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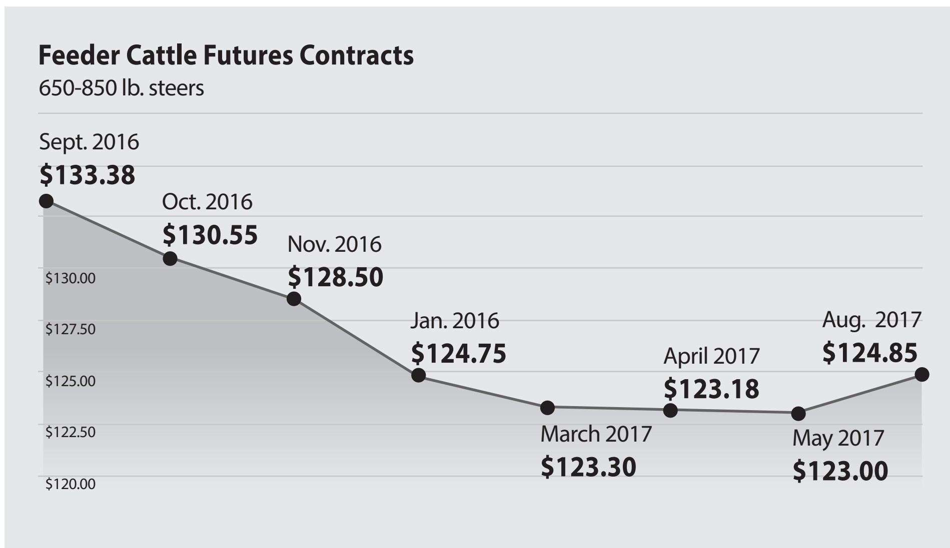
Consultant offers strategies for cattle marketing decisions

by Dan Childs / mdchilds@noble.org



Source: CME Group, Inc.

The cattle industry has experienced plenty of grief since the market started its downward spiral in June 2015. Feeder cattle prices declined nearly 40 percent during the six-month period, ending just before Christmas 2015, resulting in a roughly $600 per head lower price for a 750-pound feeder steer. Today, many cattle producers' balance sheets indicate a lower net worth than a year earlier. What is the best strategy going forward to regain profitability or at a minimum stop the bleeding of balance sheets?

Cow-calf producers who have spring-calving herds are facing decisions on what to do with the calves. Many options are available. A selected list include 1) strip and sell, 2) precondition 45 to 60 days and sell, and 3) retain ownership through spring. Currently, the March 2017 Feeder Cattle futures contract is trading at a $10 per hundredweight discount to the September 2016 Feeder Cattle futures contract. It is difficult to gain cattle cheap enough to overcome that kind of price decline. Without getting too deep in the weeds discussing assumptions, my calculations reveal that a bawling 5-weight steer will net roughly $750 per head in early October. If that calf was preconditioned, gained 1.67 pounds per day for 60 days and was sold in early December, the value increases to more than $900 per head. Again, that is based on current Feeder Cattle futures quotes. Does that strategy make a producer any more money? It depends, but likely turning a bawling calf into a yearling, then selling it will generate a favorable rate of return.

What about retaining ownership of the animal until early March and selling the calf at 850 pounds? Turning a profit from this strategy is a bit more of a stretch, but it is doable assuming one can keep the cost of gain in check. Futures quotes indicate a value of gain near 60 cents per pound. If you have your own small grain pasture or access to 30-cents-to-35-cents cost of gain, it can work. The key to making money on retained ownership to 850 pounds is keeping cost of gain much lower than the 60 cents per pound value of gain.

Purchasing calves this fall for a winter stocker enterprise also has fairly thin margins projected. It appears a strategy worth considering is waiting until late 2016 or early 2017 before buying the calves. Most of the $10 per hundredweight adjustment from September 2016 to next March through May 2017 is completed by year end. Therefore, by waiting, a stocker producer can buy and sell on a nearly flat market, which allows for a much higher value of gain. The higher value of gain provides more potential margin if cost of gain is monitored and kept relatively low.

In summary, if you have home-raised calves to market this fall, the best strategy is to turn the bawling calf into a yearling and sell immediately. Marketing the calf through a value-added sale would be even better. If you are buying stocker calves, plan to acquire them later in the year or early next year to minimize the negative buy/sell price spread. Individuals with unique situations and/or conditions could experience different outcomes than discussed here. Risk management should be a consideration when contemplating retained ownership. And as always, market conditions can change, sometimes quite rapidly, that could positively or negatively impact the result of these strategies. Calf prices have experienced considerable volatility in recent months. There is no reason to think volatility will lessen in the future. Astute producers will want to monitor markets closely as marketing decisions draw closer. ■