

Should I Buy Stocker Calves This Fall or a Fishing License?

*Ona Report Webinar
September 15, 2016*

Chris Prevatt
University of Florida
Livestock and Forage Economist

Stocker Marketing Options



- We must consider:
- 1) Stocker Production Programs
 - 2) Cost of Production
 - 3) Value of Gain
 - 4) Marketing
 - 5) Risk Management

Let's Talk About Stocker Production Programs



Stocker Production Programs

**** EVERY OPERATION IS A LITTLE DIFFERENT!**

**** INDIVIDUALS MUST SEEK OUT THEIR COMPETITIVE ADVANTAGE!**

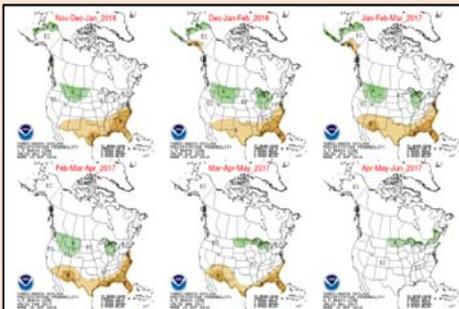
- Class of Animal (breed, age, weight, sex, quality)
- Length of Grazing Period
- Time of the Year (Fall to Spring, etc.)
- Feedstuff (Forage, Supplement, Minerals)
- Land Resource
- Labor Availability
- Market Outlook (Cattle Cycle)
- Weather
- Other Factors of Production

Stocker Production Programs

- Fall to Spring
 - Winter Annuals (Ryegrass, Rye, Oats, Clovers)
 - Winter Annuals with Supplementation
 - Stockpiled Forage with Supplementation
 - Fescue + Clover
 - Dry-lot
 - Contract Graze Elsewhere
 - Others

These are just a few alternatives types of Stocker Production Programs for this time period.

Stocker Production Programs





Let's Talk About Cost of Production

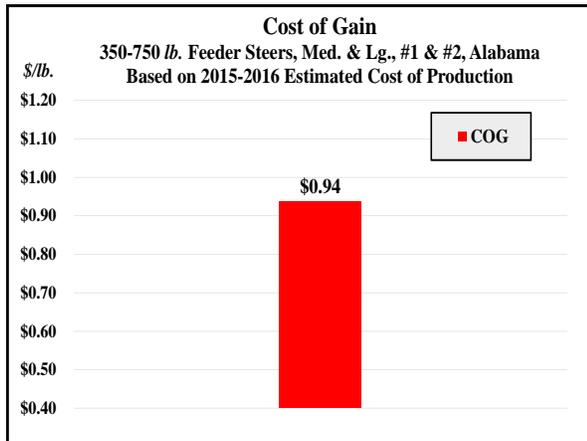
Let's Talk About Cost of Production

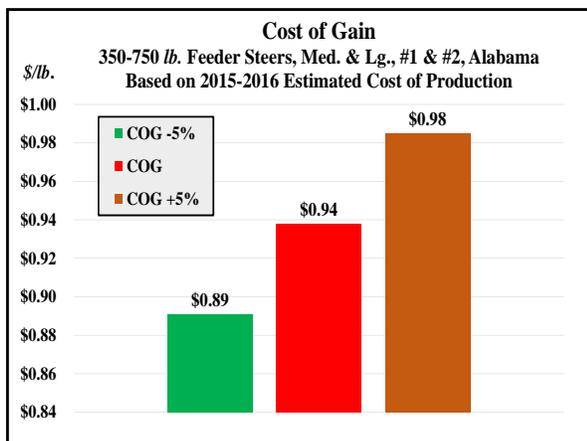
- Stocker Budget
- Cost of Gain
- Breakeven Price
- Price Objective

60 HEAD, STOCKER-STEER BUDGET (WINTER GRAZING - MEDIUM WEIGHT CALVES);						
ESTIMATED COSTS AND RETURNS, USING RECOMMENDED MANAGEMENT PRACTICES:						
450	1.80	875	1.50	1.00		
LBS. BEG. WT.	LBS. ADDL.	LBS. STOCKED/DAC.	HD. STOCKED/DAC.	% DEATH LOSS	TOTAL DAYS STOCKER PROGRAM	MAY FUTURES CONTRACT PRICE
		45	30		45	\$215.36 PER CWT.
					30	MAY FEEDER CATTLE BASIS
					794	LBS. ENDING WEIGHT W/ 2% SHRINK
						\$12.00 PER CWT.
ALABAMA, 2014-2015						
ITEM	HEAD	UNIT	QUANTITY	PRICE OR COST/UNIT	TOTAL VALUE/COST	\$/HEAD SOLD % OF TOTAL
1. GROSS RECEIPTS						
FEEDER CATTLE	59.00	CWT.	7.94	203.35	95,261.34	1614.60 100.00%
2. VARIABLE COST						
STOCKER CALVES	60.00	CWT.	4.50	250.00	70,200.00	1189.83 75.08%
WINTER GRAZING		ACRE	40.00	194.81	7,792.40	132.07 8.33%
SALT & MIN.		CWT.	22.50	30.00	675.00	11.44 0.73%
HAY		TON	9.00	100.00	900.00	15.25 0.96%
VET & MED.		HD.	60.00	25.00	1,500.00	26.44 1.67%
STARTER/RECEIVING FEED		TON	2.10	275.00	577.50	9.79 0.62%
BACKGROUNDING FEED		TON	8.75	175.00	1,531.25	26.02 1.66%
SUPPLEMENTAL FEED		TON	4.50	175.00	787.50	13.35 0.84%
LABOR		HOUR	240.00	12.00	2,880.00	48.81 3.09%
LAND RENTAL		ACRE	40.00	20.00	800.00	13.56 0.86%
MARKETING EXPENSES		HD.	50.00	32.25	1,612.50	26.25 1.64%
BEEF PROMOTION FEE		HD.	59.00	2.00	118.00	2.00 0.13%
EQUIPMENT REPAIRS		DOL.			127.16	2.16 0.14%
INTEREST ON OP. CAP.		DOL.	46,635.00	0.0575	2,681.51	45.45 2.87%
TOTAL VARIABLE COSTS					92,185.65	1562.47 98.50%
3. INCOME ABOVE VARIABLE COST					3,075.79	52.13
4. FIXED COST						
GENERAL OVERHEAD		HD.	60.00	2.50	150.00	2.54 0.16%
WINTER GRAZING		ACRE	40.00	1.66	664.00	5.19 0.33%
INT. ON BLDG. AND EQUIP.		DOL.	3,778.38	0.0650	245.59	4.16 0.26%
DEPR. ON BLDG. AND EQUIP.		DOL.			567.80	9.63 0.61%
OTHER F.C. ON BLDG. & EQUIP.		DOL.			49.24	0.84 0.05%
TOTAL FIXED COSTS					1,319.24	22.36 1.41%
5. TOTAL COST OF ALL SPECIFIED EXPENSES					93,504.79	1584.83 100.00%
6. NET RETURN ABOVE TOTAL COSTS					1,266.65	20.77

Cost of Gain

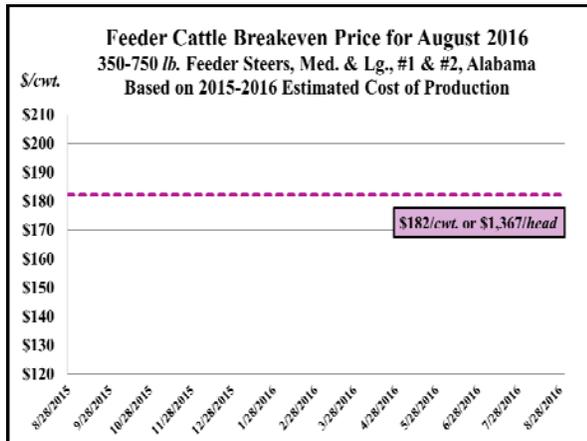
- **Cost of Gain, \$/lb.** – the sum of production costs (variable and fixed) plus death loss divided by the weight gain of the feeders.
- For example, in the fall of 2015 if 70 head of 350-lb. stocker steers were purchased, grazed and supplemented for 240 days, incurred production costs of \$24,500 (\$350/head) with a death loss of \$1,397 (2% * \$69,825) and realized a total weight gain of 27,600 pounds (69 head * 400 pounds of gain), the cost of gain would total \$25,897 or \$0.94/lb. (\$25,897/27,600 lbs.) for feeder steers with a sale weight of 750-lbs.





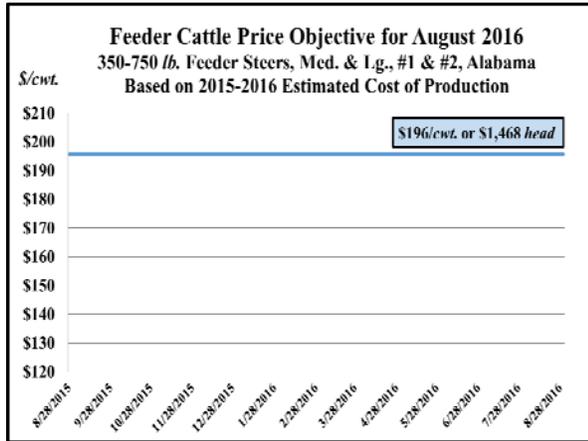
Cost of Production

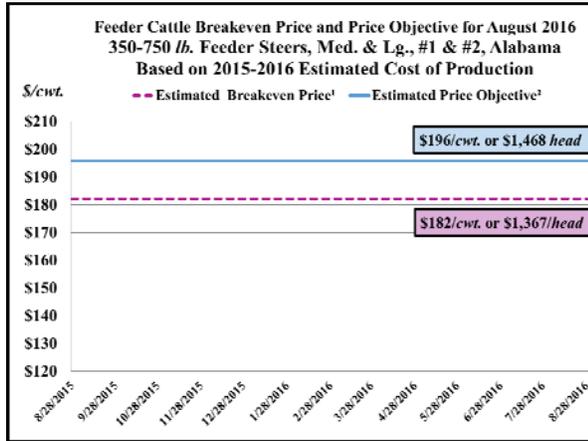
- **Breakeven Price** – the sum of production costs (variable and fixed) divided by the sale weight of the feeders.
- For example, in the fall of 2015 if 70 head of stocker steers were purchased at \$69,825 (\$998/head or \$2.85 * 350 lbs.), production costs were \$24,500 (\$350/head), the total breakeven price would be \$94,325 (\$1,367/head or \$182/cwt) for feeder steers with a sale weight of 750-lbs.



Cost of Production

- **Price Objective** – the sum of production costs (variable and fixed), family living withdrawal, and growth capital/retirement divided by the sale weight of the feeders.
- For example, in the fall of 2015 if 70 head of stockers were purchased with a breakeven price of \$94,325, a family living withdrawal of \$3,500 was desired, and \$3,500 for growth capital/retirement saving, the total price objective would be \$101,325 (\$1,468/head or \$196/cwt.).





Let's Talk About Marketing



Let's Talk About Marketing

- Market Outlook
- Cattle Cycles
- Seasonal Price Trends
- Expected Cash Price

Figure 1. U.S. Cattle and Calves Inventory, January 1, 1949-2016

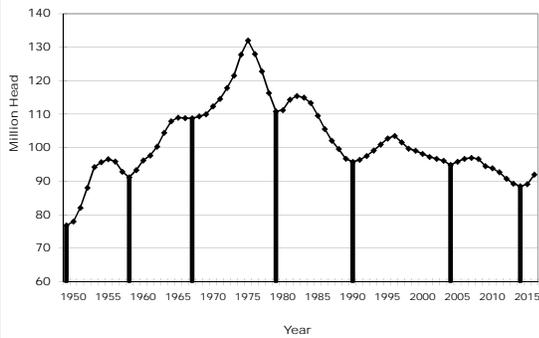
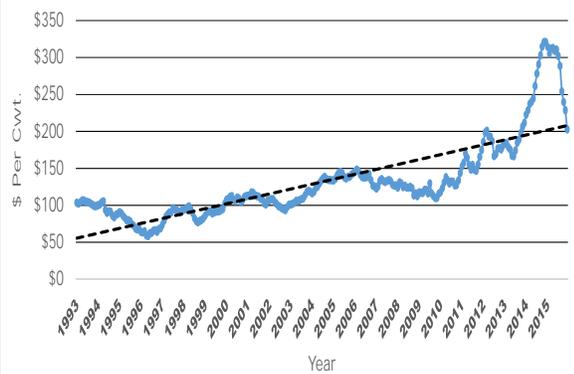
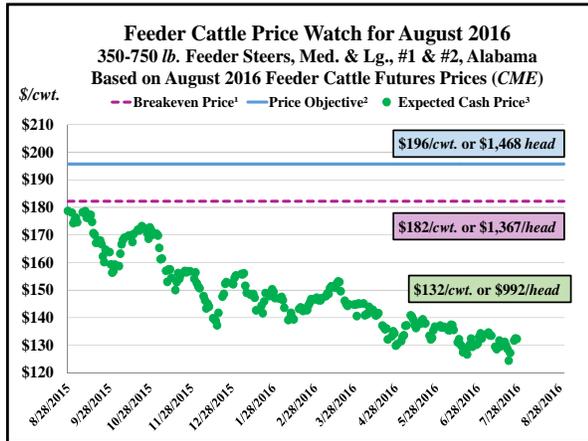
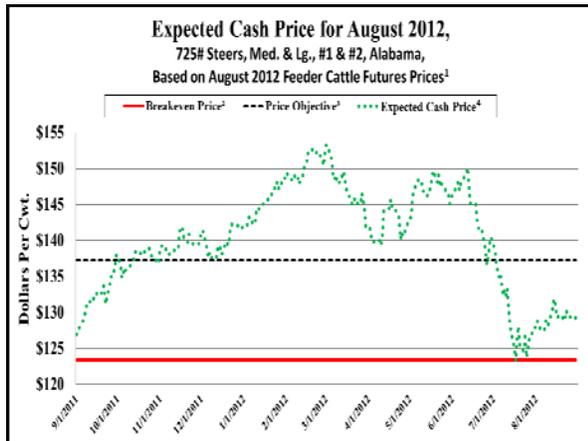


Figure 2. U.S. Average 450-Pound Steer Prices By Month, 1993-2015



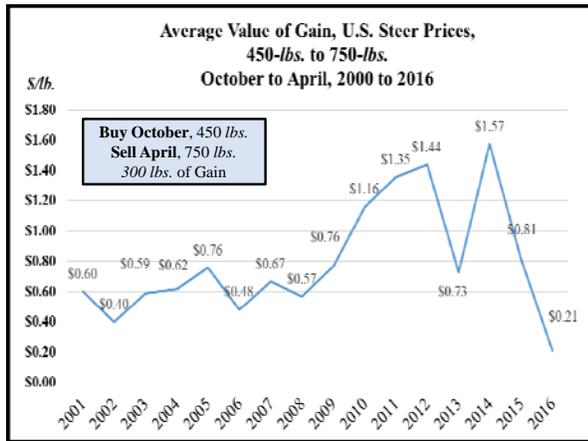




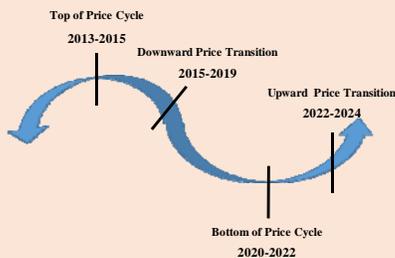
Let's Talk About Value of Gain

Let's Talk About Value of Gain

- Historical Value of Gain
- Value of Gain by Cattle Price Cycle Segment
- Monitor Value of Gain During Production Period
- Example Net Value of Gain Analysis



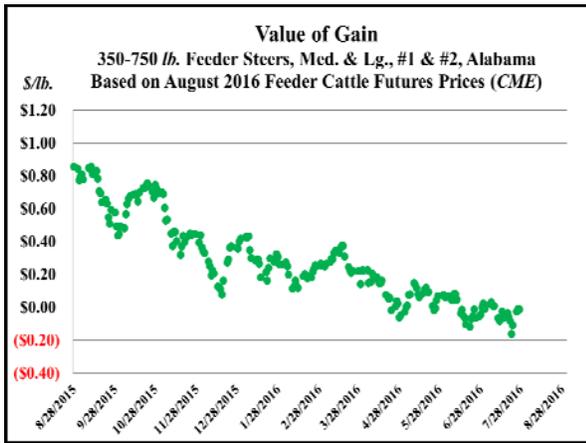
Feeder Cattle Expected Value of Gain and Profitability by Segment of the Cattle Price Cycle, 2013-2024*

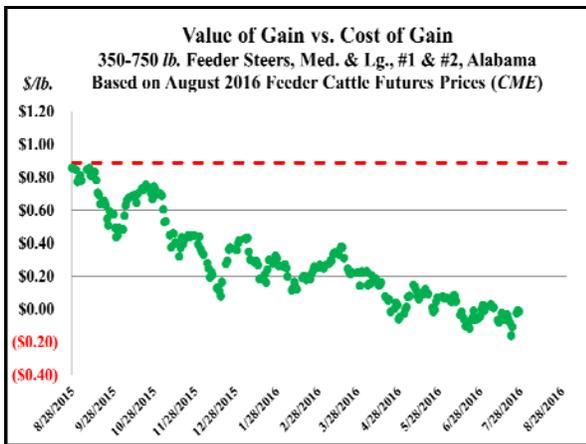


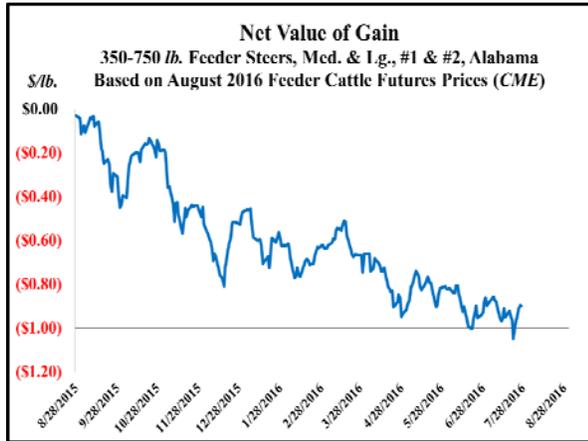
Feeder Cattle Expected Value of Gain and Profitability by Segment of the Cattle Price Cycle, 2013-2024*

Segment of Cattle Price Cycle	Expected Value of Gain	Expected Profitability
Top of Price Cycle (2013-2015)	Moderate VQG	Profits/Losses
Downward Price Transition (2015-2019)	Low VQG	Significant Losses
Bottom of Price Cycle (2020-2022)	Moderate VQG	Profits/Losses
Upward Price Transition (2022-2024)	High VQG	Significant Profits

* These are projections by the author as of June xx, 2016. The author reserves the right to revise these projections as new economic information becomes available.







Example Net Value of Gain Analysis:

Should I Buy Stockers This Fall or A Fishing License?

Table 1. Fall to Spring Stocker Cattle Economic Evaluation, 2016-2017.

Assumptions:	
Steers Sex of Stocker Calves	
9/15/2016 Expected Purchase Date	
350 Expected Purchase Weight, lbs.	
\$1.45 Expected Purchase Price, \$/lb.	
150 Number of Head	
100 Number of Grazing Acres	1.50 head/acre
5/15/2017 Expected Sale Date	242 Days
750 Expected Sale Weight, Shrunken lbs.	1.65 ADG
4.00% Expected Death Loss & Chronics, %	
\$0.85 Expected Total Cost of Gain, \$/lb. *	
\$0.10 Potential Change in Cost of Gain, \$/lb.	
8/1/2016 Today's Date	
May 2017 Feeder Cattle Futures Contract Month & Year	
\$133.80 Feeder Cattle Futures Contract Price	
-\$10.00 May 2017 Estimated Feeder Cattle Basis, \$/cwt.	Steers 750 lbs.
\$123.80 May 2017 Expected Feeder Cattle Cash Price, \$/cwt.	

Example Net Value of Gain Analysis:

Should I Buy Stockers This Fall or A Fishing License?

Summary of Basic Stocker Data

	Number of Head	Weight /Head	Total Weight	Market Price	Total Dollars	Dollars /Head	Dollars /Acre
Stocker Calves	150	350	52,500	\$1.45	\$76,125	\$507.50	\$761
Feeder Cattle	144	750	108,000	\$1.24	\$133,704	\$928.50	\$1,337
Difference	-6.0	400	55,500	-\$0.21	\$57,579	\$421	\$576

Example Net Value of Gain Analysis:

Should I Buy Stockers This Fall or A Fishing License?

Value of Gain Analysis				
Value of Gain Per Pound	\$133,704	-	\$76,125	= \$1.04
			55,500	
Value of Gain Per Head	\$133,704	-	\$76,125	= \$400
			144	
Value of Gain Per Acre	\$133,704	-	\$76,125	= \$576
			100	
Value of Gain	\$133,704	-	\$76,125	= \$57,579

Example Net Value of Gain Analysis:

Should I Buy Stockers This Fall or A Fishing License?

	<div style="border: 1px solid black; padding: 2px;">\$0.85</div>			<div style="border: 1px solid black; padding: 2px;">\$0.95</div>		
	Value of Gain	Cost of Gain	Net Value of Gain	Value of Gain	Cost of Gain	Net Value of Gain
\$ Per Pound	\$1.04	\$0.85	\$0.19	\$1.04	\$0.95	\$0.09
\$ Per Head	\$400	\$328	\$72	\$400	\$366	\$34
\$ Per Acre	\$576	\$472	\$104	\$576	\$527	\$49
Total \$	\$57,579	\$47,175	\$10,404	\$57,579	\$52,725	\$4,854

*Total cost of gain is total variable and fixed costs (not including stocker value) divided by total pounds of gain.

Let's Talk About Risk Management



Let's Talk About Risk Management

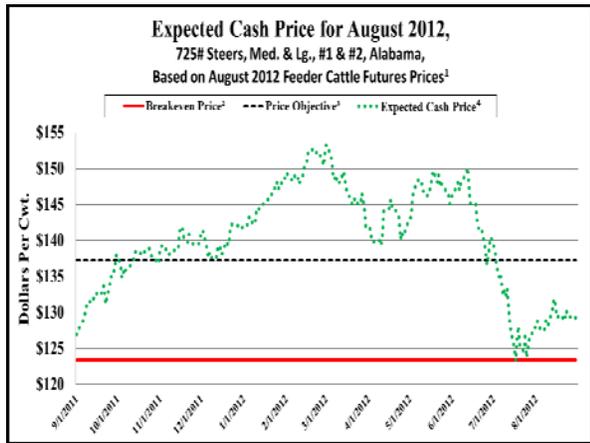
- Be A Low-Cost Producer
- Diversify Your Enterprises
- Have An Off-Farm Job
- Use Seasonal Price Trends
- Use Some Form of Market Price Protection
- Monitor Price Opportunities (BE, PO, VOG)
- Average Market Price Over Time
- Others...

Feeder Cattle Risk Management

- Be a low-cost producer
 - Lowers Breakeven Price and Price Objective
 - Lowers Potential Financial Loss
 - Improves the Opportunity to use Price Protection
 - Improves Profitability
 - Others....

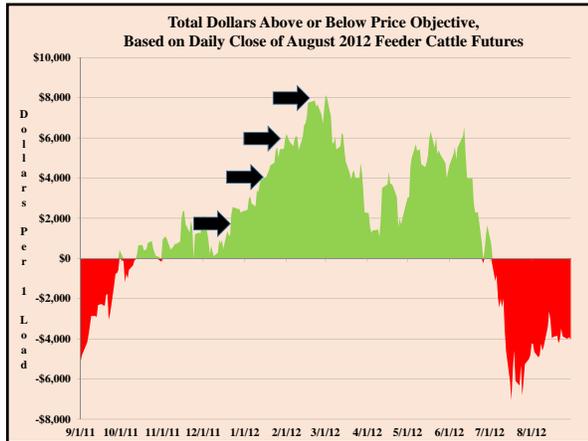






Feeder Cattle Futures Contracts
 To Protect Against Falling Prices

- **Short Hedge** – is to sell a feeder cattle futures contract and then buy it back at the time you sell the feeder cattle in the cash market.
- **Put Option** – is to buy a put option on a feeder cattle futures contract. The put option entitles you the right, but not the obligation, to short hedge the feeder cattle at a selected strike price.





**Should I Buy Stocker Calves
This Fall or a Fishing License?**

*Ona Report Webinar
September 15, 2016*

Chris Prevatt
University of Florida
Livestock and Forage Economist
