

Cow-Calf Producer Risk Management

Glynn Tonsor

and

Ted Schroeder

Agricultural Economists

Kansas State University

Cattlemen's Day

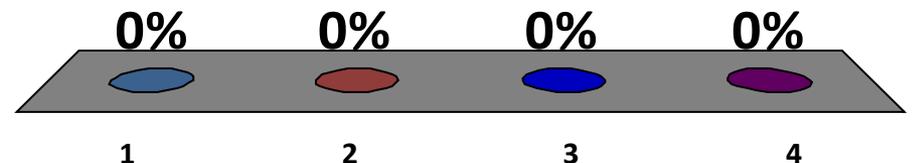
March 2, 2012

Manhattan KS



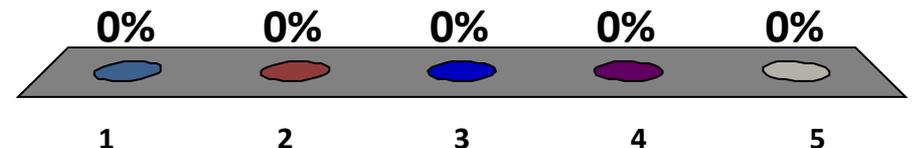
Which of the following best describes your operation and situation?

1. Cow-calf
2. Backgrounder/Stocker
3. Feedlot
4. None of the above



Which of the following sources of risk do you most worry about?

1. Output prices (calves, feeders, cull cows)
2. Input prices (feedstuffs, pasture, replacements)
3. Value-added premiums (SAV, VAC 45)
4. Production (Weaning weights, calving %)
5. Other



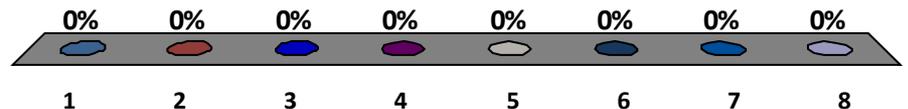
**Kansas Cow-Calf Producer Perceptions of
Comparative Advantages (N=312)**

Production skills (forage ylds, calving rates, weaning wghts, etc.)	70%
Cattle genetics	59%
Low cost	53%
High quality land/pasture	47%
Machinery management	36%
Loan and interest rate management	35%
Personnel management	33%
Analysis and use of new technology	26%
Business planning skills (transition, structure, alliances, etc.)	21%
Marketing skills	20%

Source: Kelsey Frasier-Pope, 2009

Which of these input costs are you most concerned about?

1. Animal health costs
2. Cost of breeding stock
3. Feed costs
4. Fuel
5. Interest
6. Labor
7. Maintenance Costs
8. Pasture



What are your Risks?

1. Input Costs

Ranked Input Cost Concerns Kansas Cow-Calf Producer Survey (312 Respondents, 2009)

Rank		Average
1	Feed Costs	1.9
2	Pasture rent/ownership costs	2.7
3	Cost of breeding stock	4.0
4	Animal health costs	4.8
5	Maintenance Costs	5.4
6	Labor	5.6
7	Fuel	5.7
8	Interest	6.0

Source: Kelsey Frasier-Pope, 2009

What are your Risks?

2. Output Prices – Calves, Cull Cows

- Price risk over time
- Added cost of value added vs. added revenue

Price risk over time

Weekly Kansas Combined Auctions 600-650 lb. Feeder Steer Price, 2002-February 2012



Source: USDA

2011 Price Levels vs. Past

Within-Year Average Values					
<i>YEAR</i>	Corn (\$/bu)	Alfalfa Hay (\$/ton)	Slaughter Steer Price 5-Mkt Avg (\$/cwt)	Feeder Steers 7-800 Lbs. (\$/cwt)	Feeder Steers 5-600 Lbs. (\$/cwt)
<i>1996-2007</i>	2.37	99.88	75.18	89.37	100.33
<i>2008</i>	4.78	162.50	92.78	104.99	115.81
<i>2009</i>	3.75	122.92	83.25	97.28	109.68
<i>2010</i>	3.83	116.00	95.38	110.89	122.84
<i>2011</i>	6.01	174.67	114.74	135.04	148.37
<i>Change (11' vs. 96'-07')</i>	153%	75%	53%	51%	48%

Within-Year Average Values		
<i>YEAR</i>	Slaughter Cows (KY, 75-80% Breaking) (\$/cwt)	Bred Cows (Medium-Large 2 Young, 1,000 lb) (\$/hd)
<i>1996-2007</i>	42.34	812.11
<i>2008</i>	51.02	785.76
<i>2009</i>	45.40	682.40
<i>2010</i>	53.61	698.73
<i>2011</i>	67.21	813.13
<i>Change (11' vs. 96'-07')</i>	59%	0%

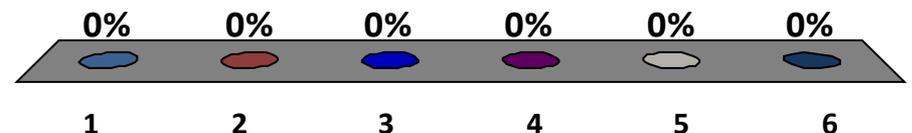
Prices Variability in Context

Within-Year Range (Maximum less Minimum)					
<i>YEAR</i>	Corn (\$/bu)	Alfalfa Hay (\$/ton)	Slaughter Steer Price 5-Mkt Avg (\$/cwt)	Feeder Steers 7-800 Lbs. (\$/cwt)	Feeder Steers 5-600 Lbs. (\$/cwt)
<i>1996-2007</i>	0.65	18.95	11.54	15.77	16.56
<i>2008</i>	1.49	44.00	14.04	23.27	23.69
<i>2009</i>	1.11	39.00	5.33	10.03	15.26
<i>2010</i>	1.41	11.00	18.17	21.99	21.75
<i>2011</i>	1.94	82.00	18.26	19.03	18.34

Within-Year Range (Maximum less Minimum)		
<i>YEAR</i>	Slaughter Cows (KY, 75-80% Breaking) (\$/cwt)	Bred Cows (Medium-Large 2 Young, 1,000 lb) (\$/hd)
<i>1996-2007</i>	9.59	180.00
<i>2008</i>	14.16	291.67
<i>2009</i>	9.36	148.75
<i>2010</i>	14.98	168.50
<i>2011</i>	19.91	162.75

Which of the following methods do you typically use to price calves/steers?

1. Cash sales
2. Buy put option(s)
3. Hedge with futures contract(s)
4. Forward contract sales
5. Livestock Risk Protection (LRP)
6. Other



K-State Feeder Cattle Risk Management Tool

(<http://www.agmanager.info/livestock/marketing/LRP/default.asp>)

Risk Management Tools

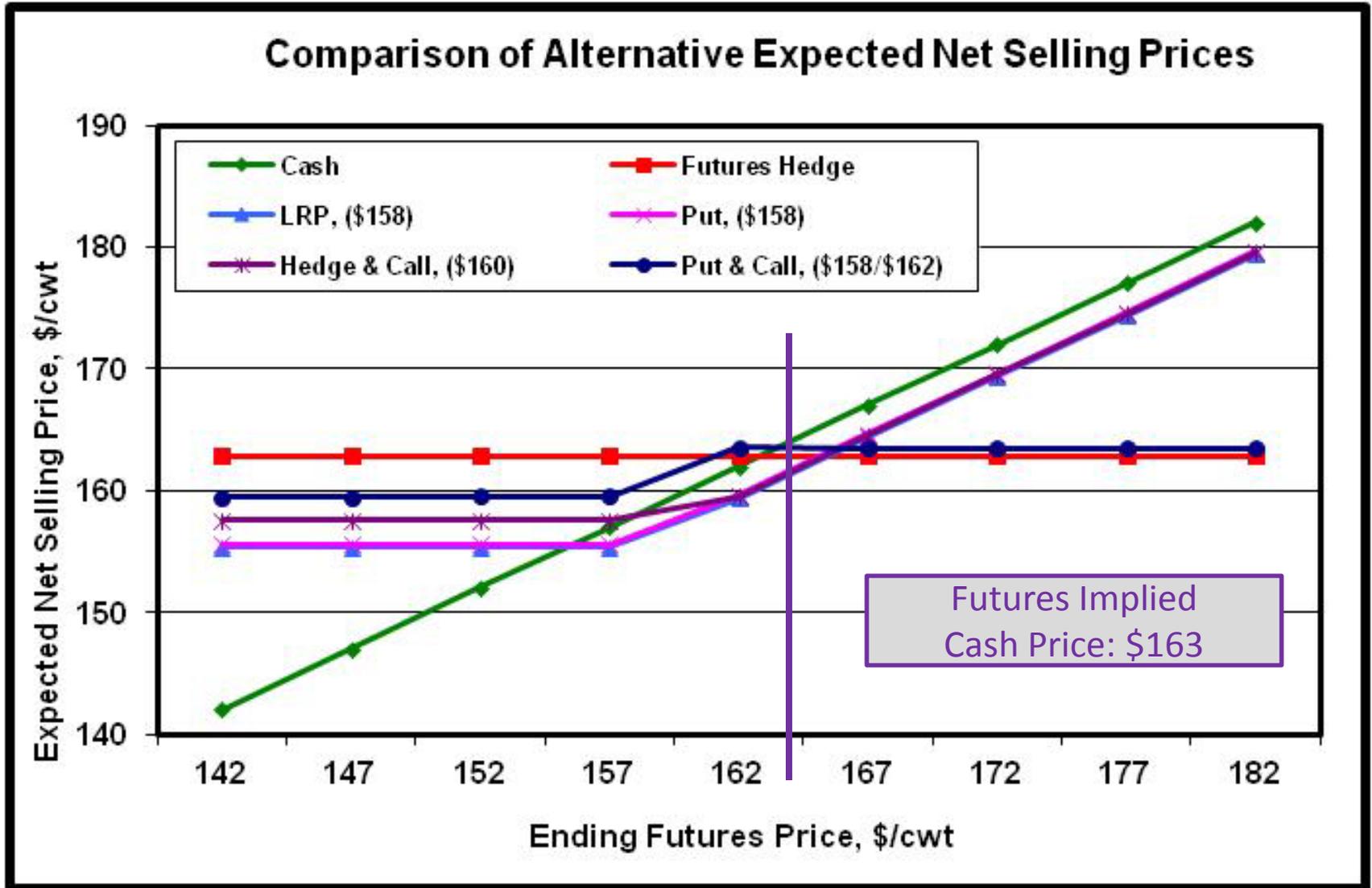
Title	Author	Date	File
K-State Feeder Cattle Risk Management Tool (use to compare Expected Selling Prices using LRP insurance, CME feeder cattle futures, CME feeder cattle options, plus other strategies)	Dhuyvetter	3/10/2011	Excel

Feb. 22nd Situation and Knowns:

- Selling 69 steers in May @ 725 lbs
- Expected basis
- May FC Futures Contract & Option Premiums
- LRP Premiums

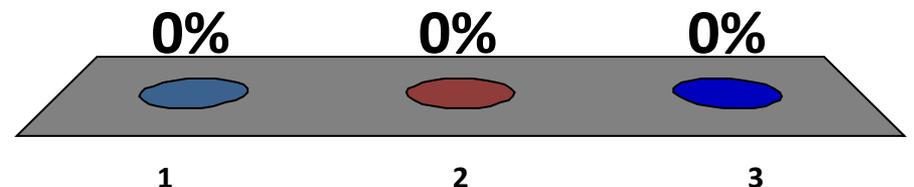
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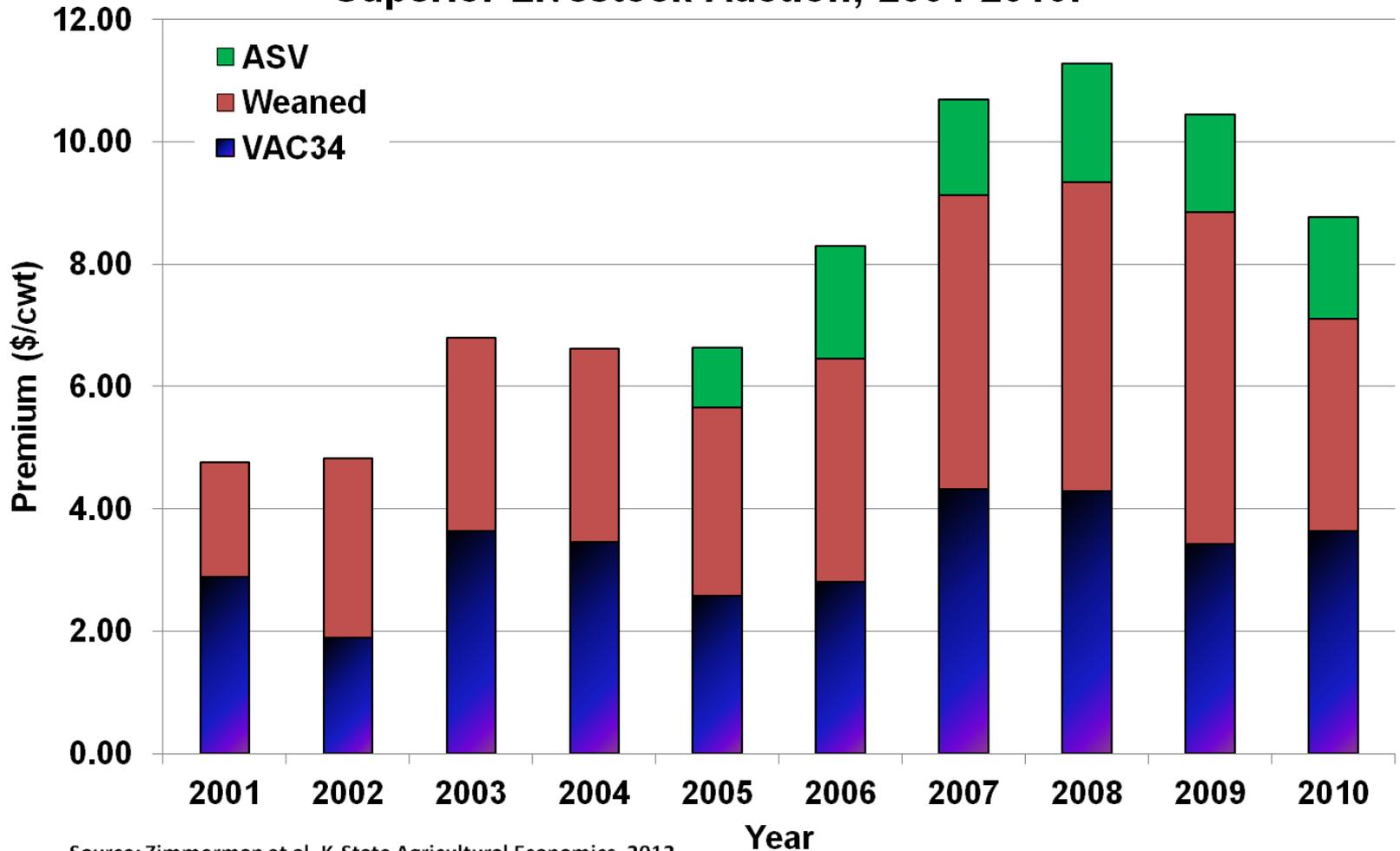
Which of the following do you believe has recently provided the largest value-added premium in calf sales?

1. Age & Source Verified
2. Health Certified
3. Weaned



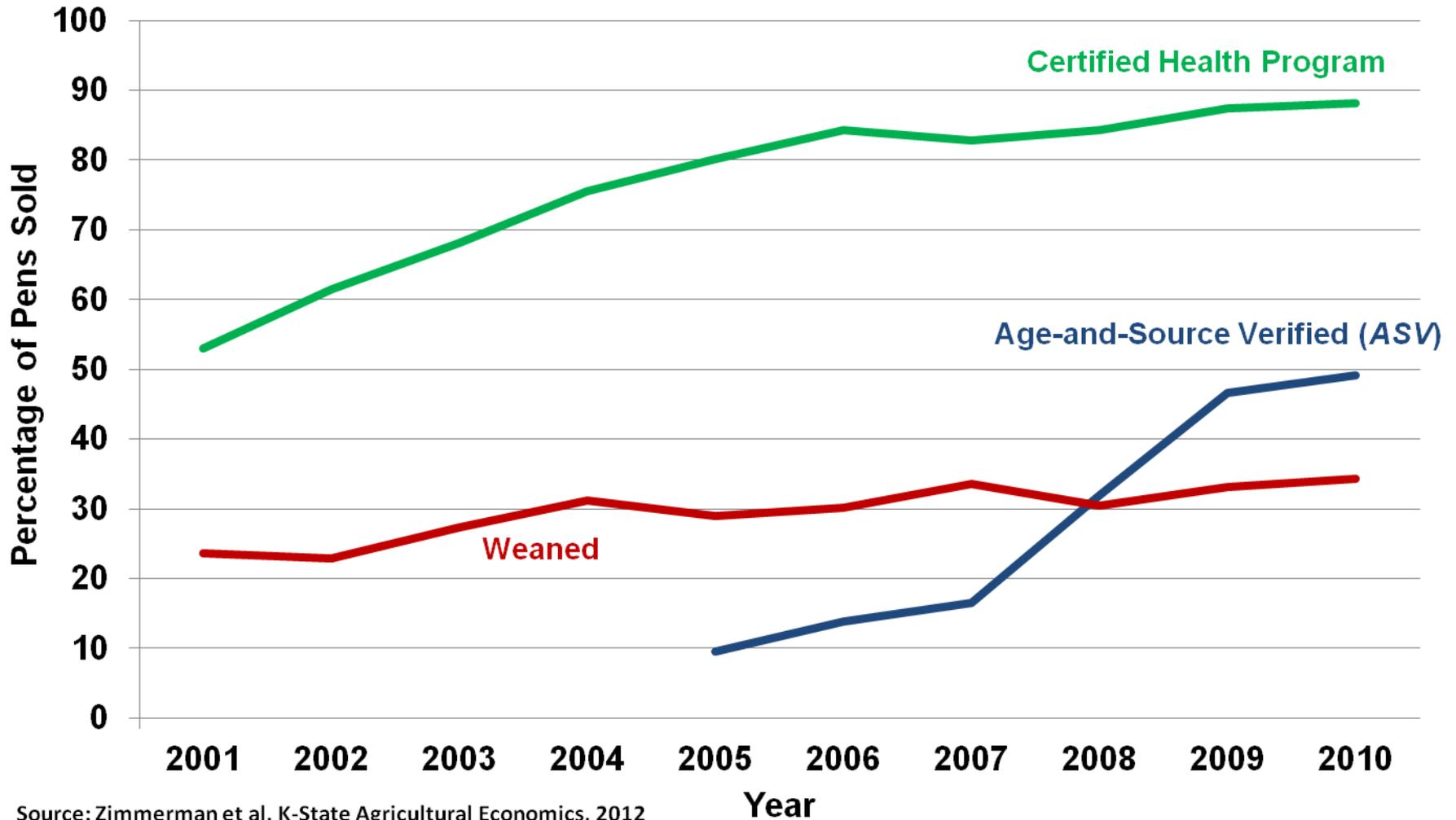
Value-Added Price Variability

Estimated Premiums over Time for VAC34, Weaning, and Age-and-Source Verification for Steer Calves by Year
Superior Livestock Auction, 2001-2010.



Source: Zimmerman et al. K-State Agricultural Economics, 2012

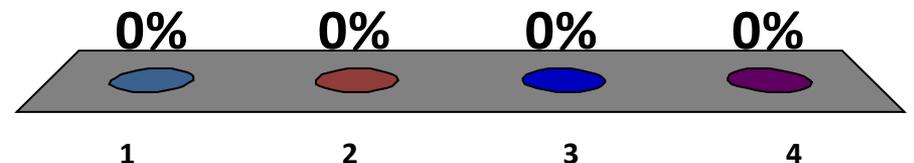
Percentage of Pens of Steer Calves Sold on Superior Livestock Auction that were Weaned, had a Certified Health Program (VAC24, VAC34, VAC34P, VAC45, or VACPC), or were ASV, by Year, 2001-2010.



Source: Zimmerman et al. K-State Agricultural Economics, 2012

You can sell your calves at different times and weights. Which of the following practices do you typically choose?

1. Sell calves at weaning
2. Retain post weaning and sell feeders
3. Retain through finishing and sell fed cattle
4. Other/Not applicable



Other K-State Decision Aides

(<http://www.agmanager.info/Tools/default.asp#LIVESTOCK>)

- Project Premium/Discount of Calf/Steer Attributes
 - *“K-State Feeder Cattle Price Analyzer”*
- Stocker Breakeven Selling/Purchasing Prices
 - *“Cattle Breakeven Selling and Purchase Prices”*
- Determining Flint Hills Pasture Rents
 - *“KSU-Graze.xls”*
- NPV of Beef Replacements
 - *“KSU-Beef Replacements”*
- Beef Cow Lease Agreements
 - *“KSU-CowLease”*

**Too late to think about
Risk Management here!**



Photograph by Alan Nyiri

