



2009 Joint Stockman's Convention  
Albuquerque, NM. Dec 3-6, 2009

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## Managing Price Risk in Cow-calf Operations

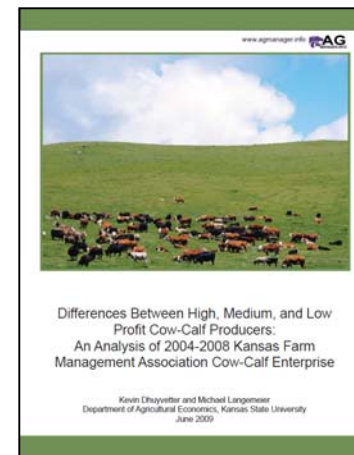
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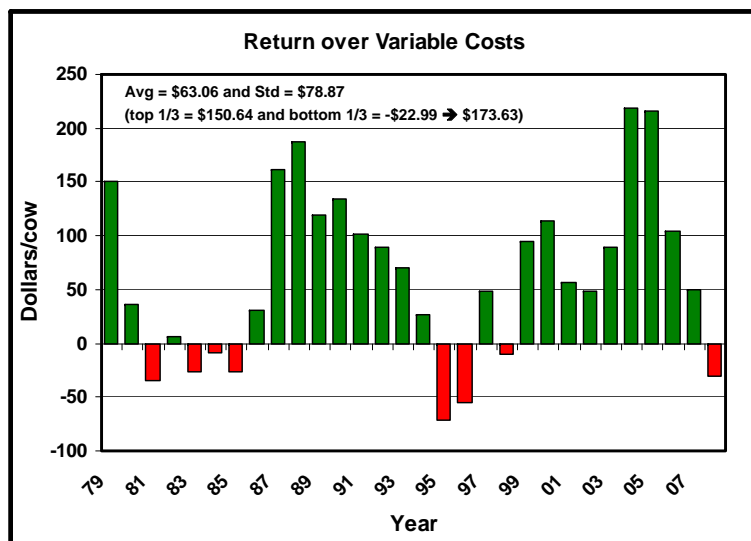


## Cow-calf profitability drivers...

- Analysis of Kansas Farm Management Association (KFMA) cow-calf enterprise analysis returns
  - 1979-2008 all operations (examine time effect)
  - 2004-2008 operations with at least three years of data (examine producer effect)
- Paper available on web ([www.agmanager.info](http://www.agmanager.info))



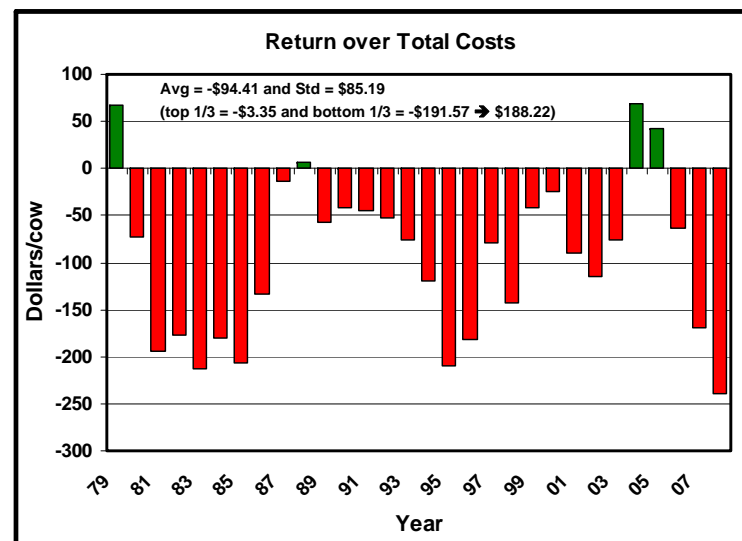
## Avg returns are highly variable over time



Source: Kansas Farm Management Association (KFMA) Annual Enterprise Analysis Reports



## Avg returns are highly variable over time



Source: Kansas Farm Management Association (KFMA) Annual Enterprise Analysis Reports



## Returns are more variable across producers

	Beef Cow-calf Enterprise, 2004-2008 (min of 3 years)*				Difference between	
	All Farms	Profit Category			High 1/3 and Low 1/3	
		High 1/3 Head / \$	Mid 1/3 Head / \$	Low 1/3 Head / \$	Absolute	%
Number of Farms	65	22	21	22		
Labor allocated to livestock, %	38.1	48.0	35.4	30.7		
Number of Cows in Herd	124	170	137	65	105	161%
Number of Calves Sold	114	156	129	58	97	168%
Weight of Calves Sold	583	591	584	573	18	3%
Calf Sales Price / Cwt	\$109.12	\$108.73	\$109.99	\$108.68	\$0.05	0%
<b>Gross Income</b>	<b>\$539.29</b>	<b>\$573.90</b>	<b>\$555.38</b>	<b>\$489.33</b>	<b>\$84.56</b>	<b>17%</b>
Feed	\$312.02	\$274.36	\$316.05	\$345.83	22.8%	-\$71.47 -21%
Interest	\$117.00	\$94.09	\$117.00	\$139.90		-\$45.81 -33%
Vet Medicine / Drugs	\$15.70	\$15.85	\$15.73	\$15.54		\$0.30 2%
Livestock Marketing / Breeding	\$10.08	\$8.15	\$11.44	\$10.72		-\$2.56 -24%
Depreciation	\$37.23	\$26.36	\$25.28	\$59.51		-\$33.16 -56%
Machinery	\$66.73	\$47.71	\$63.34	\$88.99		-\$41.28 -46%
Labor	\$92.87	\$69.48	\$84.90	\$123.88		-\$54.41 -44%
Other	\$39.85	\$22.85	\$35.10	\$61.38	77.2%	-\$38.53 -63%
<b>Total Cost</b>	<b>\$691.49</b>	<b>\$558.84</b>	<b>\$668.84</b>	<b>\$845.75</b>	<b>-\$286.91</b>	<b>-34%</b>
<b>Net Return to Management</b>	<b>-\$152.20</b>	<b>\$15.05</b>	<b>-\$113.46</b>	<b>-\$356.42</b>	<b>\$371.47</b>	

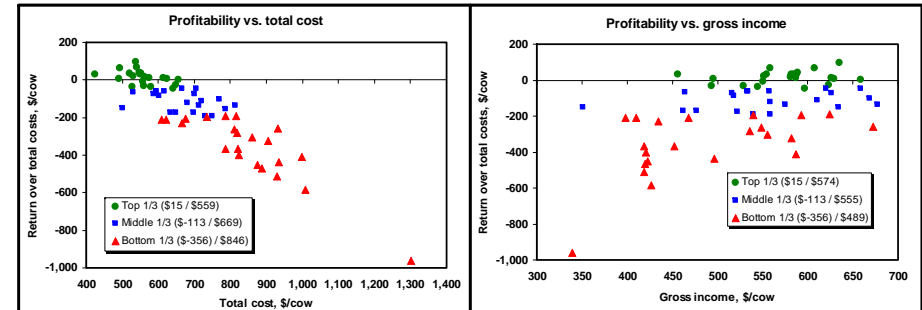
\* Sorted by Net Return to Management (Returns over Total Costs) per Cow

Compared to \$170-\$190 between top and bottom third years.



## Cow-calf profitability drivers...

- Returns are more variable across producers at a point in time than they are on average over time (i.e., even in "hard times" some producers are profitable)
- Cost differences explain a much bigger portion of profitability differences across producers than does income differences

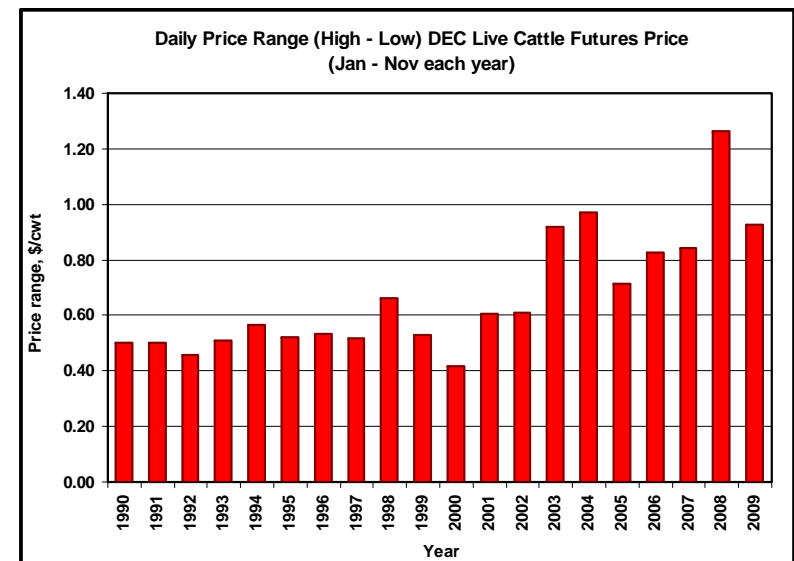


## So, what does this mean?

- In order to increase returns (relative to average), producers should focus their management efforts on being a low-cost producer.
- Managing price risk should be viewed as something to do to reduce variability in income NOT as a way of getting higher prices.
- Most price risk-management tools available allow us to manage short-term price fluctuations, but not multi-year price risk.
- What price risk are we most concerned about in cow-calf operations?

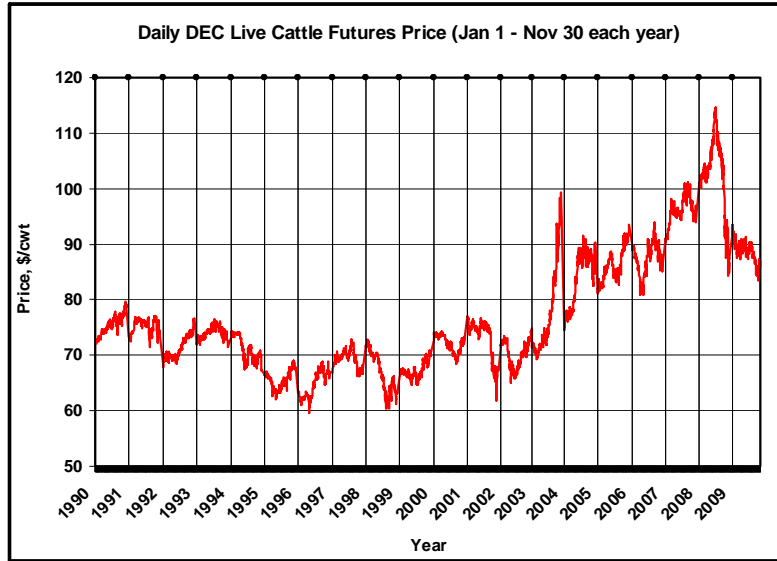


## Daily price volatility has increased...

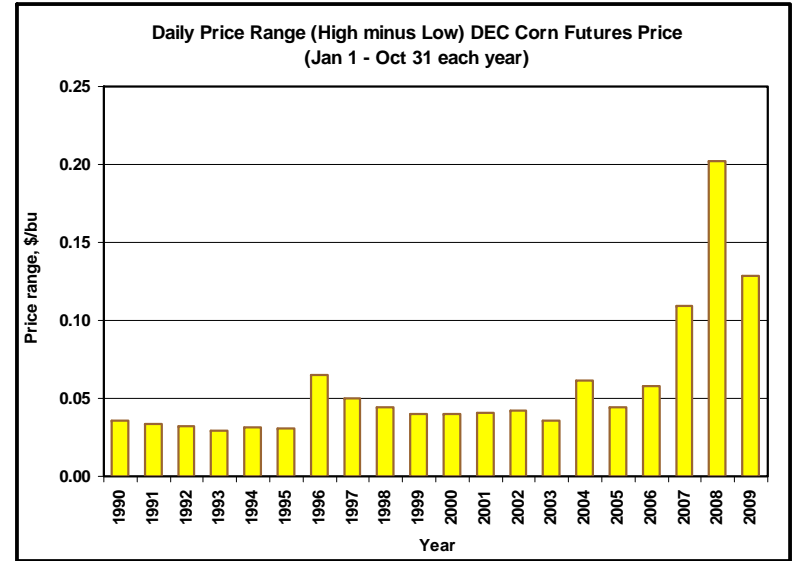




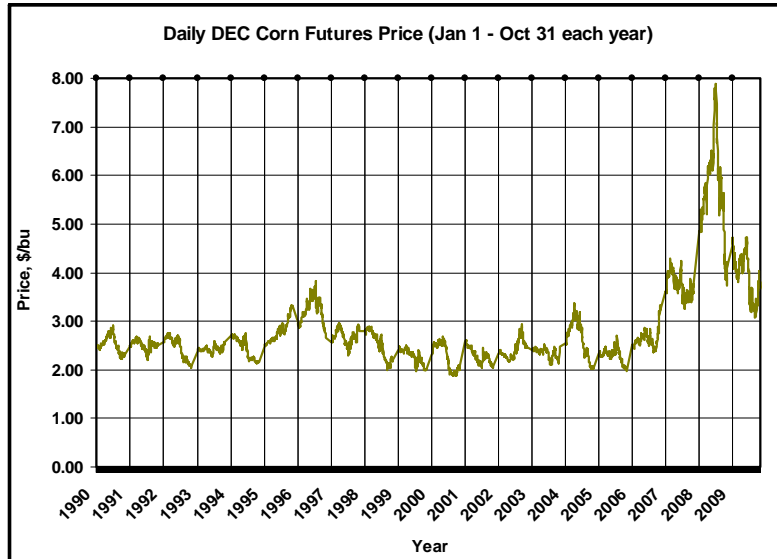
### Within year price volatility has increased...



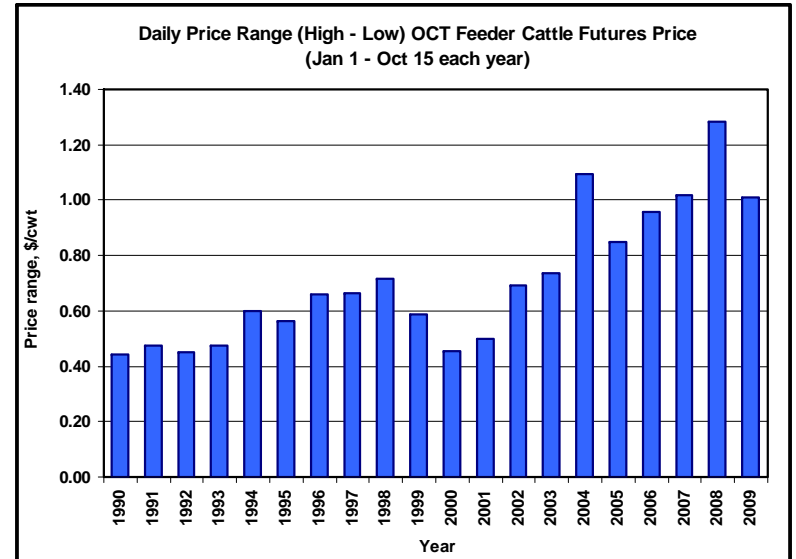
### Daily price volatility has increased...



### Within year price volatility has increased...

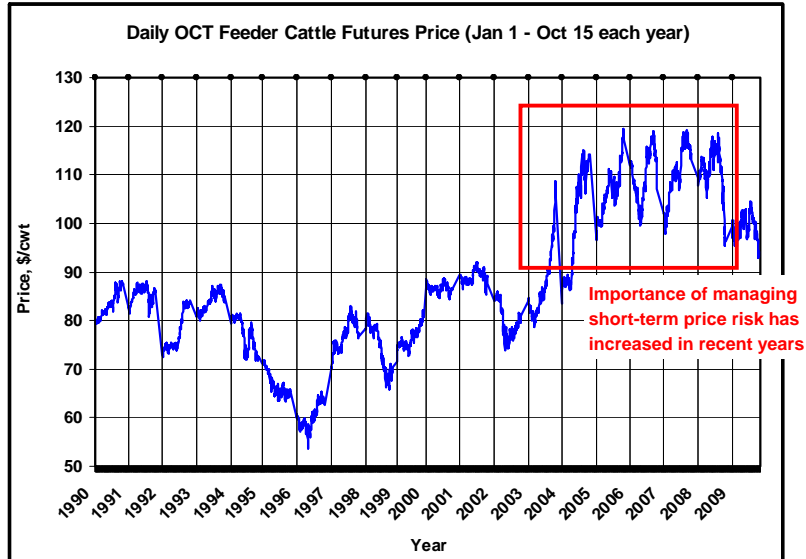


### Daily price volatility has increased...





## Within year price volatility has increased...



## Marketing issues to think about...

- Production issues related to marketing
- Marketing alternatives available
- Pricing tools available



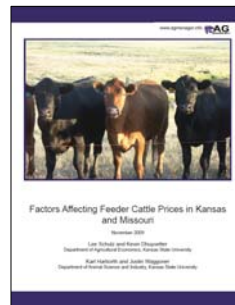
## Selling vs. Marketing vs. Pricing...

### Selling:

- Quality or grade that is easiest to produce
- Most convenient time and place
- Whatever price is offered

### Marketing:

- Identifying most profitable quality/grade
- Most profitable time and place
- Retain some control over price and profitability



### Pricing:

- Use of specific tool(s) to set price and/or basis
- Method of managing short-term price risk



## Methods of pricing feeder calves...

- Cash sales
- Forward contract
- Hedge with futures contract (i.e., sell futures)
- Buy put option
- Livestock Risk Protection (LRP)
- Other option market strategies



## Cash sales...

- **Characteristics –**
  - easy to understand
  - retain price and basis\* risk
  - no quantity or quality obligations (within reason)
  - no futures broker or margin calls
  - financial risk (i.e., risk of not getting paid) depends on financial strength/integrity of buyer

\* basis = cash price – futures price



## Forward contract...

- **Characteristics –**
  - locks in a “fixed” price
  - basis risk is eliminated
  - pay a premium for transferring basis risk
  - no margin account or maintenance required
  - may or may not involve broker / brokerage commission
  - contract specifications and size flexible (within reason)
  - obligated to deliver
  - low quality cattle might be excluded/refused
  - weight price slide risk
  - risk of other party not honoring contract
  - not always available
  - prices are not very transparent



## Hedge with futures contract...

- **Characteristics –**
  - locks in a “fixed” price (CME futures price)
  - subject to basis risk
  - fixed contract specifications and size
  - deal with broker / brokerage commission
  - margin account and maintenance required
  - easy to enter and liquidate
  - transparent price quotes
  - no risk of other party “backing out”
  - no risk of low quality cattle being “refused”
  - cash settled contract (no delivery ability / obligation)



## Buy put option contract...

- **Characteristics –**
  - locks in a “floor” price (CME strike price)
  - subject to basis risk
  - fixed contract specifications and size
  - deal with broker / brokerage commission
  - pay premium for option
  - easy to enter and liquidate
  - transparent price quotes
  - no risk of other party “backing out”
  - no risk of low quality cattle being “refused”
  - cash settled contract (no delivery ability / obligation)



# Buy LRP insurance policy...

- **Characteristics –**
  - locks in a “floor” price (CME cash index)
  - subject to basis risk
  - contract specifications somewhat flexible (e.g., weight)
  - contract size flexible (1 head up to 1,000 – max of 2,000 hd/year)
  - deal with crop insurance agent
  - pay premium for LRP policy
  - have to buy in “off hours” (i.e., ~ 4:00 pm to 9:00 am)
  - tied to options market (determines availability)
  - price quotes available on RMA website
  - no risk of other party “backing out”
  - no risk of low quality cattle being “refused”
  - cash settled contract (no delivery ability / obligation)

Livestock Reports - Windows Internet Explorer

http://www3.rma.usda.gov/apps/livestock\_reports/main.aspx

**LRP – Weight 1 (11/25/09)**  
**[7 time periods, 12 policies]**

LRP Coverage Prices, Rates, and Actual Ending Values - Report for 11/25/2009

**USDA subsidizes 13 percent of total LRP premium**

\* See notes at bottom of page

State	County	Endorsement Length	Commodity	Type	Practice	Crop Year	Exp. End Value	Coverage Price	Coverage Level	Rate	Cost Per CWT	End Date	Actual Val
35 NEW MEXICO	998 ALL COUNTIES	13	0801 FEEDER CATTLE	809 STEERS WEIGHT 1	997 NO PRACTICE SPECIFIED	2010	103.415	\$103.110	0.997100	0.031587	3.257	02/24/2010	
35 NEW MEXICO	998 ALL COUNTIES	13	0801 FEEDER CATTLE	809 STEERS WEIGHT 1	997 NO PRACTICE SPECIFIED	2010	103.415	\$100.910	0.975800	0.022956	2.316	02/24/2010	
35 NEW MEXICO	998 ALL COUNTIES	17	0801 FEEDER CATTLE	809 STEERS WEIGHT 1	997 NO PRACTICE SPECIFIED	2010	103.703	\$103.400	0.997100	0.032670	3.378	03/24/2010	
35 NEW MEXICO	998 ALL COUNTIES	17	0801 FEEDER CATTLE	809 STEERS WEIGHT 1	997 NO PRACTICE SPECIFIED	2010	103.703	\$101.200	0.975900	0.025011	2.531	03/24/2010	
35 NEW MEXICO	998 ALL COUNTIES	21	0801 FEEDER CATTLE	809 STEERS WEIGHT 1	997 NO PRACTICE SPECIFIED	2010	105.189	\$96.720	0.919500	0.014739	1.426	04/21/2010	
35 NEW MEXICO	998 ALL COUNTIES	26	0801 FEEDER CATTLE	809 STEERS WEIGHT 1	997 NO PRACTICE SPECIFIED	2010	106.011	\$103.400	0.975400	0.034021	3.518	05/26/2010	
35 NEW MEXICO	998 ALL COUNTIES	30	0801 FEEDER CATTLE	809 STEERS WEIGHT 1	997 NO PRACTICE SPECIFIED	2010	107.027	\$104.610	0.977400	0.038370	4.014	06/23/2010	
35 NEW MEXICO	998 ALL COUNTIES	30	0801 FEEDER CATTLE	809 STEERS WEIGHT 1	997 NO PRACTICE SPECIFIED	2010	107.027	\$100.210	0.936300	0.025423	2.548	06/23/2010	
35 NEW MEXICO	998 ALL COUNTIES	34	0801 FEEDER CATTLE	809 STEERS WEIGHT 1	997 NO PRACTICE SPECIFIED	2010	107.704	\$105.280	0.977500	0.040382	4.251	07/21/2010	

Livestock Reports - Windows Internet Explorer

http://www3.rma.usda.gov/apps/livestock\_reports/main.aspx

**LRP – Weight 1 (11/27/09)**  
**[3 time periods, 3 policies]**

LRP Coverage Prices, Rates, and Actual Ending Values - Report for 11/27/2009

**USDA subsidizes 13 percent of total LRP premium**

\* See notes at bottom of page

State	County	Endorsement Length	Commodity	Type	Practice	Crop Year	Exp. End Value	Coverage Price	Coverage Level	Rate	Cost Per CWT	End Date	Actual Val
35 NEW MEXICO	998 ALL COUNTIES	26	0801 FEEDER CATTLE	809 STEERS WEIGHT 1	997 NO PRACTICE SPECIFIED	2010	105.041	\$96.960	0.923100	0.019617	1.902	05/28/2010	
35 NEW MEXICO	998 ALL COUNTIES	30	0801 FEEDER CATTLE	809 STEERS WEIGHT 1	997 NO PRACTICE SPECIFIED	2010	106.115	\$98.030	0.923800	0.022857	2.241	06/25/2010	
35 NEW MEXICO	998 ALL COUNTIES	34	0801 FEEDER CATTLE	809 STEERS WEIGHT 1	997 NO PRACTICE SPECIFIED	2010	106.792	\$98.710	0.924300	0.025309	2.498	07/23/2010	

Notes:

- Some endorsement lengths may not be available due to insufficient pricing or rating information.
- For LRP Fed Cattle, Feeder Cattle and Swine, sales open from the time sales data is available (approximately 3:30 P.M. central time) until 9 A.M. central time the next day.
- For Lamb, sales available MONDAY ONLY. Sales open from the time of official release of coverage prices and rates on Monday morning (approximately 10 A.M. central time) until 7 P.M. central time Monday.
- For Lamb, preliminary coverage prices and rates may be available for viewing Friday evening and over the weekend but are subject to change at the official release time on Monday. Coverage prices and rates may also be available for viewing following sales during the week.
- Purchase of LRP must be made through an authorized livestock insurance agent.
- For LRP Fed Cattle, Feeder Cattle, and Swine, coverage levels and rates shown are available only on the selected effective date until 9 a.m. the following day.

Livestock Reports - Windows Internet Explorer

http://www3.rma.usda.gov/apps/livestock\_reports/main.aspx

**LRP – Weight 1 (11/30/09)**  
**[4 time periods, 8 policies]**

LRP Coverage Prices, Rates, and Actual Ending Values - Report for 11/30/2009

**USDA subsidizes 13 percent of total LRP premium**

\* See notes at bottom of page

State	County	Endorsement Length	Commodity	Type	Practice	Crop Year	Exp. End Value	Coverage Price	Coverage Level	Rate	Cost Per CWT	End Date	Actual Val
35 NEW MEXICO	998 ALL COUNTIES	13	0801 FEEDER CATTLE	809 STEERS WEIGHT 1	997 NO PRACTICE SPECIFIED	2010	102.963	\$101.040	0.981300	0.023146	2.339	03/01/2010	
35 NEW MEXICO	998 ALL COUNTIES	13	0801 FEEDER CATTLE	809 STEERS WEIGHT 1	997 NO PRACTICE SPECIFIED	2010	102.963	\$98.840	0.960000	0.016483	1.629	03/01/2010	
35 NEW MEXICO	998 ALL COUNTIES	26	0801 FEEDER CATTLE	809 STEERS WEIGHT 1	997 NO PRACTICE SPECIFIED	2010	105.722	\$99.310	0.939400	0.023059	2.290	05/31/2010	
35 NEW MEXICO	998 ALL COUNTIES	26	0801 FEEDER CATTLE	809 STEERS WEIGHT 1	997 NO PRACTICE SPECIFIED	2010	105.722	\$97.110	0.918500	0.018677	1.814	05/31/2010	
35 NEW MEXICO	998 ALL COUNTIES	30	0801 FEEDER CATTLE	809 STEERS WEIGHT 1	997 NO PRACTICE SPECIFIED	2010	106.741	\$100.330	0.939900	0.026236	2.632	06/28/2010	
35 NEW MEXICO	998 ALL COUNTIES	30	0801 FEEDER CATTLE	809 STEERS WEIGHT 1	997 NO PRACTICE SPECIFIED	2010	106.741	\$98.130	0.919300	0.021802	2.139	06/28/2010	
35 NEW MEXICO	998 ALL COUNTIES	34	0801 FEEDER CATTLE	809 STEERS WEIGHT 1	997 NO PRACTICE SPECIFIED	2010	107.368	\$100.960	0.940300	0.028492	2.877	07/26/2010	
35 NEW MEXICO	998 ALL COUNTIES	34	0801 FEEDER CATTLE	809 STEERS WEIGHT 1	997 NO PRACTICE SPECIFIED	2010	107.368	\$98.760	0.919800	0.024192	2.389	07/26/2010	

Livestock Reports - Windows Internet Explorer

http://www3.rma.usda.gov/apps/livestock\_reports/main.aspx

LRP - Weight 2 (11/30/09)  
[3 time periods, 3 policies]

Select Criteria Main Menu Print 11/30/2009 9:13:39 PM

LRP Coverage Prices, Rates, and Actual Ending Values - Report for 11/30/2009

**USDA subsidizes 13 percent of total LRP premium**

\* See notes at bottom of page

State	County	Endorsement Length	Commodity	Type	Practice	Crop Year	Exp. End Value	Coverage Price	Coverage Level	Rate	Cost Per CWT	End Date	Actual Val
35 NEW MEXICO	998 ALL COUNTIES	13	0001 FEEDER CATTLE	810 STEERS WEIGHT 2	997 NO PRACTICE SPECIFIED	2010	93.603	\$91.850	0.981300	0.023146	2.126	03/01/2010	
35 NEW MEXICO	998 ALL COUNTIES	13	0001 FEEDER CATTLE	810 STEERS WEIGHT 2	997 NO PRACTICE SPECIFIED	2010	93.603	\$89.850	0.959900	0.016483	1.481	03/01/2010	
35 NEW MEXICO	998 ALL COUNTIES	26	0001 FEEDER CATTLE	810 STEERS WEIGHT 2	997 NO PRACTICE SPECIFIED	2010	96.111	\$90.290	0.939400	0.023059	2.082	05/31/2010	
35 NEW MEXICO	998 ALL COUNTIES	26	0001 FEEDER CATTLE	810 STEERS WEIGHT 2	997 NO PRACTICE SPECIFIED	2010	96.111	\$88.290	0.918600	0.018677	1.649	05/31/2010	
35 NEW MEXICO	998 ALL COUNTIES	30	0001 FEEDER CATTLE	810 STEERS WEIGHT 2	997 NO PRACTICE SPECIFIED	2010	97.037	\$91.210	0.940000	0.028236	2.393	06/28/2010	
35 NEW MEXICO	998 ALL COUNTIES	30	0001 FEEDER CATTLE	810 STEERS WEIGHT 2	997 NO PRACTICE SPECIFIED	2010	97.037	\$89.210	0.919300	0.021802	1.945	06/28/2010	
35 NEW MEXICO	998 ALL COUNTIES	34	0001 FEEDER CATTLE	810 STEERS WEIGHT 2	997 NO PRACTICE SPECIFIED	2010	97.607	\$91.780	0.940300	0.028492	2.615	07/26/2010	
35 NEW MEXICO	998 ALL COUNTIES	34	0001 FEEDER CATTLE	810 STEERS WEIGHT 2	997 NO PRACTICE SPECIFIED	2010	97.607	\$89.780	0.919800	0.024192	2.172	07/26/2010	



## Other options strategies...

- **Characteristics –**
  - anything goes...
  - buy / sell put(s), calls(s), sell futures, forward contract...
  - selling options requires margin account and maintenance
  - make sure you understand what you are doing!

### Several of the more common options strategies

- **Synthetic put – hedge (sell futures) or forward contract and buy call option (works similar to buying put option)**
- **Window / fence – establish minimum (floor) and maximum (ceiling) prices by buying a put option and selling a call option(s)**



## Comparing pricing alternatives...

### Cash vs. Hedging vs. Options...

Because the various risk management tools have different characteristics (e.g., flat price vs. minimum price), it is useful to compare them under alternative price outcomes.

*FeederCattleRiskMgmtTool.xls* is a tool that allows users to compare various feeder cattle pricing strategies, specifically focusing on LRP versus options.

*KSU-Option Strategies.xls* is a tool that allows users to compare various pricing strategies, specifically focusing on using put and call options.

Both tools are available on [www.agmanager.info](http://www.agmanager.info).

FeederCattleRiskMgmtTool - Example.xls [Compatibility Mode] - Microsoft Excel

FeederCattleRiskMgmt.xls

FeederCattleRiskMgmtTool.xls – A decision making tool that can be used to compare Expected Net Selling Prices using alternative risk management tools available for pricing feeder cattle. The authors gratefully acknowledge funding provided by USDA's Risk Management Agency (RMA) for development of this feeder cattle risk management tool.

**INPUTS vs CALCULATED VALUES**

In the *Comparison* sheet all blue numbers are input by the user. All black numbers are calculated using data provided by the user. The spreadsheet automatically recalculates every time an additional input is entered. Thus, it is important to wait until all data have been entered and reviewed before interpreting any of the calculated results (i.e., black numbers).

**DESCRIPTION OF INPUTS**

Most of the input cells (i.e., blue number) have a red diamond in the upper right hand corner of the cell. By moving your mouse cursor over this diamond, a brief description of the input will be displayed on the screen.

**COMPANION PUBLICATIONS**

This spreadsheet was developed as a decision-aid tool for producers interested in managing feeder cattle price risk. You can learn more about managing price risk and using LRP insurance at [www.AgManager.info](http://www.AgManager.info) by clicking on the following links:

[LRP Insurance Information](#)      [Price Risk Management Information](#)

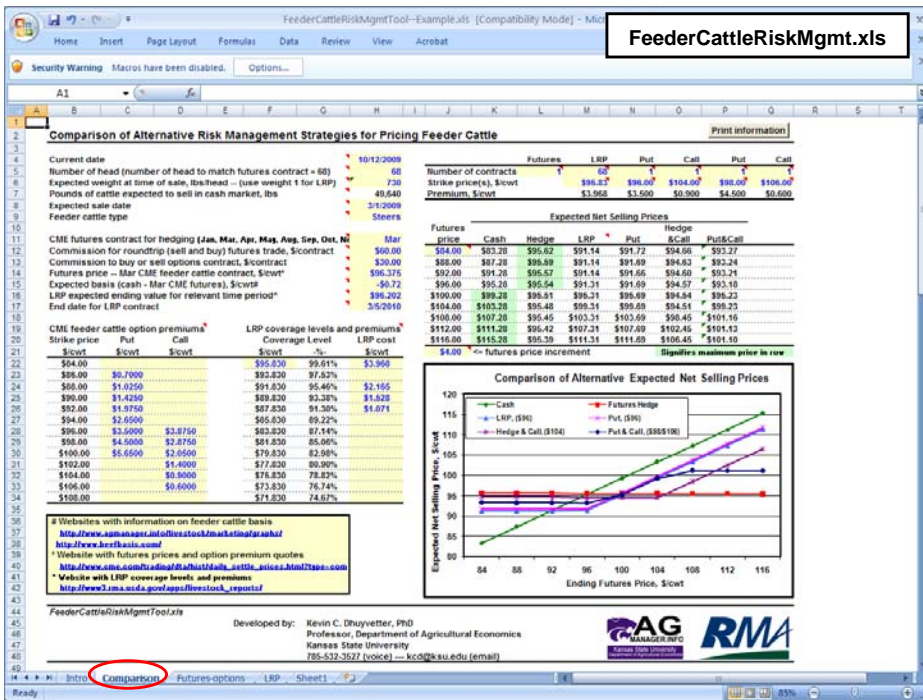
Developed by: Kevin C. Dhuyvetter, Ph.D.  
Department of Agricultural Economics  
Kansas State University

voice: (785) 532-3527  
email: kcd@ksu.edu  
website: [www.agmanager.info](http://www.agmanager.info)

**AG MANAGER INFO**      Note: Macros in this spreadsheet are simply used for printing and do not contain viruses.      **RMA**

Version: 8.06.09

Ready      Intro      Comparison      Futures-options      LRP - Sheet1



# Inputs for *FeederCattleRiskMgmtTool.xls*

## Comparison of Alternative Risk Management Strategies for Pricing Feeder Cattle

Current date	11/30/2009
Number of head (number of head to match futures contract = 74)	74
Expected weight at time of sale, lbs/head -- (use weight 2 for LRP)	675
Pounds of cattle expected to sell in cash market, lbs	49,950
Expected sale date	3/10/2010
Feeder cattle type	Steers
CME futures contract for hedging (Jan, Mar, Apr, May, Aug, Sep, Oct, Nov)	Mar
Commission for roundtrip (sell and buy) futures trade, \$/contract	\$60.00
Commission to buy or sell options contract, \$/contract	\$30.00
Futures price -- Mar CME feeder cattle contract, \$/cwt*	\$93.750
Expected basis (cash - Mar CME futures), \$/cwt#	\$2.49 /1
LRP expected ending value for relevant time period^	\$93.603
End date for LRP contract	3/1/2010

^1 basis for futures and options can vary from LRP basis

**BEEFBASIS.COM**  
Decision Support for America's Beef Producers

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Welcome to BeefBasis

**Announcements**

November 2009: We have extended the forecasting abilities of BeefBasis so a feeder basis may be calculated out to 18 months!

November 2009: Market data is current up to October 2009.

**Credits**

The BeefBasis website was developed by Custom Ag Solutions, Inc. (CAS) and Kansas State University (K-State) in partnership with the USDA's Risk Management Agency (RMA).

**BeefBasis gives you relevant information and analytics you need to evaluate marketing decisions and manage your price risk.**

**Feeder Cattle Basis Forecast**

State: New Mexico Location: Roswell

Sex: Steer Frame: Lg & Med/Lg Grade: 1-2

Weight: 675 lbs/head Head: 74

Expected Sale Date: 3/10/2010

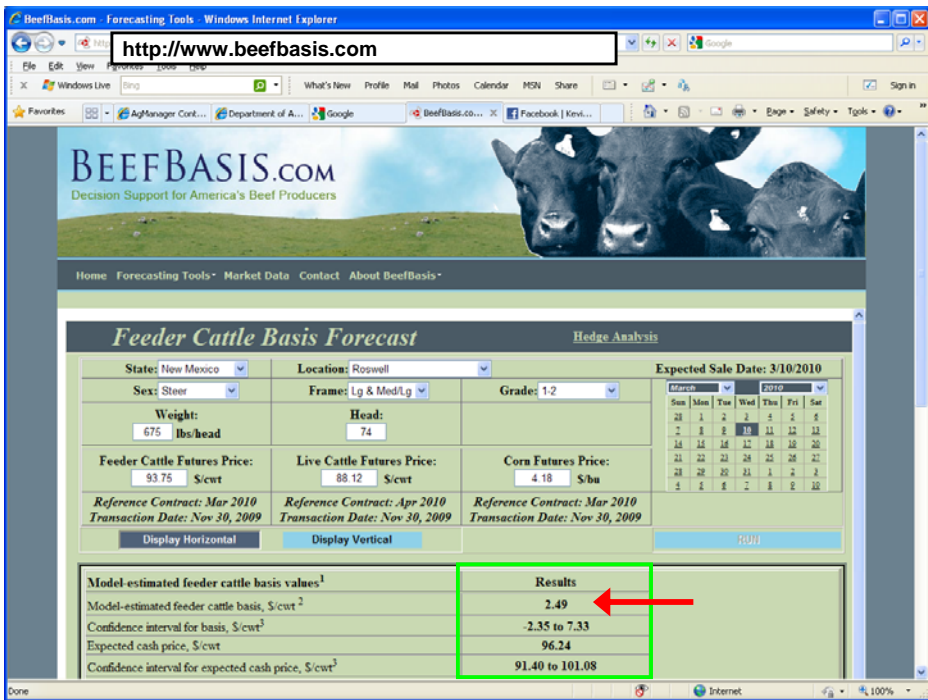
Feeder Cattle Futures Price: 93.75 \$/cwt Live Cattle Futures Price: 88.12 \$/cwt Corn Futures Price: 4.18 \$/bu

Reference Contract: Mar 2010 Reference Contract: Apr 2010 Reference Contract: Mar 2010

Transaction Date: Nov 30, 2009 Transaction Date: Nov 30, 2009 Transaction Date: Nov 30, 2009

**Instructions:**

- Select values from each of the pull-downs, enter values in each of the text boxes.
- Hover cursor over entry labels for explanation of value to be entered.
- When all values have been entered, click the run button.
- Results are displayed here.



## Inputs for FeederCattleRiskMgmtTool.xls

### Comparison of Alternative Risk Management Strategies for Pricing Feeder Cattle

Strike price \$/cwt	CME feeder cattle option premiums		LRP coverage levels and premiums		
	Put \$/cwt	Call \$/cwt	Coverage Level \$/cwt	-%-	LRP cost \$/cwt
\$82.00			\$91.850	98.13%	\$2.126
\$84.00			\$89.850	95.99%	\$1.481
\$86.00	\$0.8000		\$87.850	93.85%	
\$88.00	\$1.0500		\$85.850	91.72%	
\$90.00	\$1.4500		\$83.850	89.58%	
\$92.00	\$1.9750	\$3.7250	\$81.850	87.44%	
\$94.00	\$2.7000	\$2.4500	\$79.850	85.31%	
\$96.00	\$3.9500	\$1.7000	\$77.850	83.17%	
\$98.00	\$5.4250	\$1.1750	\$75.850	81.03%	
\$100.00	\$7.0250	\$0.8000	\$73.850	78.90%	
\$102.00		\$0.5500	\$71.850	76.76%	
\$104.00		\$0.3500	\$69.850	74.62%	
\$106.00			\$67.850	72.49%	

## Output for FeederCattleRiskMgmtTool.xls

### Comparison of Alternative Risk Management Strategies for Pricing Feeder Cattle

	Futures	LRP	Put	Call	Put	Call
Number of contracts	1	74	1	1	1	1
Strike price(s), \$/cwt		\$91.85	\$92.00	\$102.00	\$94.00	\$104.00
Premium, \$/cwt		\$2.126	\$1.975	\$0.550	\$2.700	\$0.350

### Expected Net Selling Prices

Futures price	Cash	Hedge	LRP	Put	Hedge & Call	Put & Call
\$78.00	\$80.49	\$96.14	\$92.21	\$92.41	\$95.53	\$93.97
\$82.00	\$84.49	\$96.13	\$92.21	\$92.40	\$95.52	\$93.97
\$86.00	\$88.49	\$96.13	\$92.21	\$92.40	\$95.52	\$93.97
\$90.00	\$92.49	\$96.12	\$92.21	\$92.39	\$95.51	\$93.96
\$94.00	\$96.49	\$96.12	\$94.36	\$94.45	\$95.51	\$94.02
\$98.00	\$100.49	\$96.12	\$98.36	\$98.45	\$95.51	\$98.02
\$102.00	\$104.49	\$96.11	\$102.36	\$102.45	\$95.50	\$102.02
\$106.00	\$108.49	\$96.11	\$106.36	\$106.45	\$99.44	\$103.96
\$110.00	\$112.49	\$96.10	\$110.36	\$110.45	\$103.44	\$103.95

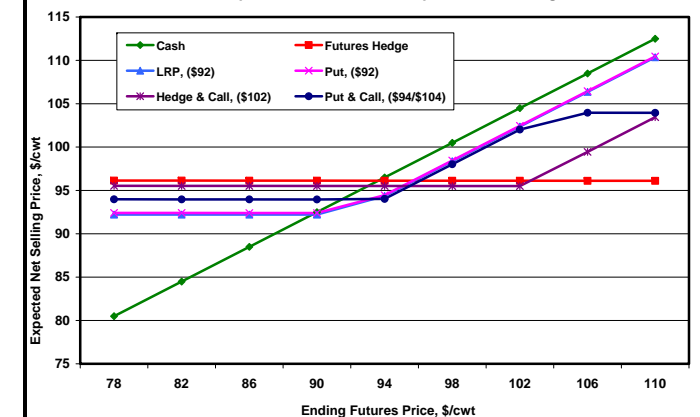
\$4.00 <= futures price increment      Signifies maximum price in row

## Output for FeederCattleRiskMgmtTool.xls

### Comparison of Alternative Risk Management Strategies for Pricing Feeder Cattle

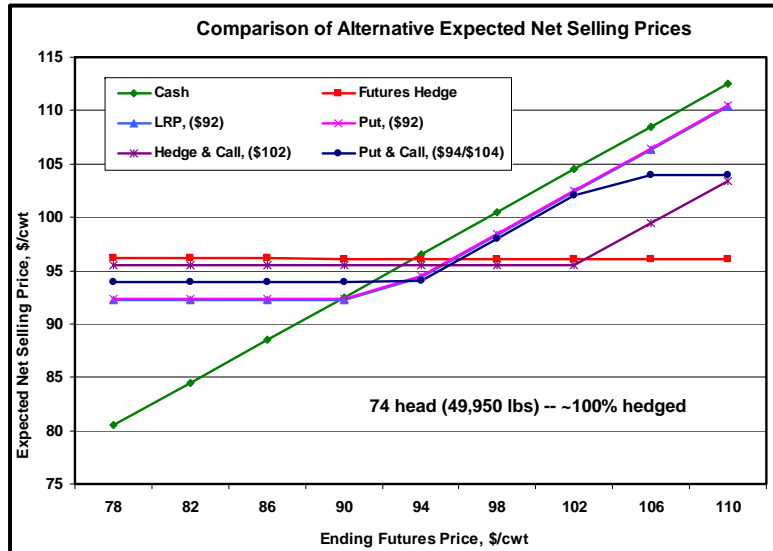
	Futures	LRP	Put	Call	Put	Call
Number of contracts	1	74	1	1	1	1
Strike price(s), \$/cwt		\$91.85	\$92.00	\$102.00	\$94.00	\$104.00
Premium, \$/cwt		\$2.126	\$1.975	\$0.550	\$2.700	\$0.350

### Comparison of Alternative Expected Net Selling Prices

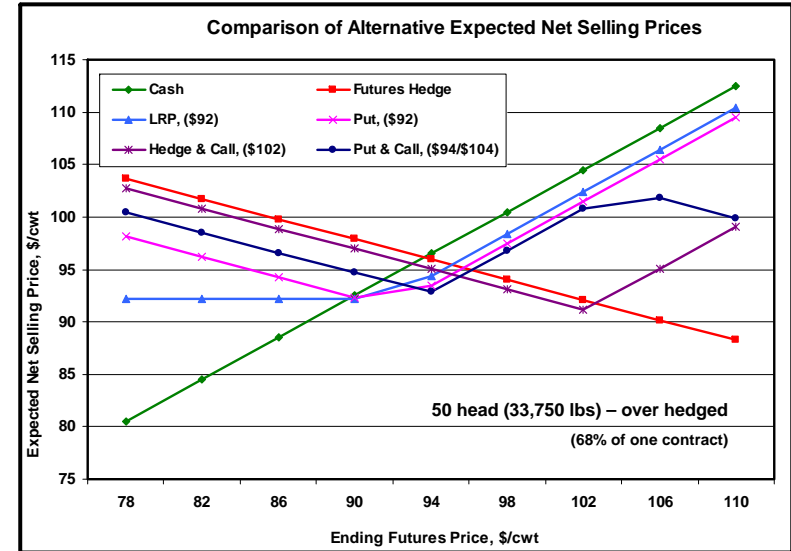




## Impact of number of head “hedged” ...



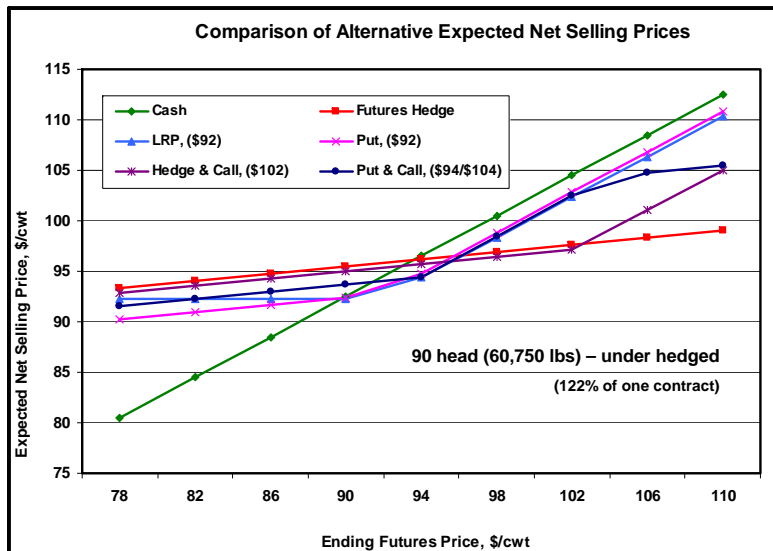
## Impact of number of head “hedged” ...



Cash and LRP don't change from base because they are not “fixed quantity” contracts.



## Impact of number of head “hedged” ...



Cash and LRP don't change from base because they are not “fixed quantity” contracts.



## Summary...

- More variability in returns across producers at a point in time than on average over time
- Cost management has historically been much more important than income management
- “Marketing” is different than selling or pricing – the value of marketing likely will increase as we move away from commodity beef



## Summary...

- Price risk management tools available generally only help manage short-term risk. Cow-calf producers are also concerned about multi-year risk
- Short-term price volatility has been increasing and thus managing that risk is likely becoming more important for many producers
- Numerous pricing methods/strategies that can be used and they all have their advantages and disadvantages – make sure you know and understand what you are doing
- Tools available to help analyze pricing methods

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Questions?

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