

# **Risk Management: Considerations for Cow-Calf Producers**

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# Approach to Today's Discussion

- Briefly overview current market outlook
  - Focus mainly on cow-calf segment
- “Traditional Price Risk” Considerations
  - Highlight example resources/tools
- Note broader risk considerations
- **Collective goal:**
  - **broaden our thinking & set stage for Q&A...**

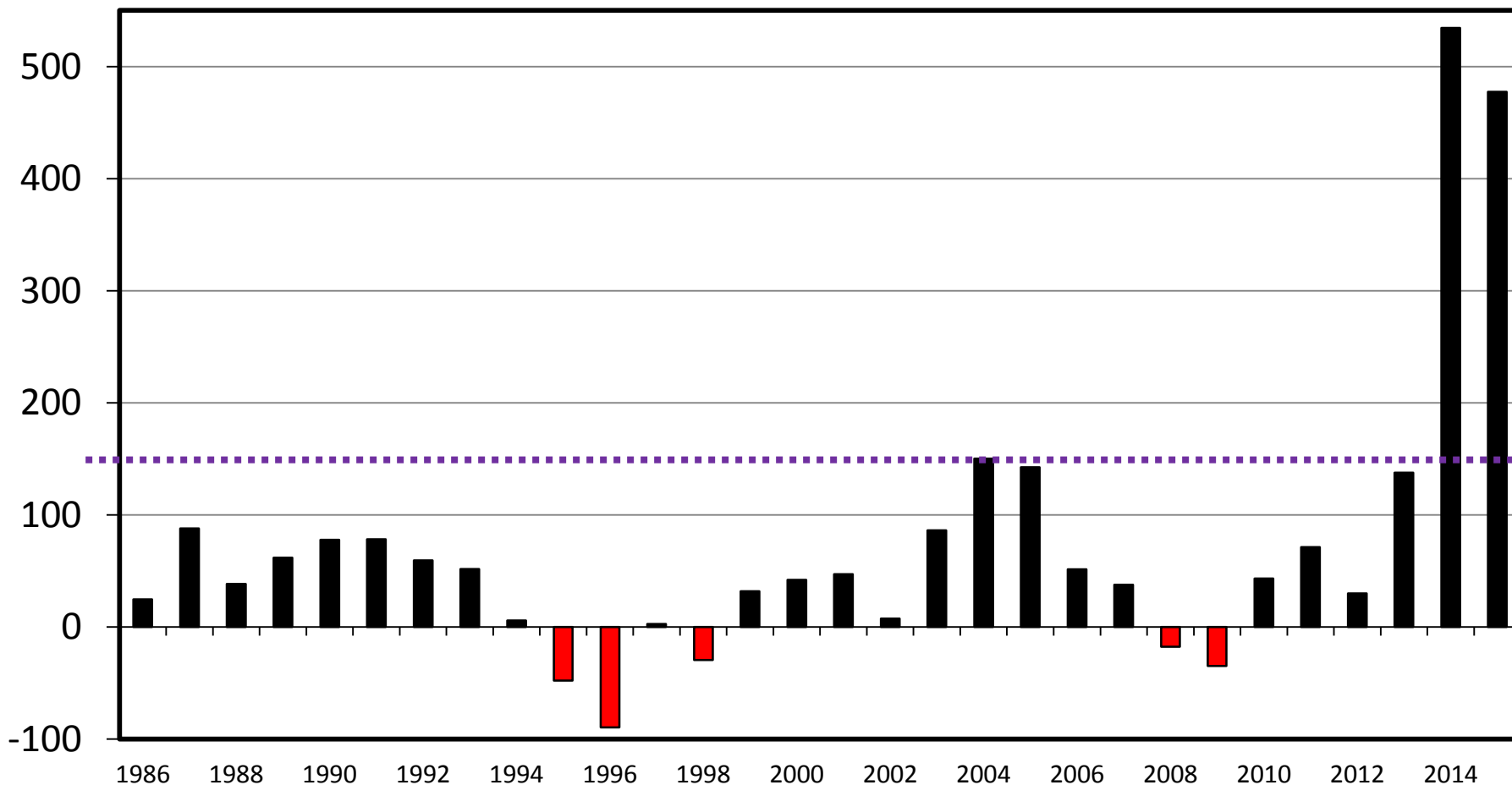
# Overarching Beef Industry Economic Outlook

- Supplies
  - Historically tight; herd expansion is underway
- Demand
  - Very strong in 2014; mixed signals to-date in 2015...
- Combined:
  - “Historic” price levels, excitement, & uncertainty...
    - Sets stage for our “risk management” discussion

# ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual

\$ Per Cow



Data Source: USDA-AMS, Compiled and Analysis by LMIC

Livestock Marketing Information Center

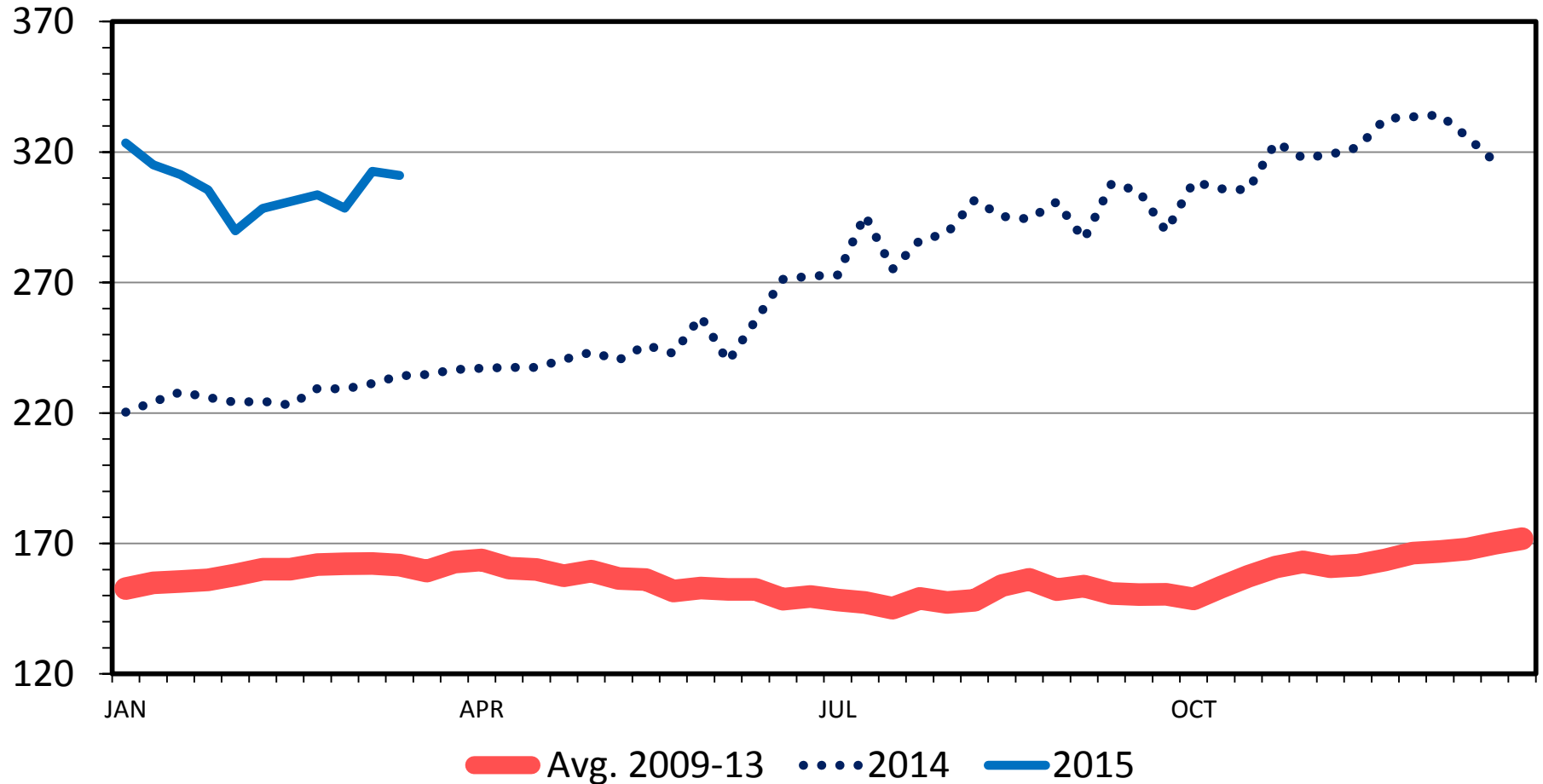
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# MED. & LRG. #1 STEER CALF PRICES

400-500 Pounds, Southern Plains, Weekly

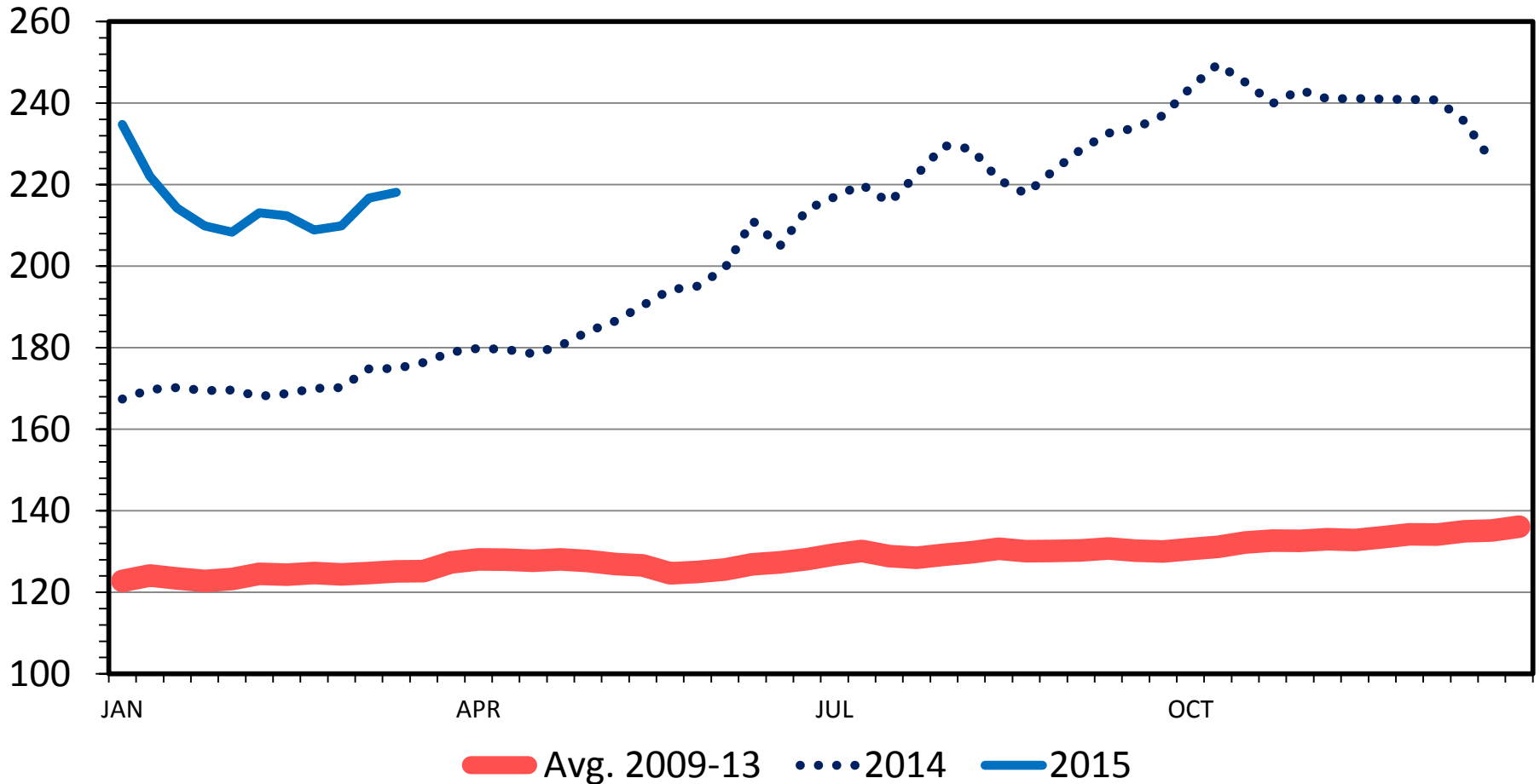
\$ Per Cwt.



# MED. & LRG. #1 FEEDER STEER PRICES

700-800 Pounds, Southern Plains, Weekly

\$ Per Cwt.



# Economic Outlook Overview: 2015 Fall Sales for Cow-Calf Producers

- Kingsville, MO 3/24/15 situation:
  - Sell 550 lb calf on 9/21/15 (\$232.49)

SEP FC:	\$216.65/cwt
<u>+ Exp. Basis:</u>	<u>\$ 15.84/cwt</u>
= Exp. Cash Price:	\$232.49/cwt

# Economic Outlook Overview:

## 2015 Fall Backgrounder/Stocker Producers

- Kingsville, MO 3/24/15 situation:
  - Buy 550 lb calf on 9/21/15 (\$232.49)
  - Sell 750 lb steer on 1/6/16 (\$203.13)
- VOG: \$122.41/cwt
- **IF COG \$90/cwt THEN Exp. Profit = +/- \$64/hd**



# Quarterly Forecasts (LMIC: 3/11/15)

		% Chg.	Average	% Chg.	Comm'l	% Chg.
Year	Comm'l	from	Dressed	from	Beef	from
Quarter	Slaughter	Year Ago	Weight	Year Ago	Production	Year Ago
2014						
I	7,375	-5.2	795.7	0.3	5,868	-5.0
II	7,836	-5.9	789.0	0.9	6,183	-5.1
III	7,630	-8.3	809.6	1.9	6,178	-6.5
IV	7,329	-8.8	821.7	2.8	6,023	-6.2
Year	30,171	-7.1	803.8	1.5	24,252	-5.7
2015						
I	7,115	-3.5	810.3	1.8	5,765	-1.8
II	7,626	-2.7	801.2	1.5	6,110	-1.2
III	7,492	-1.8	819.8	1.3	6,142	-0.6
IV	7,276	-0.7	823.0	0.2	5,988	-0.6
Year	29,509	-2.2	813.5	1.2	24,005	-1.0
2016						
I	7,169	0.8	817.1	0.8	5,858	1.6
II	7,399	-3.0	806.6	0.7	5,968	-2.3
III	7,654	2.2	827.1	0.9	6,331	3.1
IV	7,349	1.0	828.1	0.6	6,086	1.6
Year	29,571	0.2	819.8	0.8	24,243	1.0

# Quarterly Forecasts (LMIC: 3/11/15)

Year Quarter	Live Sltr. Steer Price 5-Mkt Avg	% Chg. from Year Ago	Feeder Steer Price Southern Plains	
			7-800#	5-600#
2014				
I	146.34	16.6	171.77	209.30
II	147.82	18.3	193.16	227.67
III	158.49	29.6	225.93	263.14
IV	165.59	26.6	239.81	285.63
Year	154.56	22.8	207.67	246.44
2015				
I	162-163	11.0	213-215	268-272
II	162-164	10.3	214-217	272-277
III	158-161	0.6	213-217	266-272
IV	159-163	-2.8	210-216	257-264
Year	160-163	4.5	212-217	265-272
2016				
I	159-164	-0.6	210-217	260-269
II	160-166	0.0	211-219	264-274
III	154-161	-1.3	207-216	260-269
IV	155-165	-0.6	204-215	251-263
Year	158-163	-0.6	209-216	259-269

# Risk Considerations: Quantitative Examples & Decision Aide Demo

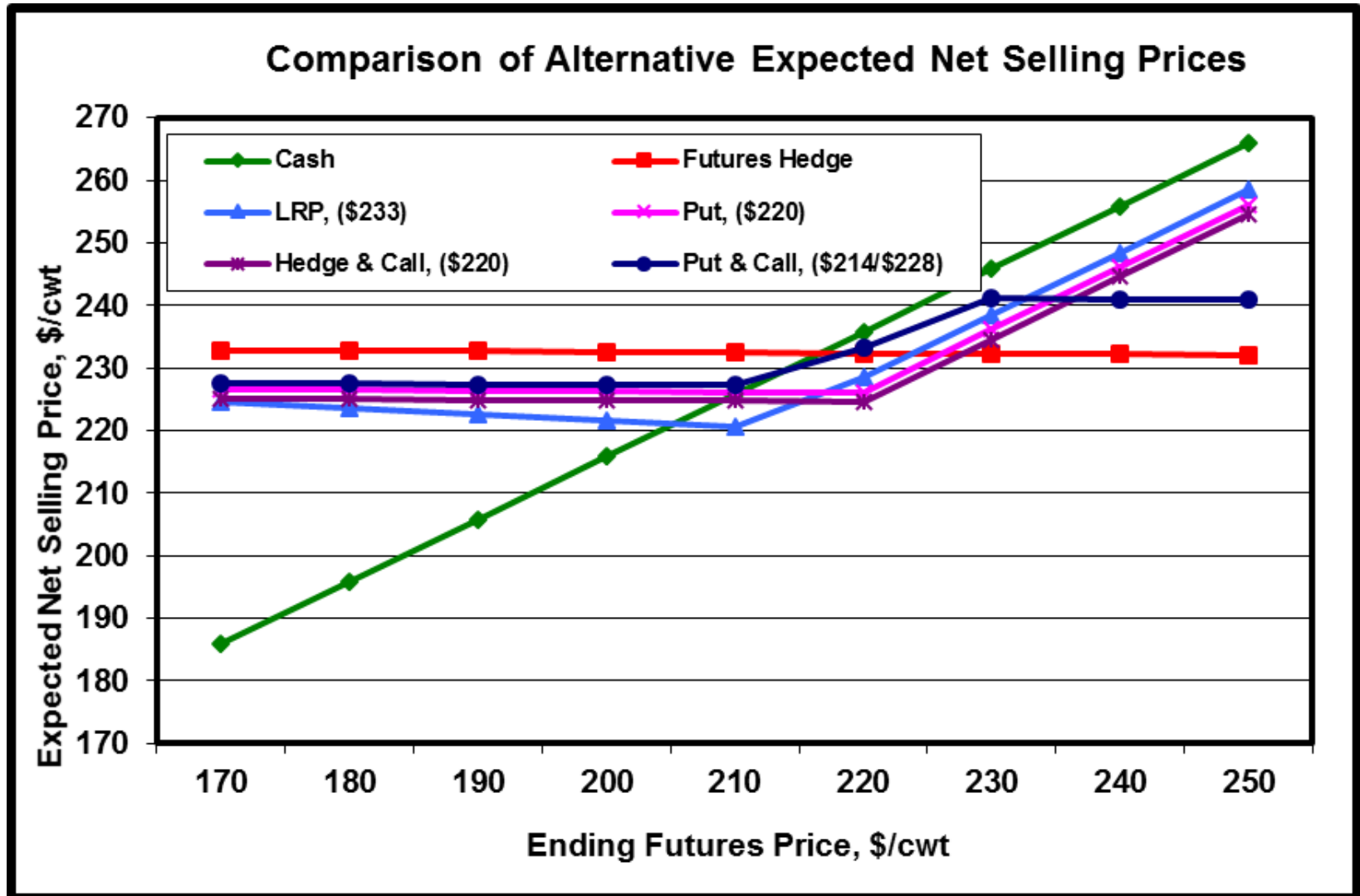
# Cow-Calf Output Price Hedging Considerations (as of 3/24/15)

- Kingsville, MO 3/24/15 situation:
  - Sell 550 lb calves on 9/21/15 (\$232.49)
- Considering price protection on Sep sale
  - Or for stocker, consider protection for buy in Sep
  - **USE: *FeederCattleRiskMgmtTool.xlsx***

# Cow-Calf Output Price Hedging Considerations (as of 3/24/15)

- Case of 90 hd @ 550 lbs =
  - Compare alternatives:
    - a) 90 hd on LRP, b) 1 FC Futures Contract (+/- 91 hd per contract), c) 1 FC Options Contract or d) Cash
  - SEP FC: \$216.65 & Exp. Basis: \$15.84 (Exp. Cash = \$232.49)
  - LRP Coverage Price: \$233.21 & Premium: \$7.373
  - SEP Put Option @ \$220.00: \$9.550 premium

# Cow-Calf Output Price Hedging Considerations (as of 3/24/15)



# LRP Parameters

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Item	LRP-Feeder Cattle	LRP-Fed Cattle
Type of cattle	Heifers, Steers, Brahman, or Dairy	Heifers or Steers
Weight Classification	Less than 600 Lbs. 600 - 900 Lbs.	10 – 14 Cwt. Yield Grade 1- 3
Coverage Levels	70-100%	70-100%
Coverage Price	Varies Daily	Varies Daily
Endorsement Length	13 weeks to 52 weeks (4 week intervals)	13 weeks to 52 weeks
Subsidy	13 Percent	13 Percent
Ending Value Based On....	CME Feeder Cattle Price Index	AMS 5-area weekly average direct slaughter cattle report
Max. Cattle Covered Per Submission	1,000 Head	2,000 Head
Max. Cattle Covered Per Crop Year	2,000 Head	4,000 Head

# Broad Risk Points

- Risk is two-sided
  - Price:
    - KS feedlots who hedged near placement did not have “record September 2014” closeouts
      - Would have avoided record losses in Jan. 2009 closeouts...
  - Health:
    - On-farm adverse ADG is bad to producer experiencing...
      - PEDv impact on pork supplies has been good for cattle producers
      - AI impact on trade and domestic meat supplies is bad for cattle prod.
- Generally, absorbing some risk is “necessary”



# Other Risk Considerations:

## “Global Factors”

- Adverse developments:
  - Geo-political risks
  - Global GDP forecast reductions
  - U.S. dependent on grain-fed preferences
  - U.S. Dollar strength = pressure on U.S. exports
  - Avian Influenza & Meat trade restrictions
- Positive developments:
  - Global population & income growth = + meat demand
  - U.S. maintains a comp. position in grain-fed beef globally

# Take-Home Summary Points

- Opportunity or Threat? “Same risks” are often viewed differently across people
- Some risks are quantifiable, many are not
- Everyone must appreciate:
  - Risks are two-sided
    - Mitigating risk is not free...
  - Your comparative advantage in selecting risks to accept

More information available at:



This presentation will be available in PDF format at:

<http://www.agmanager.info/about/contributors/individual/tonsor.asp>

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