Cow Country Reporter

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Cattle Producers Of Louisiana
P.O. Box 886
Prairieville, Louisiana 70769
Website: www.lacattle.org
Toll Free: 888-528-6999

Dave Foster
Chief Executive Officer
info@lacattle.org

News from your CEO

Just when we thought the cattle market was working higher, BANG, another "Black Swan" event pops up. Russia's attack on the country of Ukraine put the brakes on the rising cattle prices. Cattle numbers coming out of the feedlot now and until May will be tight, which translates to higher "fat" cattle prices, however, the CME futures market (which the packers follow) does not follow fundamentals in supply and demand but reacts to world events such as weather, wars etc. therefore, prices turned and headed south in early March. Our Louisiana calves may be spared lower prices as buyers are looking for calves under 650 lbs. to put on grass and with the supply of calves lower this year coupled with a good demand, we may see higher prices. So, keep tuned to the market and be flexible with your marketing program. March 2 is the beginning of Lent, which used to be a big factor in the red meat demand, however, not so much today. March 13 we "spring forward" to Daylight Saving Time, setting our clocks ahead an hour gaining another hour of daylight. Don't forget March 17, St. Patrick's Day where everyone becomes IRISH for a day! March 20 is the first day of Spring according to the calendar, which for many of us in agriculture can't come soon enough. Speaking of these March dates, another old saying "If March comes in like a lamb it will go out like a Lion", March 1 was a pretty day so beware of the end of March. We need rain in many parts of the state to encourage our forages to grow and putting weight on our baby calves. Be watching the market prices and keep those calves alive and growing.

Dave Foster, CEO

Profit Maximization for Cattle Producers

By: Derrell S. Peel, Oklahoma State University Extension Livestock Marketing Specialist

With both revenues and costs rising, cattle producers must adjust cattle production and marketing to maximize profits. Economists model this decision mathematically resulting in the rule that profit maximization is the point at which marginal revenues equal marginal costs. This balance occurs when the value of the last unit produced equals the additional cost of producing that last unit. Of course, cattle producers don't use mathematical models to maximize profits but should use marginal thinking to adjust to changing market conditions. Marginal decision-making means that production is adjusted at the margin, i.e. with minor modifications and tweaks to production systems rather than major changes.

Higher revenues generally suggests that producers will try harder to increase production. This might mean, for example, a bit more time and effort to save an additional calf. Or it might mean more attention on cow body condition and supplement needs to ensure good pregnancy rates. Or it might mean culling fewer cows or breeding a few more heifers to expand production next year. Higher cattle prices and changes in feeder cattle prices by weight changes the value of forage and may impact producer decisions about producing weaning calves versus using forage to add additional weight to feeder cattle.

However, input costs for cattle production are higher as well. This implies that producers should think about cost adjustments at the margin as well. Higher fertilizer prices may mean that fertilizer use should be concentrated on the best hay meadows and pastures and cut back a bit on more marginally productive areas. Or it might mean additional effort to assess nutritional programs and identify feed alternatives to optimize feed costs. For example, extra efforts to store and feed hay with minimal waste are more important now.

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Profit Maximization for Cattle Producers

Specific circumstances for individual cattle producers will determine whether the net impact of higher revenues and higher costs is a need to cut back slightly on production, hold steady, or increase production. Producers more dependent on some inputs, such as fertilizer, may be more constrained in response to higher cattle prices, compared to, say, range-based ranches that use fewer purchased inputs. Although the decisions made will vary across different types of cattle production in different regions, all cattle producers should engage in the process of marginal adjustments in production and cost management.

There are short and long-run considerations and risks to be considered as well. Care should be taken that short term efforts to manage higher costs should not, for example, jeopardize herd health by cutting vaccination programs or skimping on nutrition and risking decreased future herd productivity. Markets are extremely volatile now and likely to remain so for the foreseeable future. Producers should consider the use of risk management to protect revenues and potentially use forward pricing or other means to manage input costs.

Value of gain vs What might be?

Make sure your cost of grain is more than the weight gain was worth.

By: Doug Ferguson

Every week when I write this column the thing that is top of mind is profit. When we are in the market for breeding stock we need to know and understand the difference between intrinsic value and actual value.

There is a way to sell value into the market and get paid more for it than what it is worth. Earlier this week there was an article on this website that suggested doing the opposite of that. Basing purchases off of old rules of thumb may be what led to statistics like cow/calf people only making money three years out of 10.

The article suggested selling five animals and using their combined value to buy a bull. The author used five weight steers, eight weight steers, and fats. First thing that stood out to me was the poor Value of Gain (VOG) on the eight weights. In that example he devalued his feed by putting the weight on those animals.

To put it a different way the cost of gain cost more than what the weight gain was worth. Then he used fats which are an over-valued animal. Here he added value to feed, and the feeder cattle that ate it. Then instead of capturing that goodness and putting some money in his pocket he suggests he can bid it away on a bull. Here we are, giving money and value away.

In his article there was no mention of cull value or a feed charge to the bull. If we are going to have a bull around for six years like he suggested that bull will get big and eat a lot. In my local area many people have their bulls shut up and are feeding them. With current hay prices an 1,800 pound bull will consume enough hay in five months to equal the value of a five-weight steer. If we aren't charging ourselves for this, we are giving away our feed.

I did my own calculation on what a bull is worth. I used the other author's bull to cow ratio, this week's kill value, and the conventional way of keeping bulls in Southeast Nebraska, meaning we're going to feed him hay for five months. I then charged the cowherd a breeding fee for his service. In this scenario the bull is worth $2,600.

Here's another thing, I think his bull to cow ratio is too low. If that is all he can cover we need to buy better bulls. If that is all we run him with and he isn't jumping the fence I would be concerned that he's not an aggressive enough breeder.

If we get more work out of our bull we can bump his purchase value up to $7,250. I know I can find a good bull for less than that, which brings me back to the profit motive. I'm not going to bid away all my margin and I'm going to get more value out of that bull than I paid for him.

Female sales were even more interesting this week than they were last week. The stockyards got more cows in than they were expecting.

One sale had only bred females advertised. They ended up with a bunch of pairs in the run. If you're going to take cattle into a special auction like this give them enough advance notice to get your stock advertised. There were no pair buyers in attendance at the sale and the little coupons running along side had no extra value. Some were even discounted bringing less than breds. Here we are again giving value away.

Some marketing experts will tell you to ship your cows into a better market. We need to do a better job vetting our experts, let's get that right. If that expert doesn't warn you about knowing the culture of selling bred stock or the area you plan to ship them too, ignore them.

There were train loads of females from the drought areas of WY and MT shipped into NE this week for these special female sales. The second calvers were the only ones that sold almost decent, bringing $400-$500 dollars back of local cattle the same age. The rest sold for $60 per head over the scale.

I know what it cost to ship cattle that distance, because I do it sometimes when I buy feeders. I know what it costs to sell cows on those special female sales because I do that sometimes too. This transaction netted five figures less for these guys than if they had just sold them at home for slaughter value. People you have got to put some effort into marketing.

If you're going to do this long haul stuff you've got to know what you're selling, the culture of the area, and how buyers will perceive what you're doing. These were nice looking cows, and a great buy for the person who bought them. Here we are again, another example of someone giving away value again this week.

If we are going to sell breeding stock right now it is clear what the buyers are demanding. If we are going to sell bred heifers they must weigh over 1,100 pounds and even better if they weigh over 1,200 pounds. (I get misquoted all the time. I didn't say they have to be that big, the market prices are saying that.)

The discount is so heavy for anything under 1,100 pounds you'd be better off to keep them and calve them at home.

Fat is the prettiest color a cow can be. Fat, bred cows are selling much better than plain cows. We all want our stock to be in working condition, and a mature weight of 1,250 pounds.

The thing is when we go to town and buy them we want them in show condition and big. As a seller the market signal is clear it is worth feeding the condition on them, even at today's feed costs. As a buyer there is

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Value of gain vs What might be?

value in the less conditioned cows. The one or two and done cows are looking like a super buy right now as well.

Did you notice how many times we left money on the table? This is an 80-100 billion dollar industry and money is left on the table like this all the time. Even our "experts" suggest leaving money on the table!

With market literacy, like what I teach at my schools, we can capitalize on these opportunities because they become easy to spot. These opportunities are exactly why a young person can get in on the ground floor and grow a business just like I did.

When I woke up yesterday morning and heard Russia invaded the Ukraine I thought the markets would get all scrambled. That didn't happen. The VOG held steady all week. The VOG is highest on cattle under 600 pounds. It is paying well to grow these cattle. It is also clear buyers are turning their noses up at cattle under 500 pounds as that is where the best VOG is. On cattle over 600 pounds VOG is getting pushed below COG. This is where we need to know and understand the difference between VOG and monetary gain. This is another place money is left and the table and the "experts" don't understand.

This week feeder bulls took a discount up to $20 back. Replacement heifers caught a $4-$11 dollar premium. And I did see some program cattle catch a $9 dollar premium.

Skyrocketing Feed Costs Are Just One of Two Major Headwinds for Livestock Producers This Year

By: Tyne Morgan

Corn and wheat prices started the week sharply higher, as the ongoing Ukraine-Russia crisis is now hindering trade out of the major grain production area. With uncertainty taking over the grain market, it's a double whammy for livestock producers who are facing higher feed costs, as inflationary pressures may create more headwinds on the demand side in 2022.

"Unfortunately, a lot of those producers in the West still have not recovered from this drought," says Chip Nellinger of Blue Reef Agri-Marketing. "They've maybe got some snow this past winter but not enough to bounce back fully."

With depleted resources for feed already at hand, and now sharply higher feed costs, Nellinger says the feed side of the equation is very uncertain for livestock producers.

"I think from Monday's snapshot with corn back limit up, it's obviously working on the feeder cattle market. I think the hog market has done a much better job of kind of keeping pace with the rise in the cost of corn and soy meal."

Nellinger says historically, if the bull move in grains continues into summer, cattle prices could follow suit.

"Historically, every time that's ever happened where we see new all-time-high type numbers with grains, it does drag the livestock markets with it eventually, even the feeder cattle market," he adds. "That happened in 2012. It happened in 2008."

While feed costs are one risk livestock producers face today, Nellinger says it's not the only risk for this year.

"I think another big risk, maybe not in the immediate term here, is do these high prices in the inflationary push, and/or higher interest rates, does that slow the economy down? I guess now you can add to that the sanctions that we're putting on economically to Russia. Does that cause kind of a hangover in the world economy? And so that's a big risk I see, potentially," says Nellinger.

Consumer Demand in Question

He says it's not clear whether that issue hits consumers a few months from now or even a year down the road.

"On the back side of this inflation, if that crushes the economy, crushes the consumer, then you have a demand issue, as well, and it could happen potentially at the same time that we have these high feed costs," he says.

He says the higher feed costs combined with the potential wrath of inflation, could be a headwind for livestock producers. And as a result, he thinks more liquidation could occur.

"We've been in a liquidation phase now for probably going on 18 months," says Nellinger. "There's really not much of an indication that that has slowed dramatically, yet, from both a cow and replacement heifer standpoint. So, I think the unfortunate answer to your question is, yes, this won't slow that down much. In fact, it might speed that up."

He points out the back side of that liquidation phase will be smaller cattle on feed numbers, which could turn into a bullish scenario for producers, eventually.

OSU experts say beef still an option on a tight budget

By Kate Gibson, MeatingPlace

Beef remains an option for consumers on a tight budget, despite elevated prices, according to experts at Oklahoma State University.

"From the beginning of the pandemic to the fourth quarter of 2021, choice box beef — which is the equivalent to a carcass level price — is up 2.8%," Derrell Peel, an OSU Extension livestock marketing specialist, stated.

"Even when you compare prices from the initial pandemic shutdown when meat packing plants closed and there were massive supply chain disruptions, our most expensive cuts of meat — such as the tenderloin and ribeye — were higher in 2021," Peel added.

Beef production will fall some from last year's record levels, leaving supply tight and prices high, Peel said.

Still, chuckeye, flat iron and tri-tip steak are more affordable cuts when fancy ribeyes at the butcher counter are too pricey, offered Joel Jackson, pilot plant manager at the OSU Robert M. Kerr Food and Agricultural Product Center.

2022 Off to a Roaring Start

Market is going to be extremely volatile over the next couple of months.

By: Richard Brock

Anyone not feeling stressed out about today's world is most likely not paying any attention to what's going on. Here are a few thoughts on what's impacting the livestock industry:

1. Inflation is at the highest level since the early 1980s, impacting food prices, labor costs, and almost everything the industry purchases.
2. Labor shortages in the livestock industry are a challenge for both producers and processors. Managing labor is most likely the biggest challenge facing the industry.
3. Steel prices have been on a roller coaster ride. Last year, equipment manufacturers were faced with steel shortages and skyrocketing prices. Now the trend has reversed with steel prices dropping sharply over the last two months. Many manufacturers are stuck holding inventory at high price levels above where the market is now trading. In manufacturing industries, it is frequently more challenging for management during falling markets than during higher markets.
4. The South American drought has been headline news for the last two months. Now entering the end of the production cycle, this will become a less dominant feature that has still certainly had a major impact on soybeans, soybean meal, and soybean oil prices.
5. The Ukrainian/Russian conflict is having a very substantial impact on prices. Ukraine accounted for 13% of the world's corn exports last year, and Russia and Ukraine combined accounted for 28% of the world's wheat exports.
6. Bull markets in corn and soybeans will result in strong competition for planted acreage this spring. There just aren't enough acres to go around. It should come as no surprise to anyone that soybean acres are going to be up and corn acres down. The question is, by how much?
7. The pork industry is being challenged with a new strain of PRRS (porcine reproductive and respiratory syndrome). Estimated production losses in Minnesota are about 6%. This could take two years for a complete recovery.

These are just a few of the highlights. At some point, and probably soon, the corn and soybean markets will act like the steel market, going from a major bull to a major bear. Commodity funds hold the vast majority of long positions in both markets. Commercials hold the vast portion of the short position. It's like a rubber band ready to pop. When the trend turns it will do so abruptly and will likely do so before planters start to roll. The market is going to be extremely volatile over the next couple of months.

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P.O. BOX 886
PRAIRIEVILLE, LOUISIANA 70769
WEBSITE: WWW.LACATTLE.ORG
TOLL FREE: 888-528-6999