Some Considerations for Cattle Producers
Agra Holdings

Midwest PMS
Northern Colorado Feeds
The Cow Feed Company
Biegert Feeds
Scott Pro
Kansas Feeds

1. Feedlot Nutrition & Business Consulting
2. Nutritional Supplement Sales
3. Sellers of Commodity Liquid Feed Ingredients
4. Cattle Feeders
The More Things Seem to Change the More Things Stay the Same

• Has the ability to forecast future prices from estimated fundamentals changed?

• How do I protect my by-product input price risk when suppliers only price it to me a month or two at a time?

• The Cattlemen’s Serenity Prayer
The More Things Seem to Change
the More Things Stay the Same

Has the ability to forecast future prices from
estimated fundamentals changed?
Indexes developed by the IMF, both annually and monthly (above) show that the three major classes of commodities—agricultural, food, and metals—have begun to correlate with the index for energy. But important differences remain.
Within a crop year, supply-demand fundamentals for any given crop can overwhelm the correlation with energy, as shown above for corn and soymeal.
When you are trying to make payroll and pay the utility bills, “short term volatility trumps trend every time!”
So What About Cattle, Corn & Hay?
Nearby Corn and Live Cattle Futures

2000 – 2005 R^2 = .002

2006 – 2011 R^2 = .581

Nearby Corn Futures, Cents Per Bu

Nearby Live Cattle Futures, $ Per Cwt

R^2 = .581
Nearby Corn and Choice Beef Cutout

Nearby Corn Futures, Cents Per Bu

Choice Beef Cutout, $ Per Cwt

Nearby Corn
Choice Beef Cutout
Nearby Corn and Feeder Cattle Futures

Nearby Corn Futures, Cents Per Bu

Nearby Live Cattle Futures, $ Per Cwt


Nearby Corn Futures, Cents Per Bu

Nearby Live Cattle Futures, $ Per Cwt


Weekly Average Nearby Corn Futures and Feeder Steers
7-800 lb. Oklahoma City

Weekly Nearby Corn Futures
7-800 lb. Feeder Steers, OKC, $ Per Cwt
Something To Consider

• As long as this type of co-variance lasts, has anything *really* changed in the last five years?

• Yes

• Equity requirement per unit of production (per head) – you need about double the amount of money to operate

• Your return on assets deployed has decreased & will continue to decrease unless net profits/unit also double
So What?

• The prices of commodities are greatly impacted by the macro economic environment, and local weather’s affect on international crops.

• The effectiveness of forecasting future prices based from underlying fundaments has greatly decreased.

• Managing for a margin is much more important than at anytime in the past.
The More Things Seem to Change
the More Things Stay the Same

Alternative Thoughts on Pricing By Products
The more things seem to change, the more things stay the same. How do I protect my input price risk when suppliers only price it to me a month or two at a time?

Distiller Dried Grains, IL to CBOT Corn 10-yr

$R^2 = 0.944$
Cottonseed Meal, Mid-South to CBOT SBM 10-yr

R² = 0.9627
$R^2$ - Cottonseed Meal Mid-South to Soybean Meal CBOT

Graph showing $R^2$ values from January to December, with a peak in April and a general decline thereafter.
Rational Investing

Can the Cattle Business Deliver?
Risk vs. Reward

Risk vs. Reward

Volatility

Return

Brands

Grocery

Meats

Airline

Feeding

Lumber

4

7

10

4

7

10

50

76

155

Lumber

Feeding

Airline

Meats

Grocery

Brands

Volatility
The Serenity Prayer for Stocker Operators

God, help me not to worry about the things I can’t control.
Give me the judgment and strength to work hard on the things I can control.
And give me the wisdom to know the difference between the two.
What is the typical difference in the number of strokes between a great golfer and average golfer?
What Risk Can Be Controlled?

• Market
  – Purchase price of cattle & feedstuffs
  – Hedging (cattle and grain or by-products)
  – Incremental selling price

• Production
  – Performance
  – Consistency of performance
  – Cost
    • Animal production
    • Farm operating
550 wt st – 850 lb – $230 ration

• 0.3% or 50 cents on Purchase =  $4.40 per hd
• 5% on feed = 1.72
• 0.25% on death loss = 2.24
• 0.4% or 50 cents/cwt Hedging = 4.25
• 0.4% or 50 cents on Sales = 4.25
• Total = $16.86 per hd

• 2.56 % increase on annualized ROI
Value Intangibles

• Personal reputation
  - Honesty
  - No surprises
  - Equitable sharing of risk
  - Realism about how much skin I have in the game.
Things to Consider

• Protecting margins has become more important as all commodity prices are being increasingly driven by macroeconomic fundamentals.

• Protecting your feed cost price risk can be achieved, but the tools available are not perfect; and they do take some effort to understand and manage.

• Focusing upon those things that you can control, and mitigating the risk of those things you can’t control, allows Stocker Operators in the Mid-South to yield acceptable returns on their investments.
Good or bad is a function of alternatives, and choice (low or high risk).

Everything else is a function of how well it is managed.

We must measure against reality.