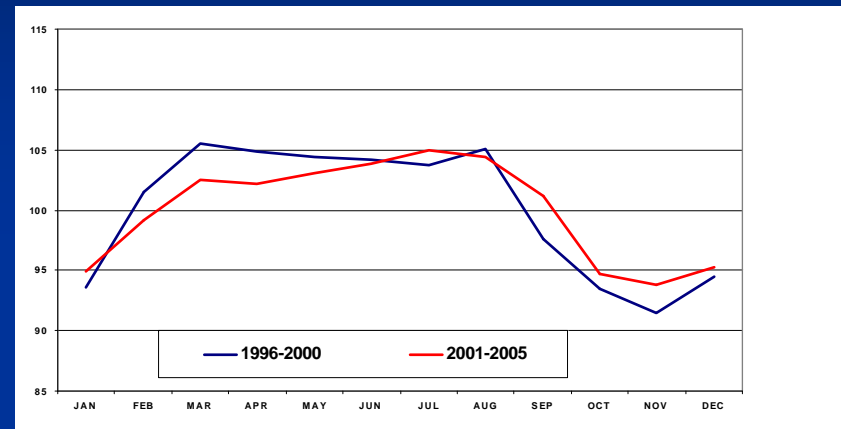
Off Ranch Retained Ownership Net Returns



Cull Cow Feeding & Marketing

- Cull cow prices seasonally low in fall
- Cows thinner in fall (lower grades)
- Improve grade through feeding
 - Higher price for better grade
 - Higher price seasonally
- There is a cost to a feeding program

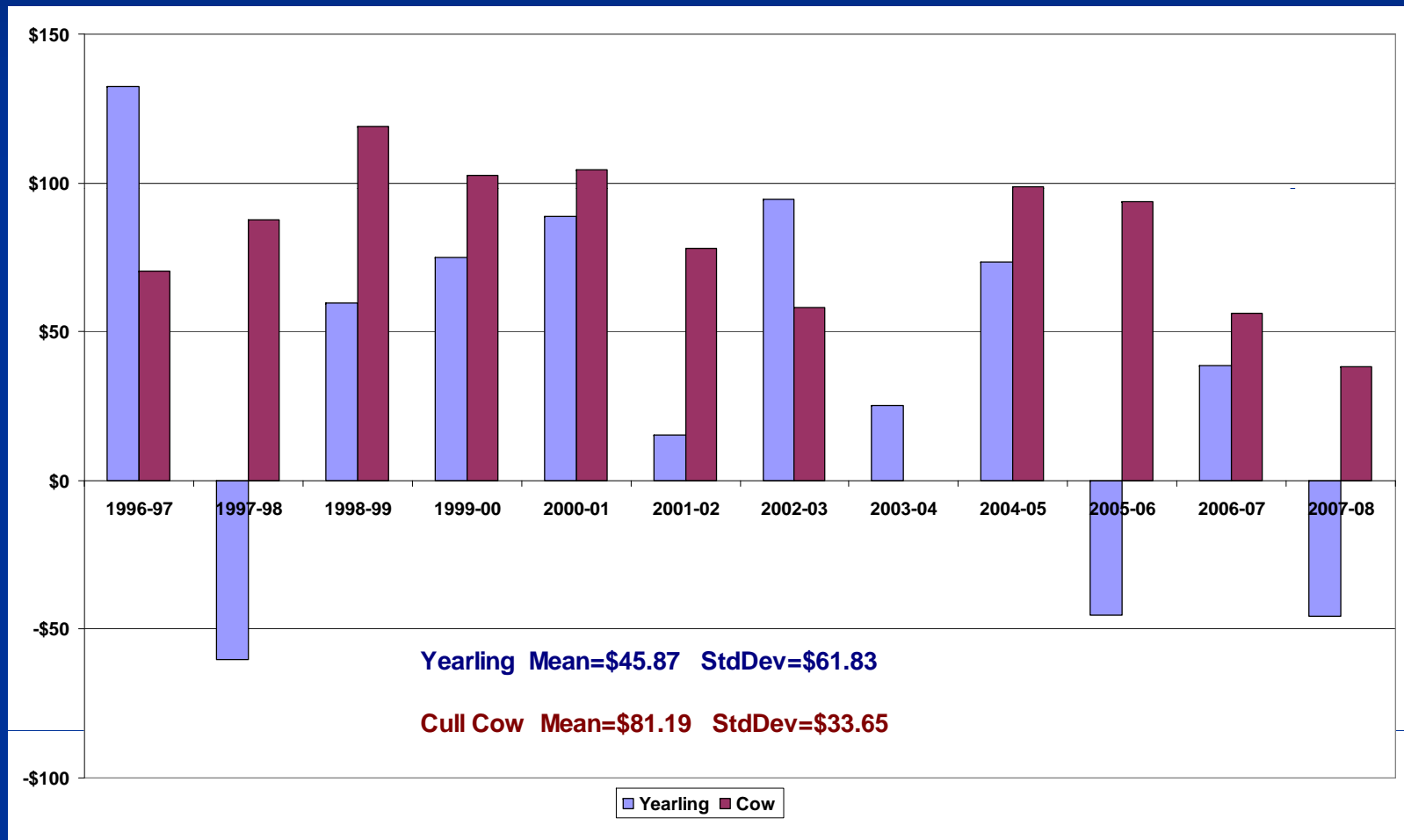
Seasonal Prices



Prices and Grades

| Sioux Fall | Boner | Breaker | Commercial |
|------------|-------|---------|------------|
| Lean | 6.5% | 11.0% | 19.9% |
| Boner | | 4.2% | 12.6% |
| Breaker | | | 8.1% |

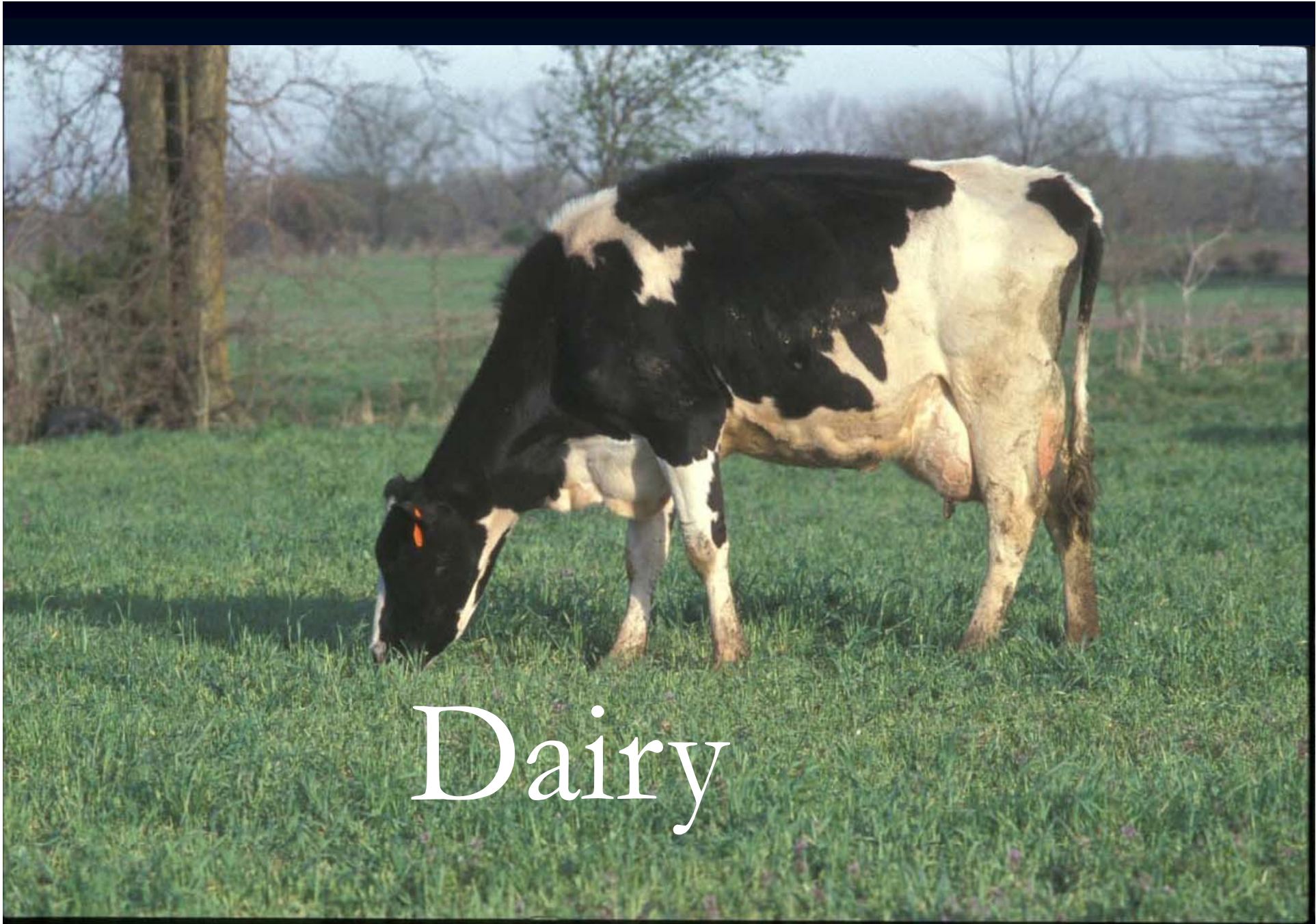
Cull Cow & Yearling Real Net Returns



Retained Ownership Not Always the Answer

- Low Calf Prices do not always mean you should retain ownership
- Could lose even more money if you are not careful
- Evaluate each alternative before proceeding





Dairy

Fall 2009 – Situation is Critical

- Futures Market for Milk offers some hope in 2010
- Feed Cost this year will be much less than the past year
- Still probably need to remove 100,000 + cows from national dairy herd
 - Each producer needs to decide if they are staying in or leaving the industry
 - Make the decision before the bank forces the decision

Marketing Tools to Manage Milk Price Risk and Feed Costs

- The Futures market can be used to lock in a set price (subject to basis risk)
 - Class III Milk Futures used to hedge your milk price
 - Corn Futures used to hedge your corn cost
- The Options on Futures can be used to set a minimum milk price and a maximum corn price
- $\text{Basis} = \text{Local Cash Price} - \text{Futures Price}$
 - This will vary over time but will be much less risky than the actual price level for milk or corn

Forage and Concentrates

- Fall 2009
 - Good time to lock in feed
 - Grain prices will likely increase in the future

LGM- Dairy

- USDA-RMA introduced a new insurance product
- Livestock Gross Margin-Dairy
- Insures the margin between expected milk revenue and expected feed costs

LGM-Dairy

- Similar to buying a put option to protect milk price
- Buying call options to protect corn and soybean meal prices
- Premiums are market driven (no subsidy)
- If you routinely insure with LGM-Dairy over a long time period your returns should be equal on average to someone who never insures
- However, your returns should be much less variable than someone who doesn't insure

Hog Marketing & Cost Control



Similar Situation to Dairy

- Current Situation not profitability
- Futures market signaling higher price in 2010
- Lower feed cost for 2010
- Good news/Bad news
 - Good - Profitability should return
 - Bad – Because producers expect profitability, fewer sows culled and therefore delay in return to profitability

Manage Feed Costs

- Current corn and soybean meal prices are much lower than a year ago
- How long will these lower grain prices last?
- Take opportunities to lock up feed needs in fall 2009
- Futures and options can be used to lock in corn and soybean meal prices
- Forward contract with elevators

Summary

- There is no Silver Bullet
- Be proactive
- Evaluate alternative marketing strategies
- Take opportunities to lock in cheaper feeds
- Futures/Options market
- Insurance Programs
 - LRP, LGM, AGR-Lite



Questions

