



Enhancing profits while managing risk for 2008's calf crop

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Summer is a good time to start thinking of marketing the 2008 calf crop. Mandatory COOL will go into effect September 30, 2008, and packers and beef retailers will need to provide country of origin of the product they will be selling. Additionally, price conditions for cattle and corn in 2008 have defied all odds. Increasing corn prices since the 2007 corn harvest were expected to have a negative impact on feeder prices. Although early in 2008 feeder prices weakened somewhat, steady to increasing fed cattle prices have sustained feeder prices more recently. Indeed, feeder cattle futures for November or February delivery are quoted at just under \$119/cwt, and live cattle futures for June delivery are quoted for just under \$107/cwt. Apparently, cow numbers, heifer retention numbers and feeder calf supply adjusted sufficiently prior to the grain price hike, and demand remained steady enough to sustain high beef prices. The question in everyone's mind is: how long will consumers sustain beef demand when all economic indicators point to economic recession? Regardless of when this bubble bursts, market conditions for the fall of 2008 and winter of 2009 are providing unique opportunities for cow-calf producers to capitalize on high beef prices in spite of high production costs.

The question remains: when and how to sell the 2008 calf crop? Let's start by considering that in most upper Midwest states, the costs of carrying a cow a year have increased to nearly \$600. This means that at average weaning weights of 550 lb for an 85% calf crop, producers need to receive \$128/cwt to cover costs. Based on feeder and live cattle and corn futures, and utilizing prediction models available through www.beefbasis.com (a product of Kansas State

University, Custom Ag solutions, and USDA's Risk Management Agency), price prediction (\$122/cwt) for 500-lb calves would fall below breakeven price required to cover costs.

Because of implementation of COOL in the fall of 2008, and the increasing demand for cattle that are age- and source-verified, for the export market, cow-calf producers selling calves at weaning cannot afford not to ensure that calves go to market with at least an affidavit to verify origin. Additional premiums may be garnered by age and source verifying their 2008 calf crop. Many breed associations, state departments of agriculture and private firms offer age and source verification services for quite reasonable fees. Producers that have a premises registered and use ID tags, do not need to provide affidavits of origin.

In Minnesota, cow-calf producers are strongly encouraged to make arrangements with their veterinarian or a MN Board of Animal Health veterinarian to individually test feeder calves in preparation for fall sales. Although Minnesota has applied for a Split-State Status from USDA, there is no guarantee that this status will be granted by October 1. Due to the high volume of cattle that will require TB tests this fall, it is imperative that producers plan ahead to avoid getting caught having to sell untested cattle. Untested cattle cannot leave the state; thus, only buyers considering retaining these cattle within state borders will actively bid on untested cattle.

Due to high grain prices, economists have predicted that cattle feeders will bid more aggressively for heavier cattle to place in feedlots; thus reducing the price slide between

a 750- and a 550-lb calf. Indeed, prices predicted for 700- to 900-lb feeders sometime between January and April of 2009 range from \$105 to \$115/cwt. This represents an opportunity for producers who are able and willing to retain ownership through a backgrounding phase.

Assuming a sale weight of 800 lb at \$110/cwt and pricing the 500 lb steer at weaning at \$120/cwt leads to a \$280 gross margin. If less than 70% of this margin is used to cover feed costs, and other costs to background calves are kept to less than \$80/head (including \$40/head to age and source verify, TB and BVD PI test, spay heifers, and apply a backgrounded calf vaccination program), breakeven costs will result in less than \$105/cwt leading to profit potentials in the range of \$20 to \$40/head (not including potential premiums for age and source verified cattle).

For producers considering retaining ownership through slaughter, 2008-2009 may be the time to consider, assuming risk management strategies are implemented. The gross margin between a 500-lb and a finished steer is \$600/head. Although feed costs are expected to be high, cattle feeders in the Upper Midwest are close to feed sources that may keep feed costs to under \$400/head. Health costs and yardage should be maintained at below \$150/head to ensure a profit.

Because of the volatility of the markets, producers retaining ownership post-weaning are encouraged to look into at least future contracts. However, contracting for futures deliveries requires a minimum of 50,000 lb (100 500-lb feeders, 63 800-lb feeders or 42 1200-lb finished cattle). Thus, this may be the year that producer may consider joining together in marketing cooperatives to ensure price protection risk.

A review of elements of risk to be managed in 2008 include:

Premise ID and tagging to comply with COOL. (Take it a step further and proceed to age and source verify to comply with COOL and be eligible for potential premiums for exportable cattle.)

For Minnesota producers,

- plan to TB test all feeder cattle
- spay lightweight heifers
- assure quality and health of feeders by age and source verification, BVD PI test, and vaccination program

If wishing to retain ownership for a backgrounding/finisher phase:

- age and source verify cattle to comply with COOL and have access to potential premiums for exportable cattle
- protect from market price volatility by contracting feeders and feed
- ensure facilities can accommodate cattle comfortably (50 sq ft on concrete and 150 sq ft on well drained unsurfaced lots)
- water supply is clean (low sulfur content) and plentiful
- feed supply is priced so that total feeding costs are less than 70% of margin between projected gross sale and feeder sale price (per head), and it is in sufficient supply to cover feeding period
- a well planned health management program including weaning and pre-shipment vaccination is implemented