

Some Considerations for Cattle Producers



Agra Holdings

Midwest PMS

Biegert Feeds

Northern Colorado Feeds

Scott Pro

The Cow Feed Company

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

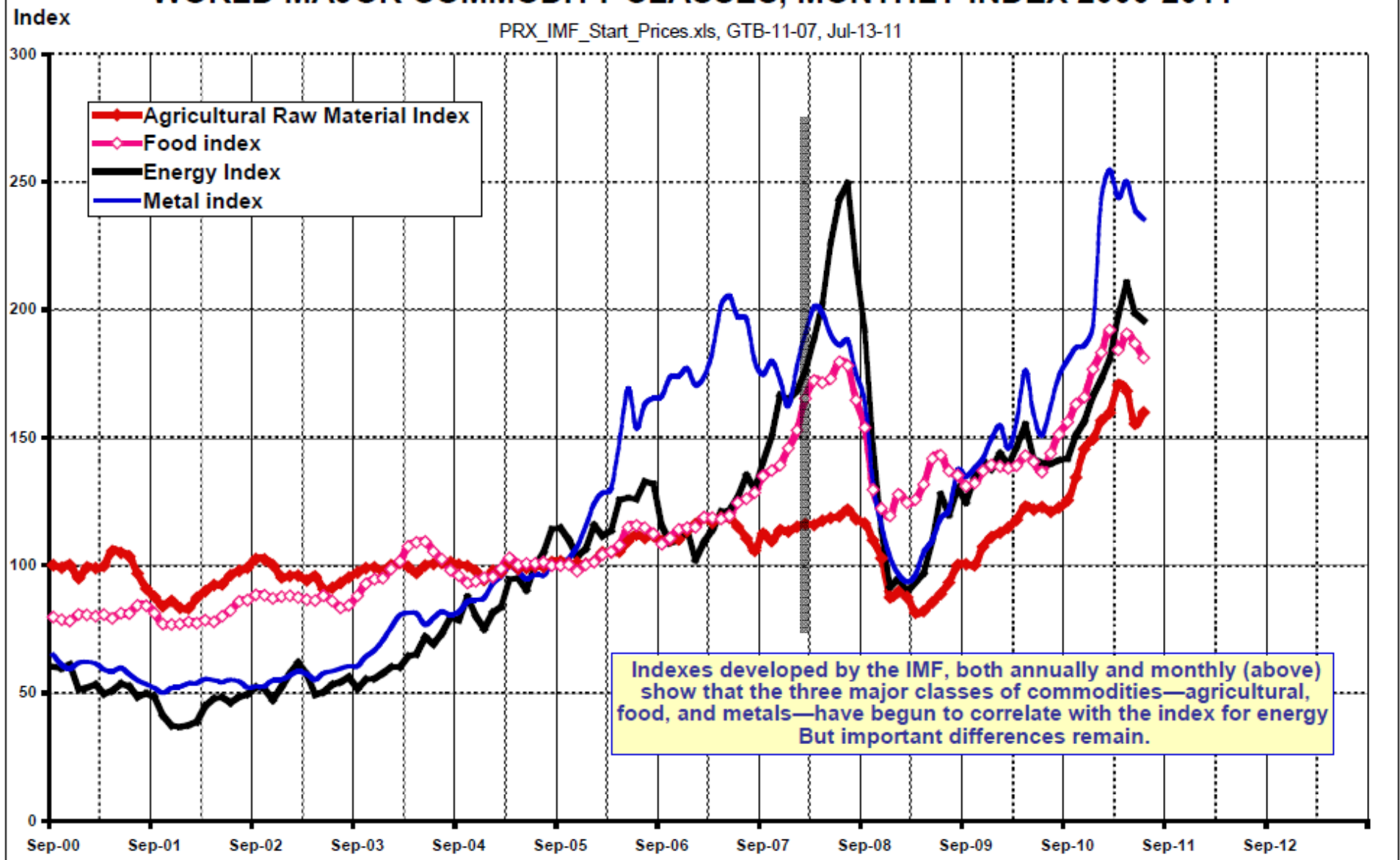
- Has the ability to forecast future prices from estimated fundamentals changed?
- How do I protect my by-product input price risk when suppliers only price it to me a month or two at a time?
- The Cattlemen's Serenity Prayer

The More Things Seem to Change
the More Things Stay the Same

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

WORLD MAJOR COMMODITY CLASSES, MONTHLY INDEX 2000-2011

PRX_IMF_Start_Prices.xls, GTB-11-07, Jul-13-11

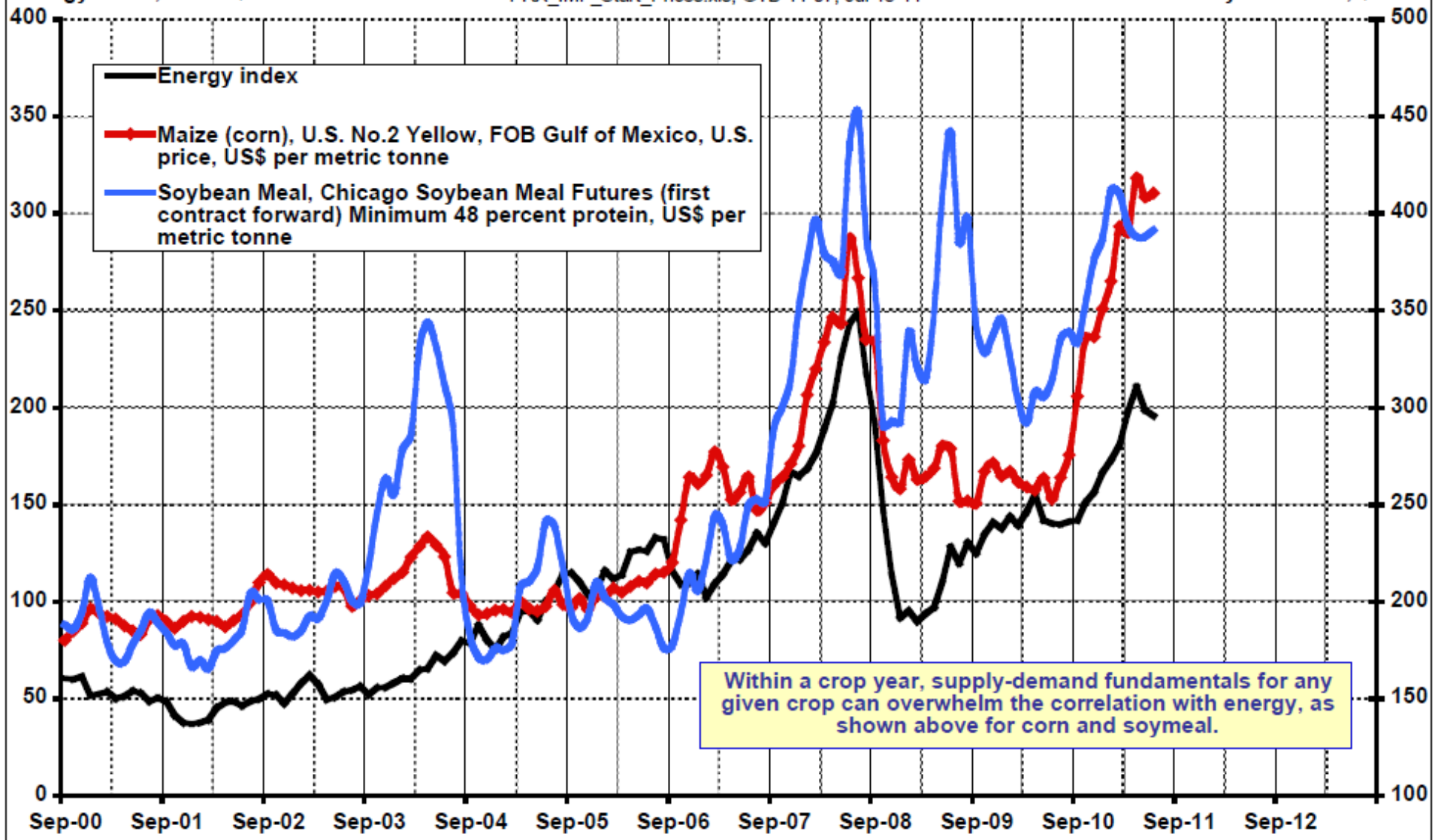


CORN & SOYMEAL vs. ENERGY INDEX, MONTHLY, 2000-2010

Energy Index, Maize \$/mt

PRX_IMF_Start_Prices.xls, GTB-11-07, Jul-13-11

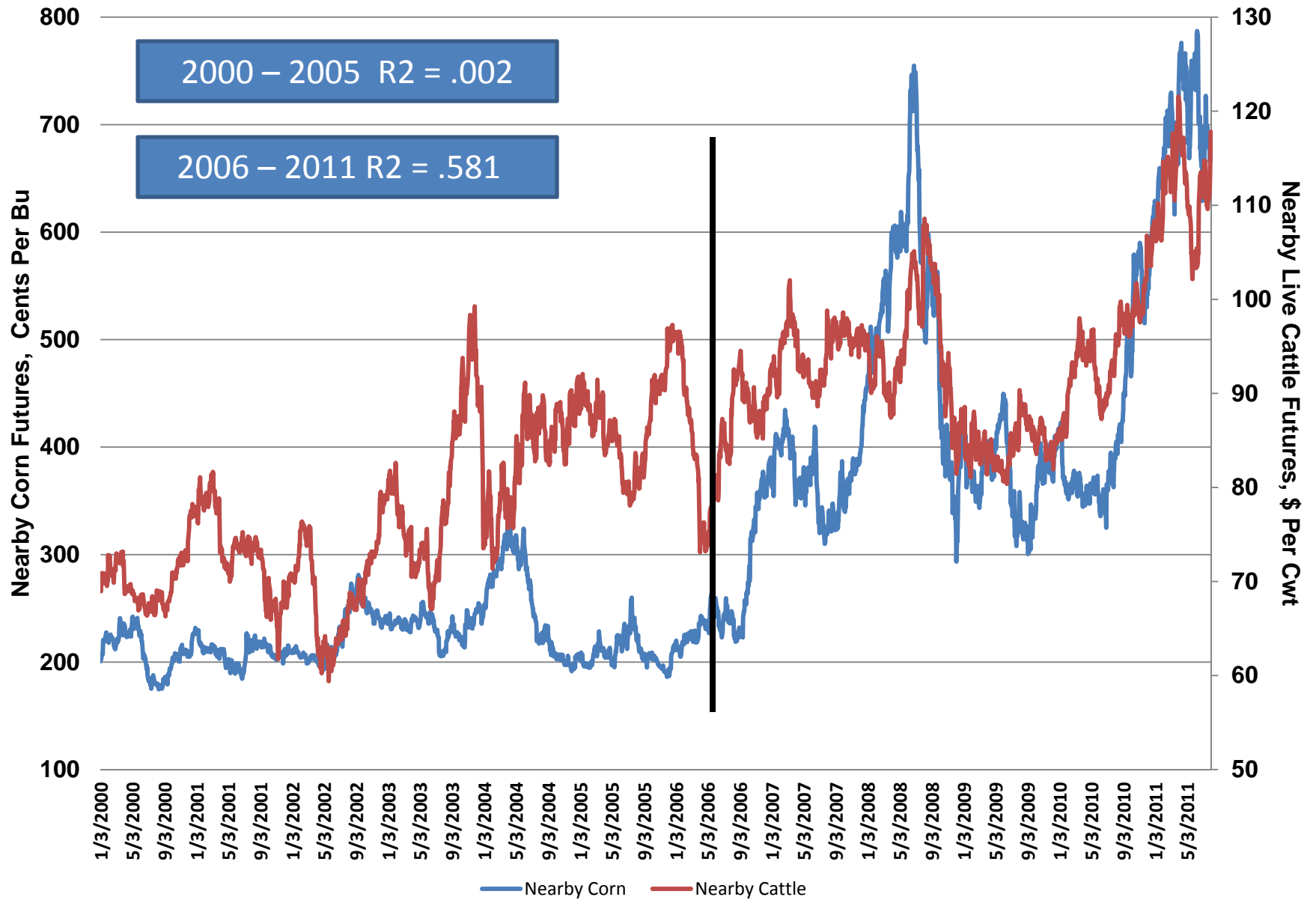
Soybean Meal, \$/mt



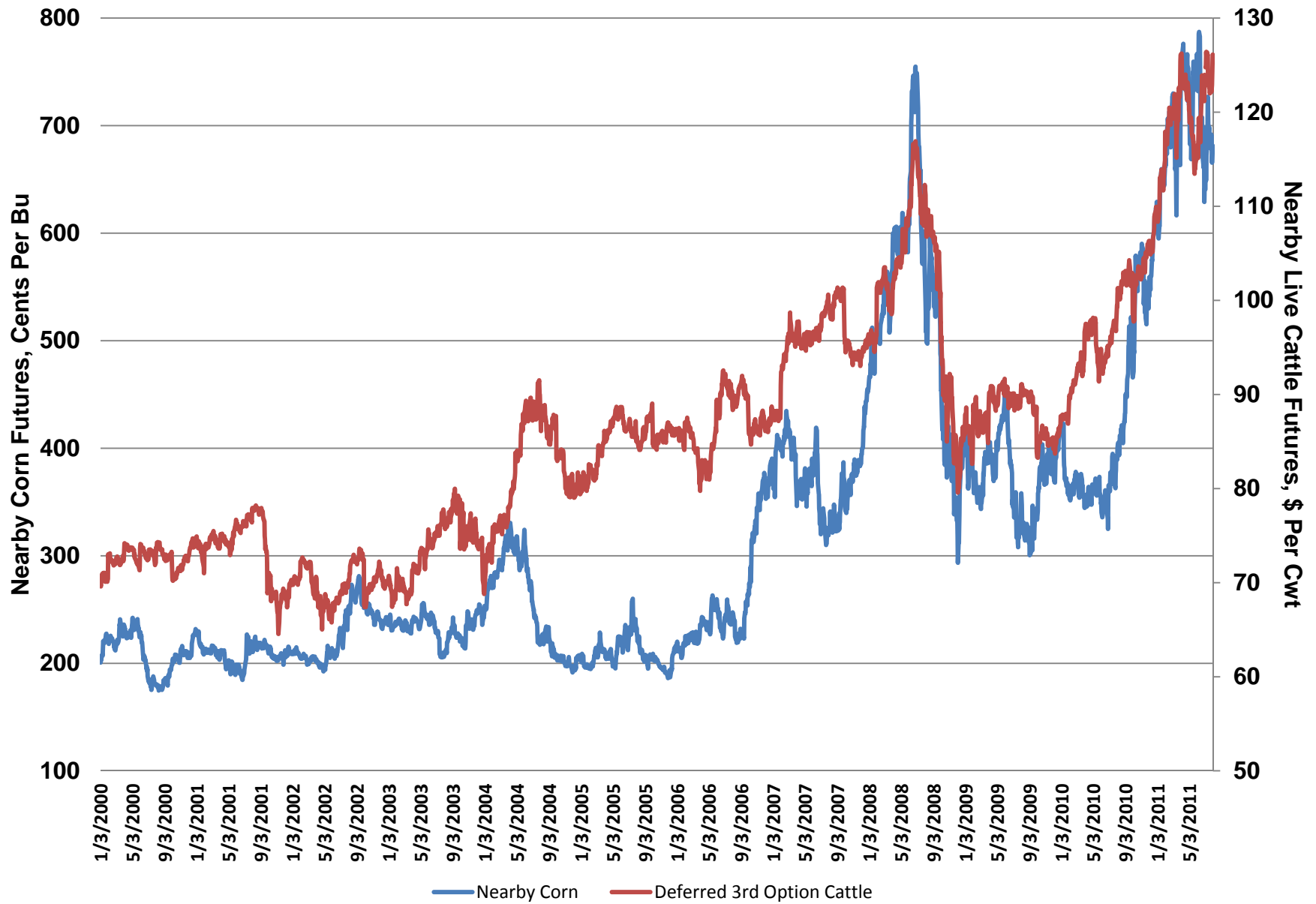
When you are trying to make
payroll and pay the utility bills,
“short term volatility
trumps trend every time!”

So What About
Cattle, Corn & Hay?

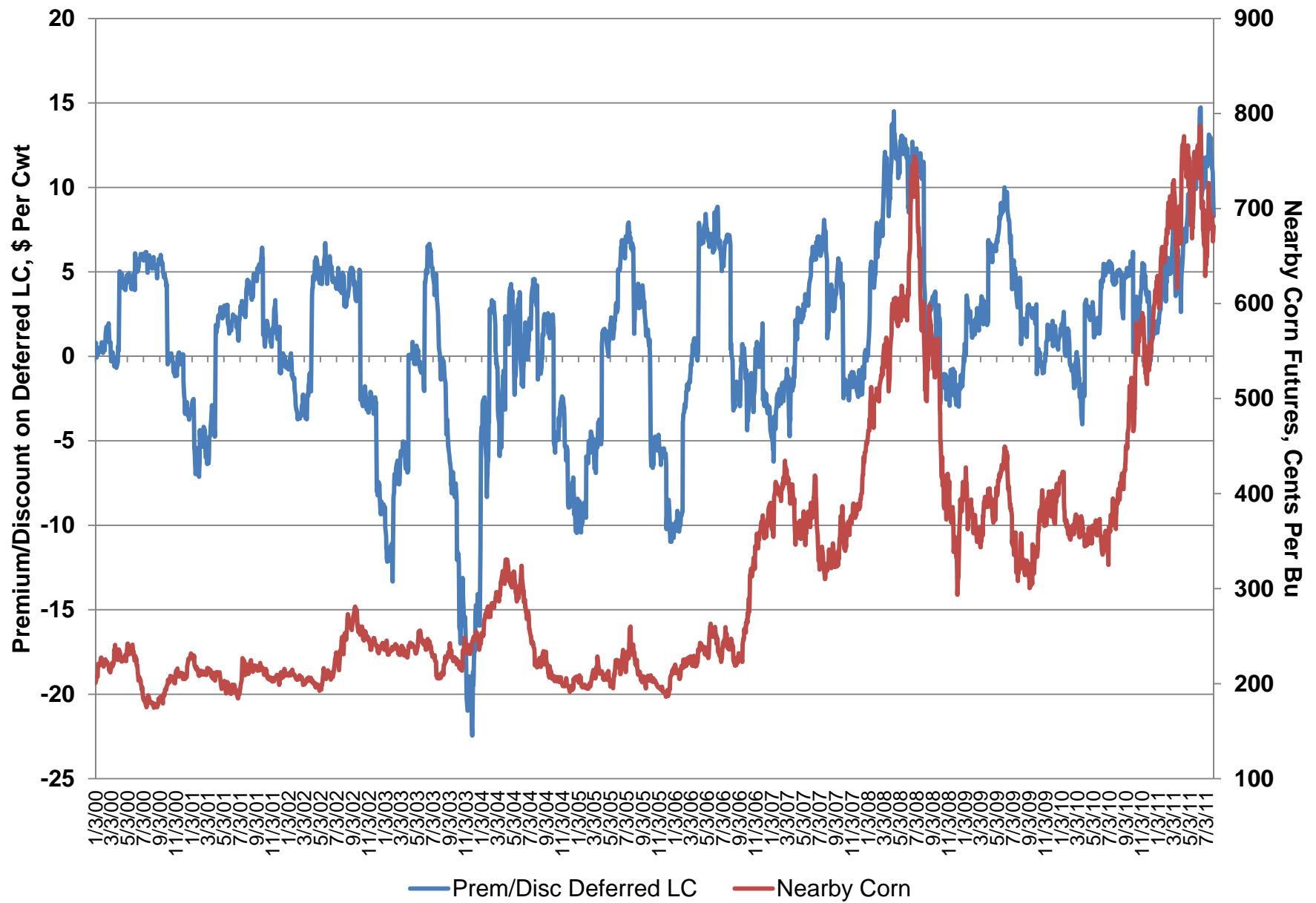
Nearby Corn and Live Cattle Futures



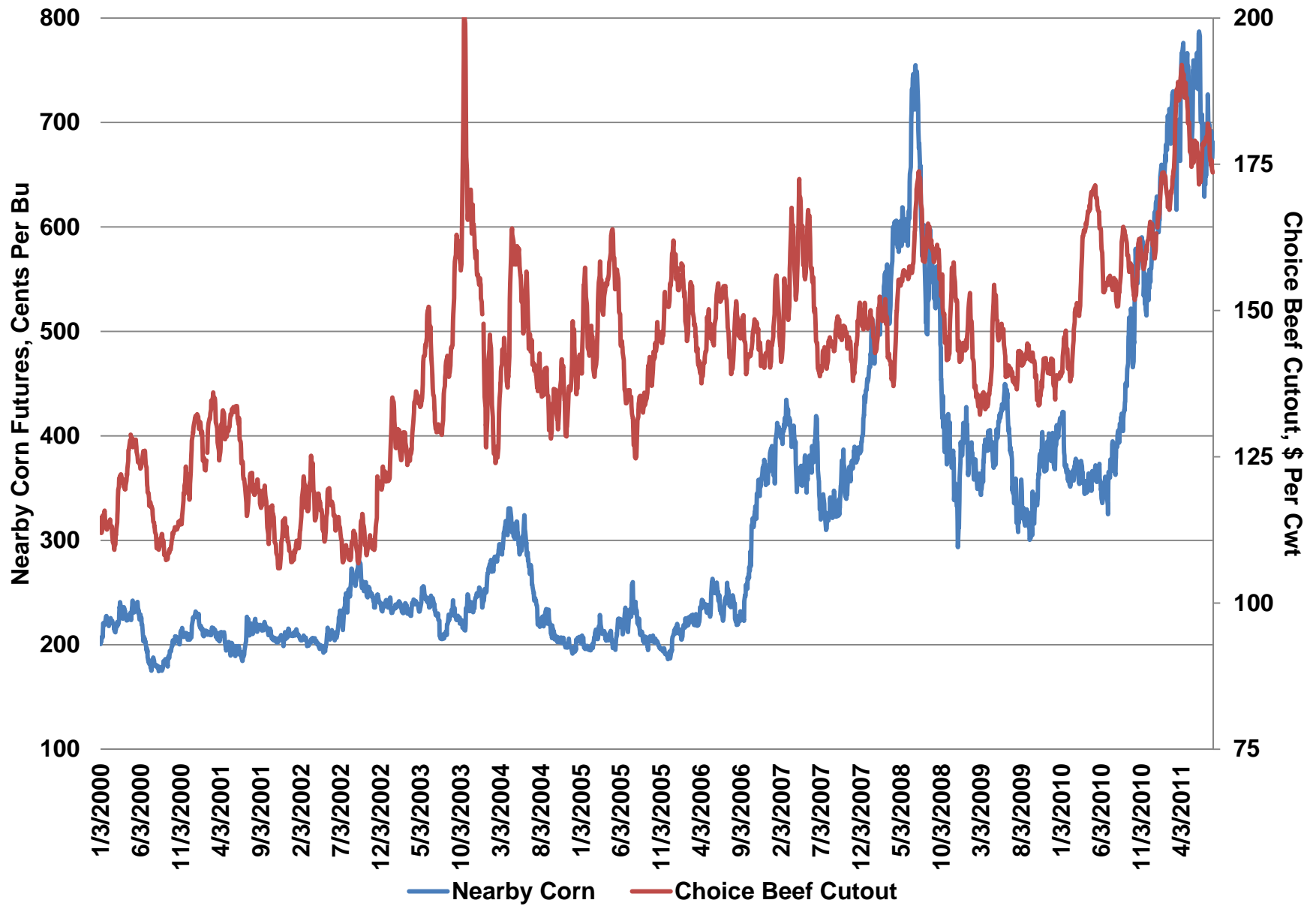
Nearby Corn and Deferred 3rd Option LC Futures



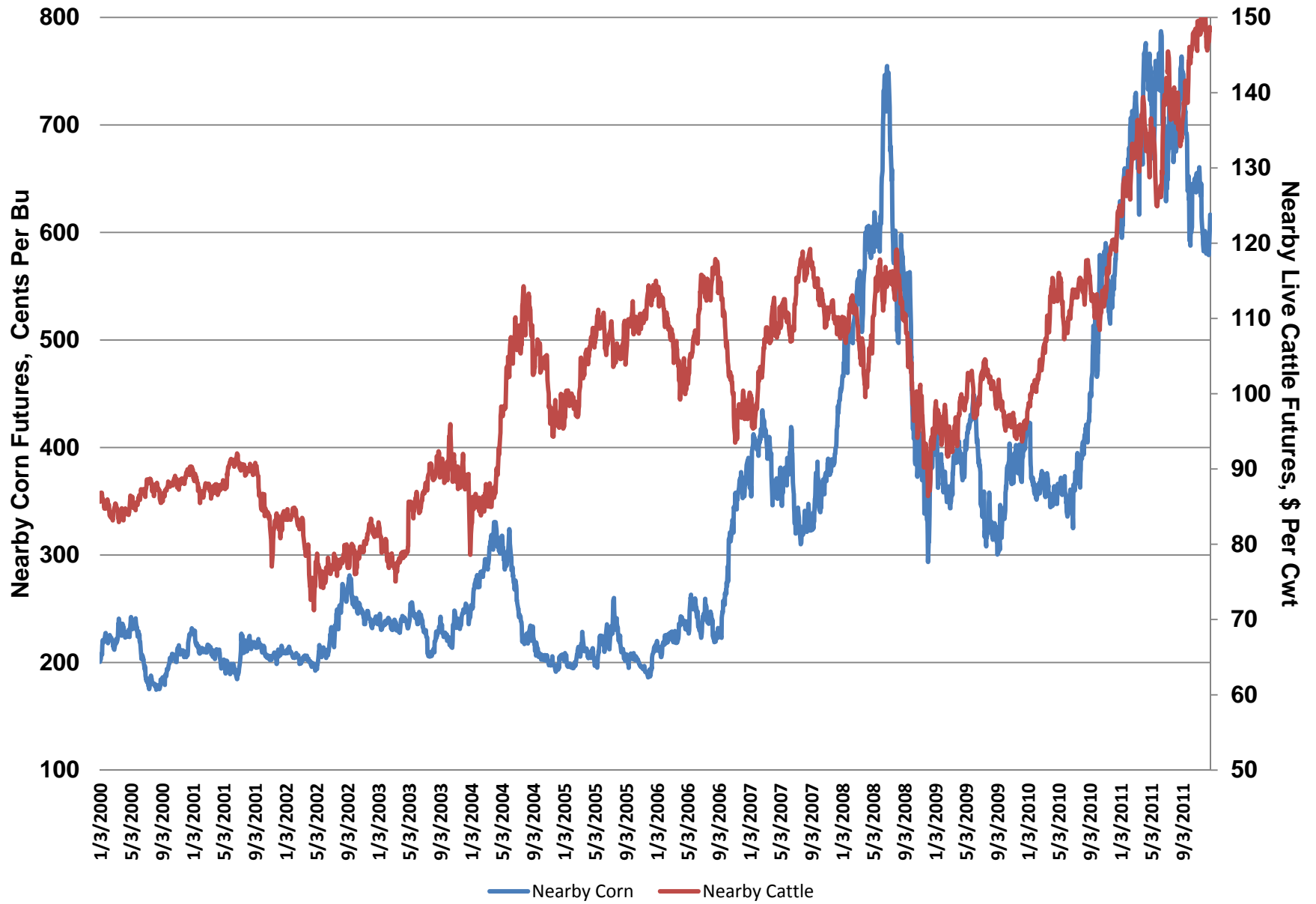
Premium/Discount on Deferred Cattle and Nearby Corn Futures



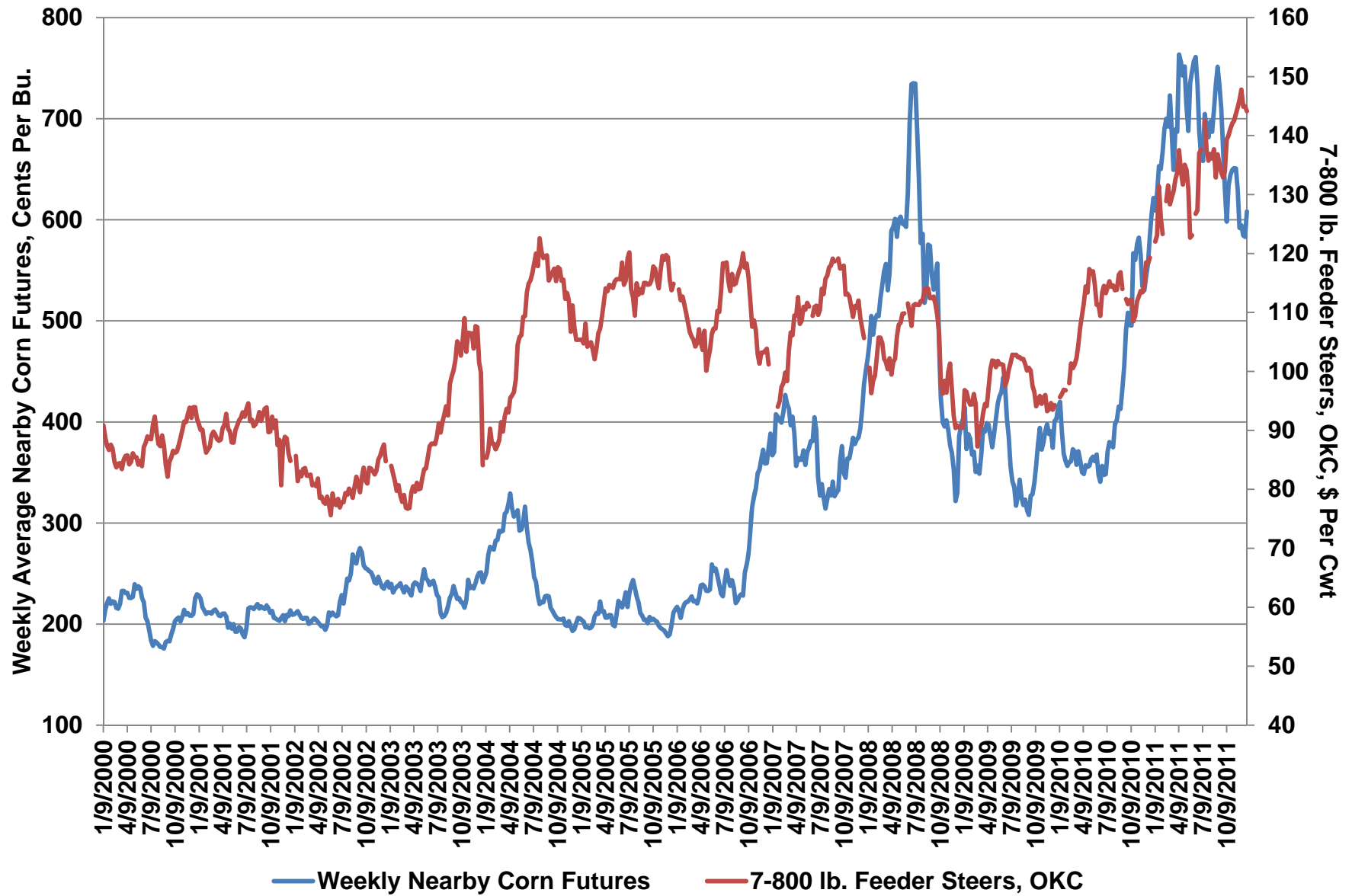
Nearby Corn and Choice Beef Cutout



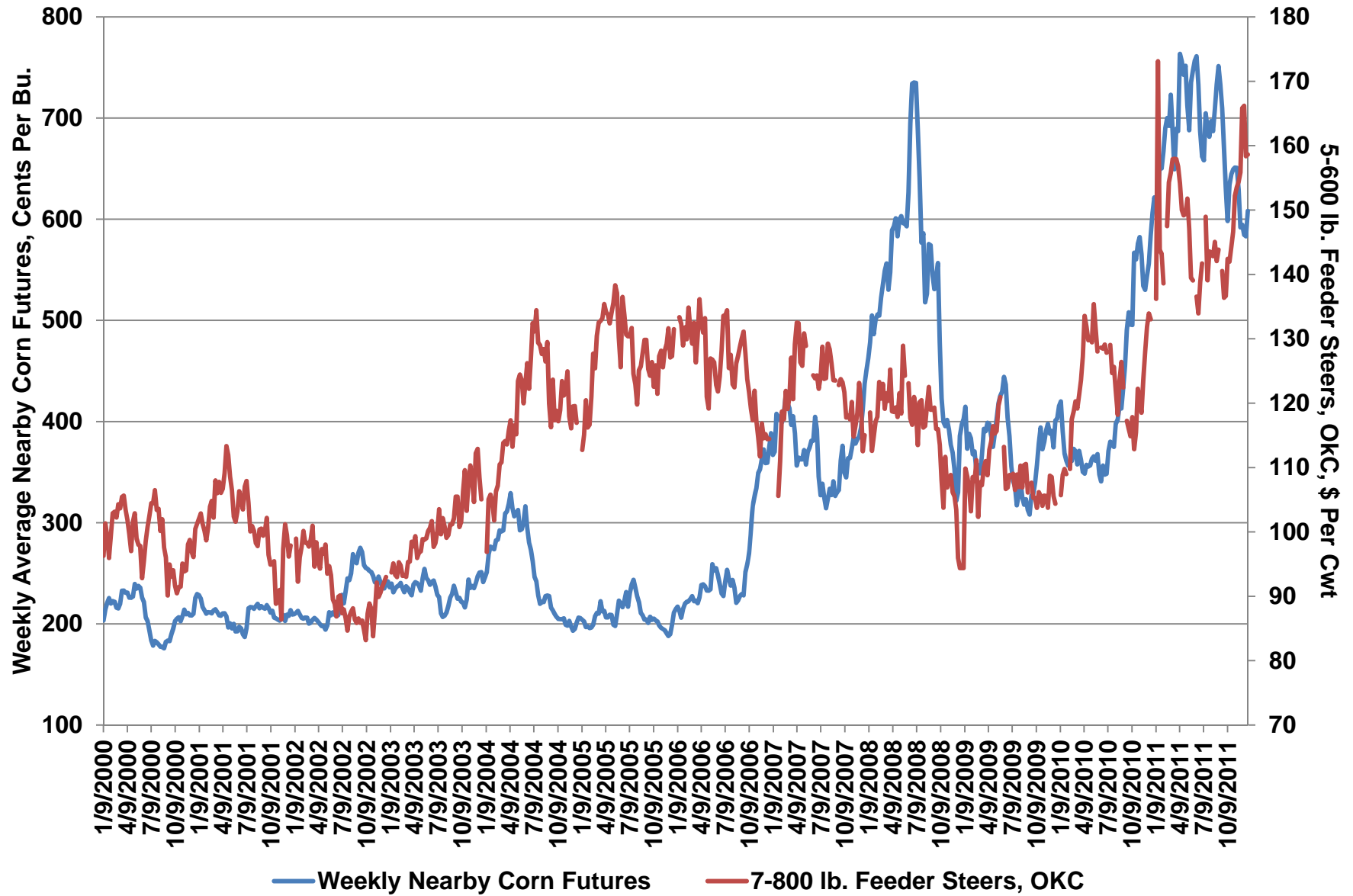
Nearby Corn and Feeder Cattle Futures



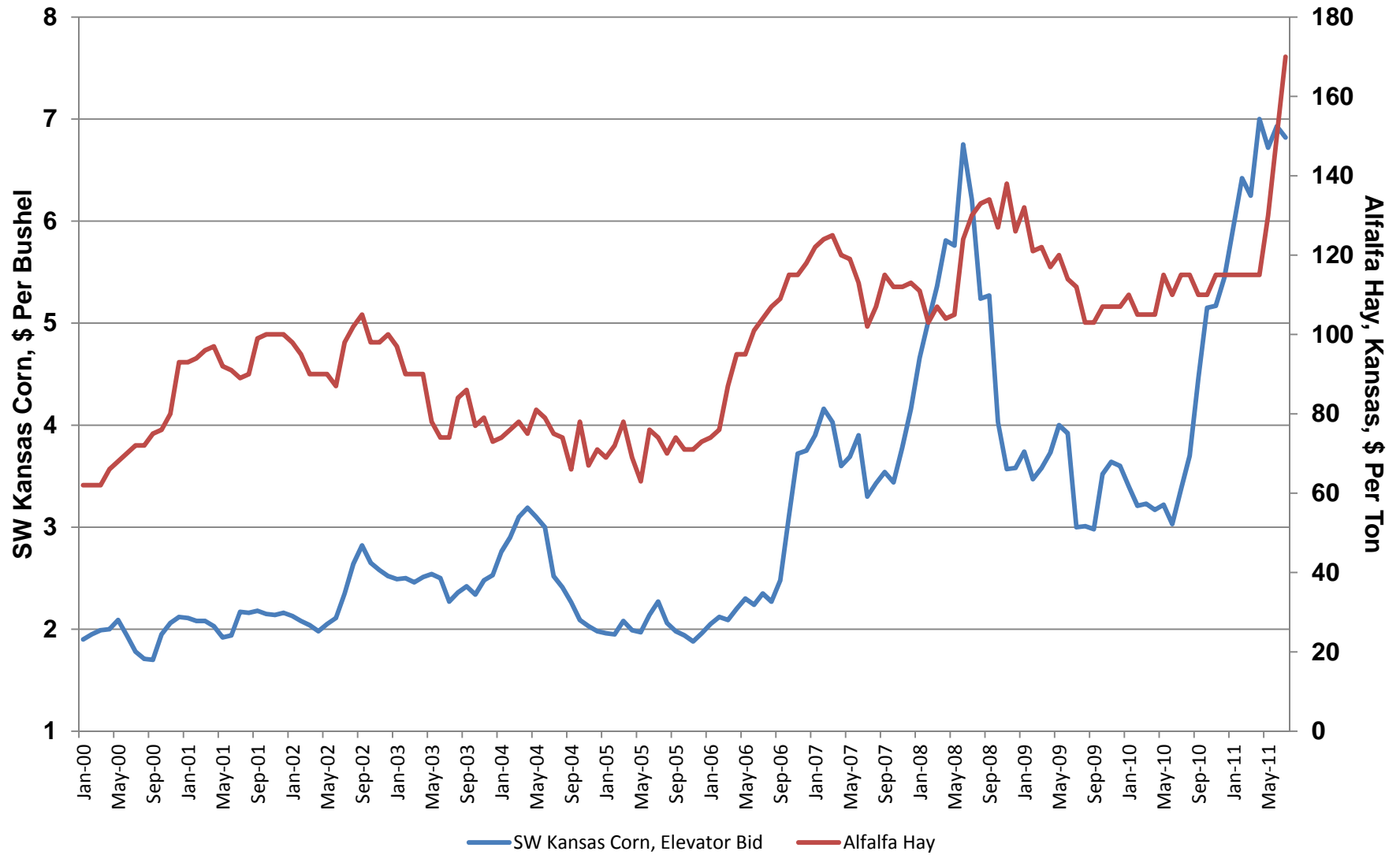
Weekly Average Nearby Corn Futures and Feeder Steers 7-800 lb. Oklahoma City



Weekly Average Nearby Corn Futures and Feeder Calves 5-600 lb. Oklahoma City



SW KS Corn Price and KS Alfalfa Hay Price



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

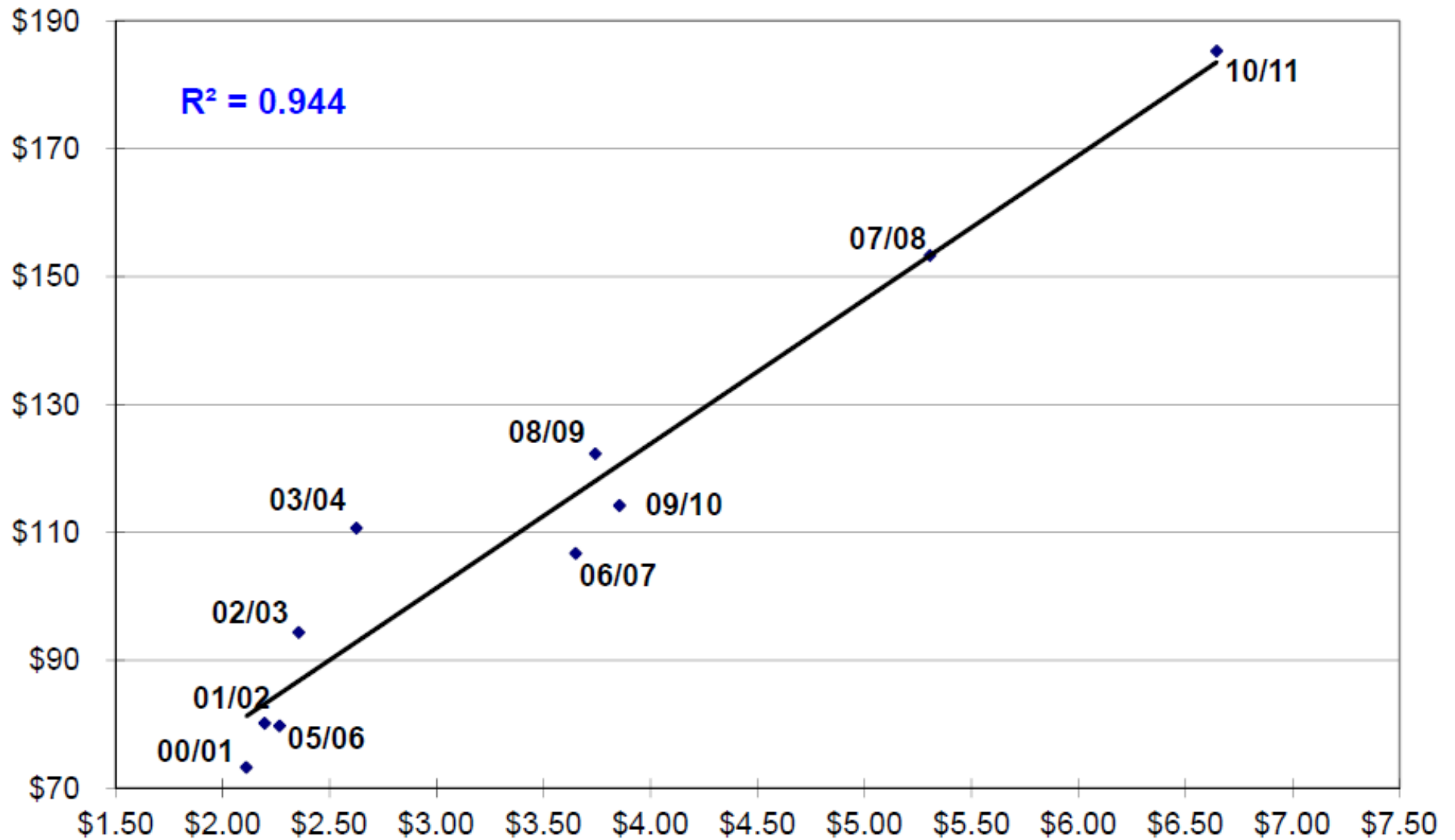
So What?

- 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 fundamentals has greatly decreased.
- Managing for a margin is much more important than at anytime in the past.

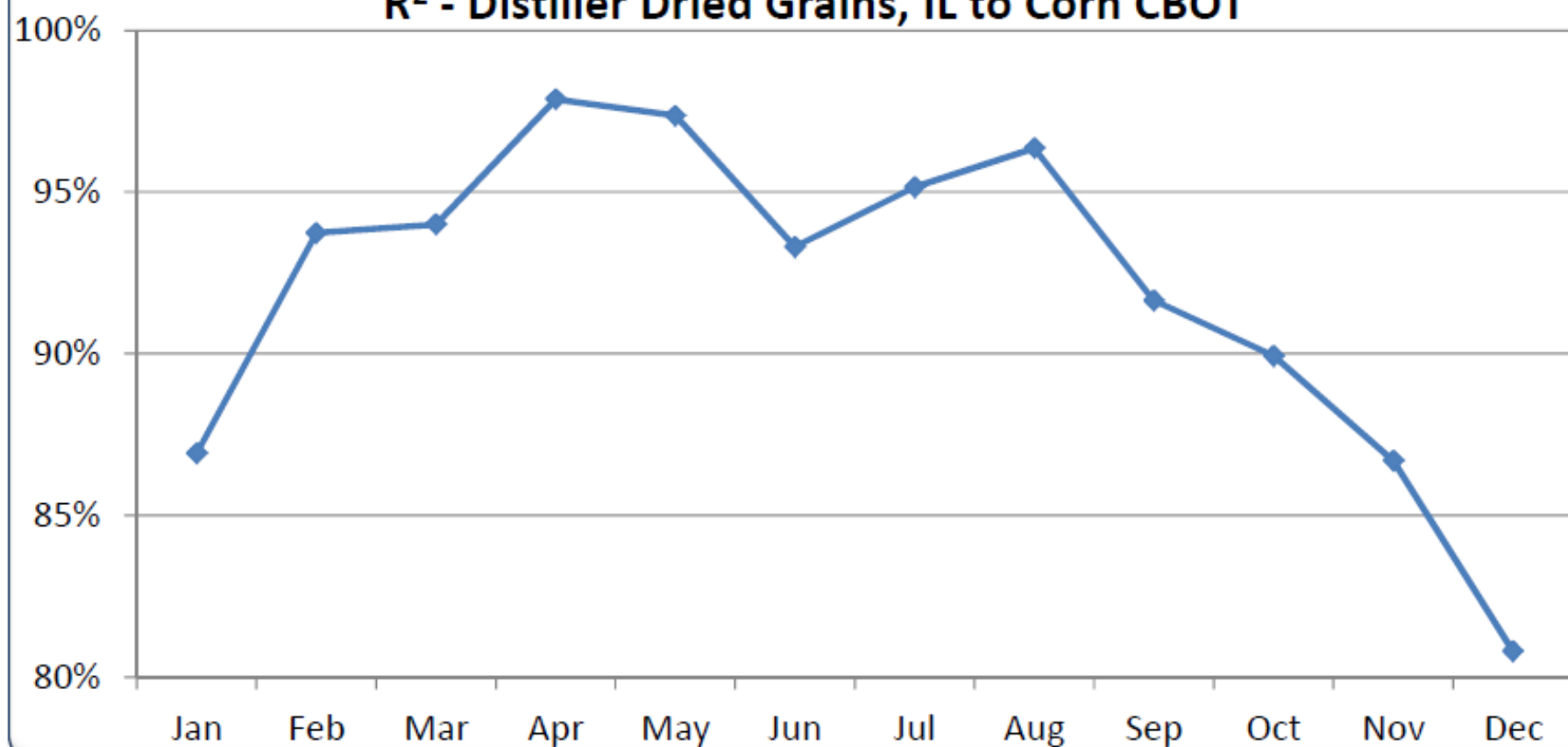
The More Things Seem to Change
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Alternative Thoughts on Pricing By Products

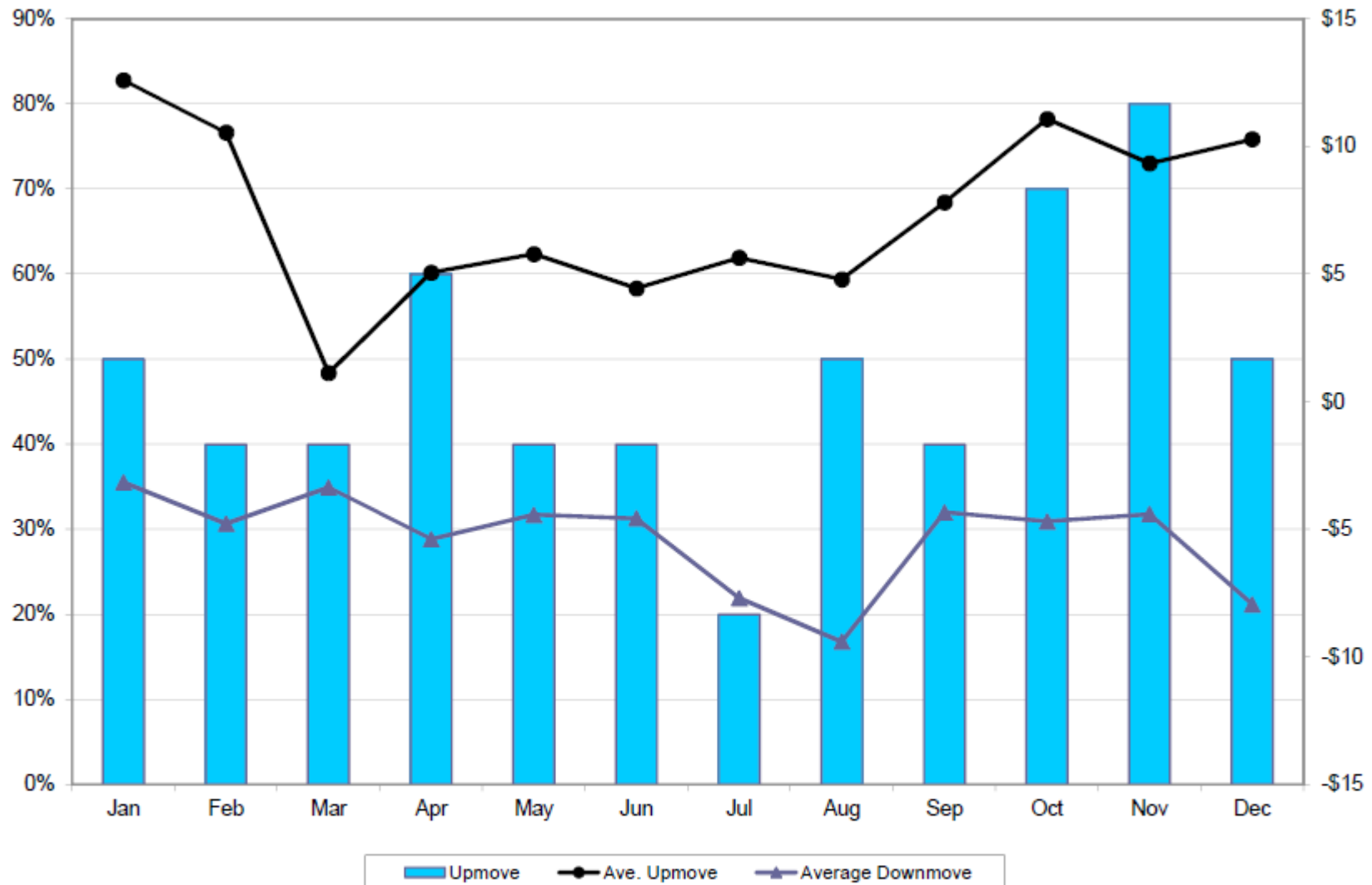
Distiller Dried Grains, IL to CBOT Corn 10-yr



R² - Distiller Dried Grains, IL to Corn CBOT

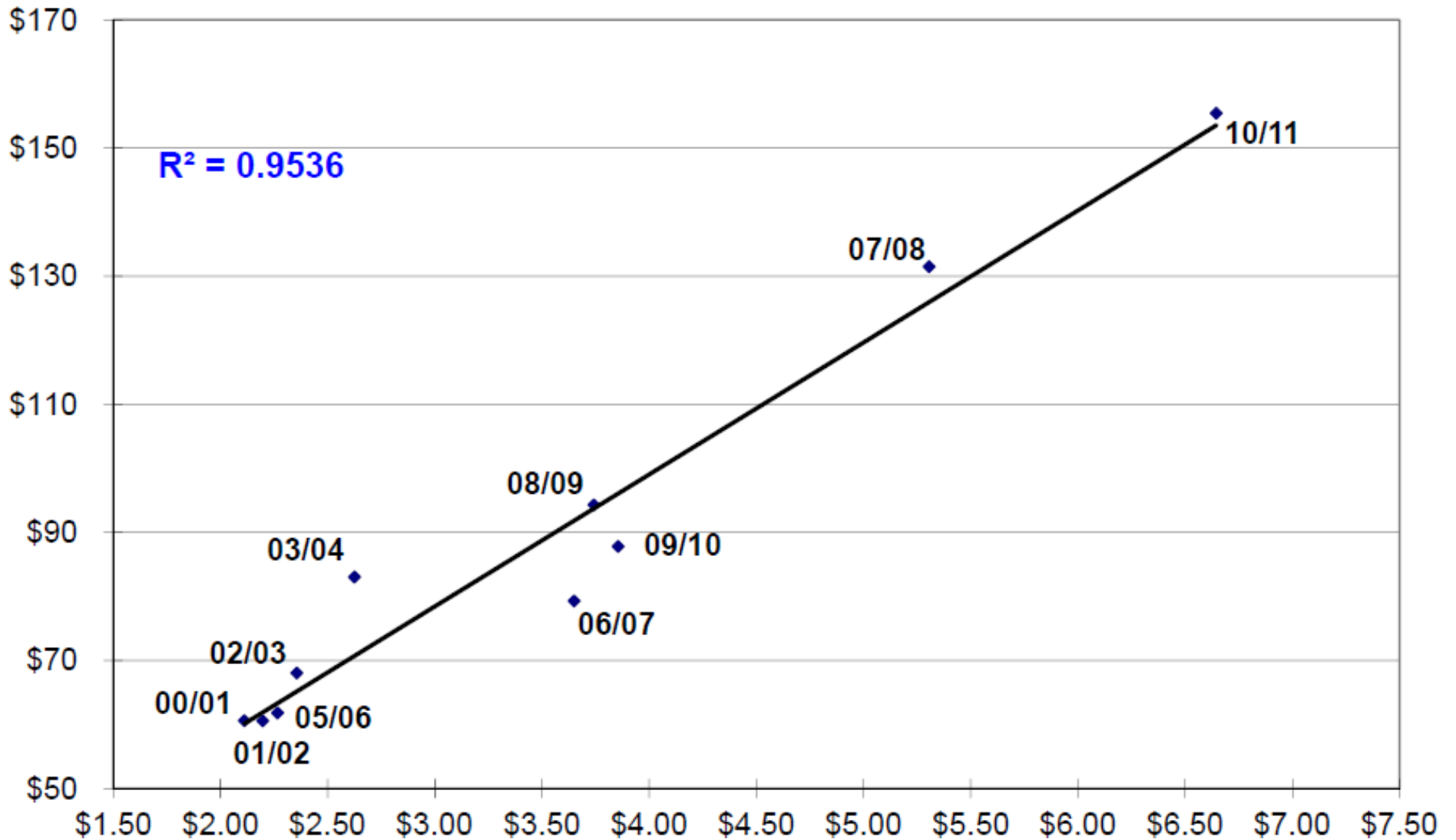


Illinois DDGS 10-yr

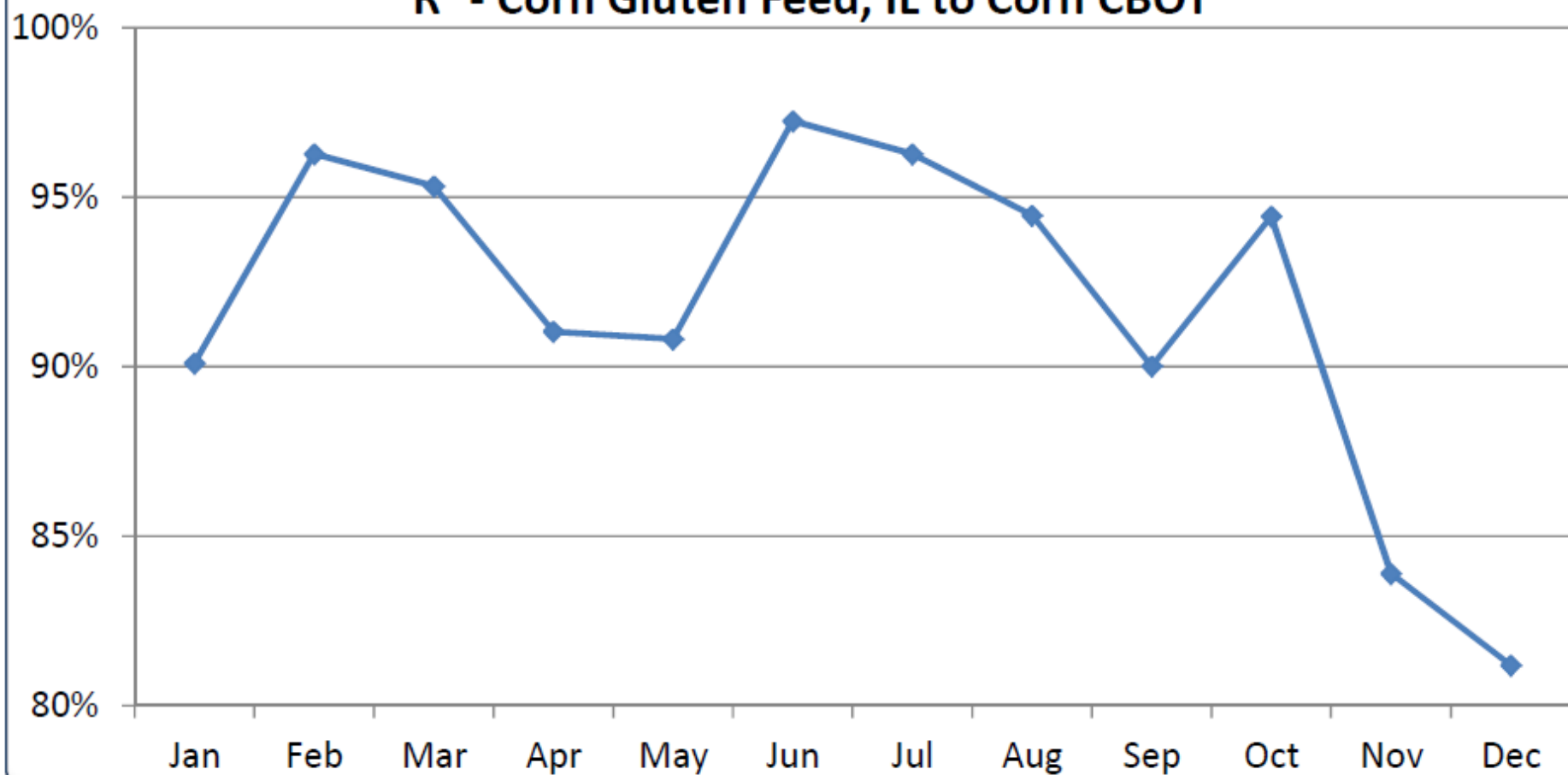


	D-J	J-F	F-M	M-A	A-M	M-J	J-J	J-A	A-S	S-O	O-N	N-D
Upmove	50.00%	40.00%	40.00%	60.00%	40.00%	40.00%	20.00%	50.00%	40.00%	70.00%	80.00%	50.00%
Ave. Upmove	\$12.60	\$10.55	\$1.13	\$5.06	\$5.79	\$4.44	\$5.64	\$4.80	\$7.81	\$11.09	\$9.34	\$10.28
Average Downmove	-\$3.16	-\$4.77	-\$3.36	-\$5.38	-\$4.42	-\$4.57	-\$7.69	-\$9.40	-\$4.34	-\$4.69	-\$4.40	-\$7.94

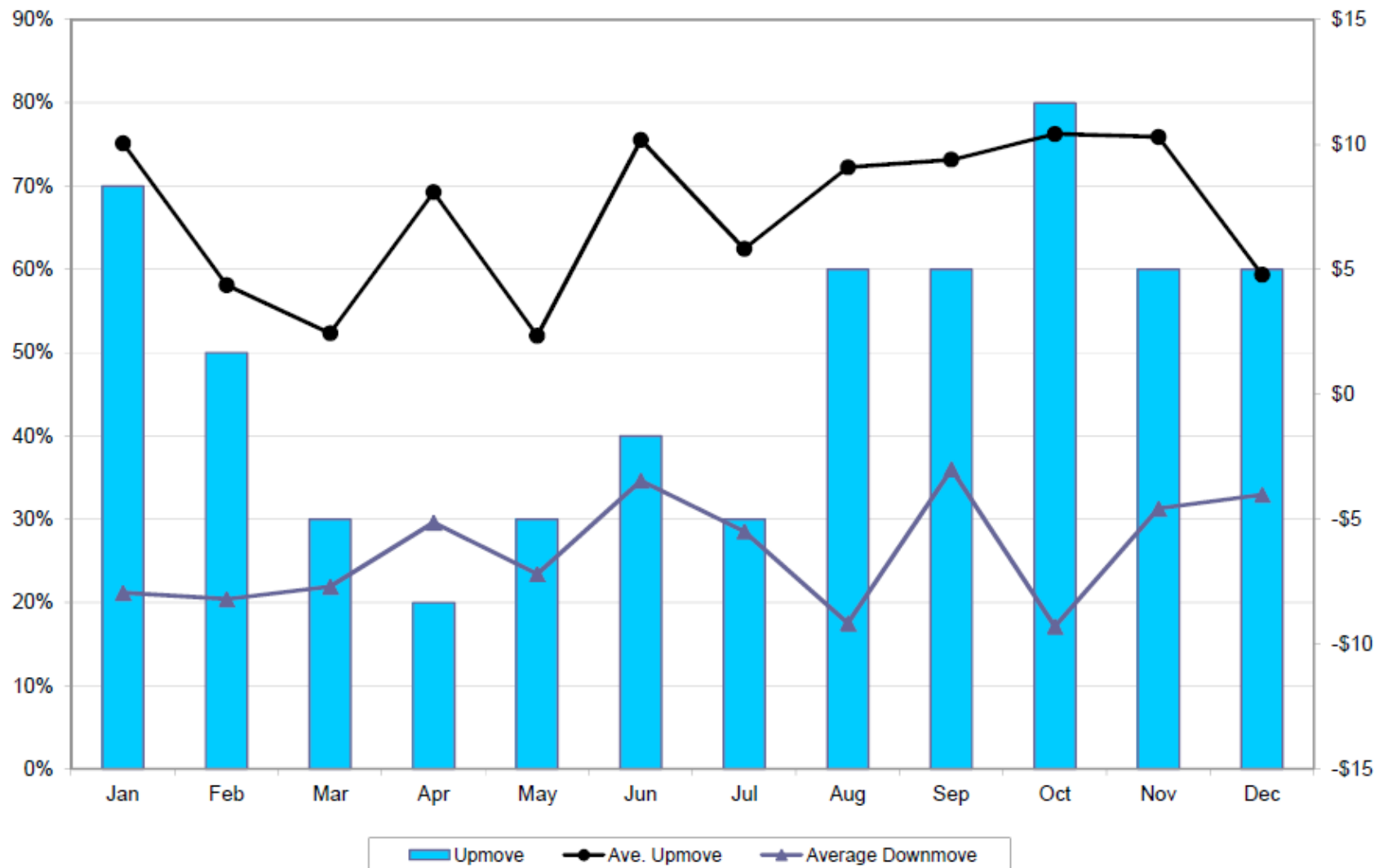
Corn Guten Feed, IL to CBOT Corn 10-yr



R^2 - Corn Gluten Feed, IL to Corn CBOT

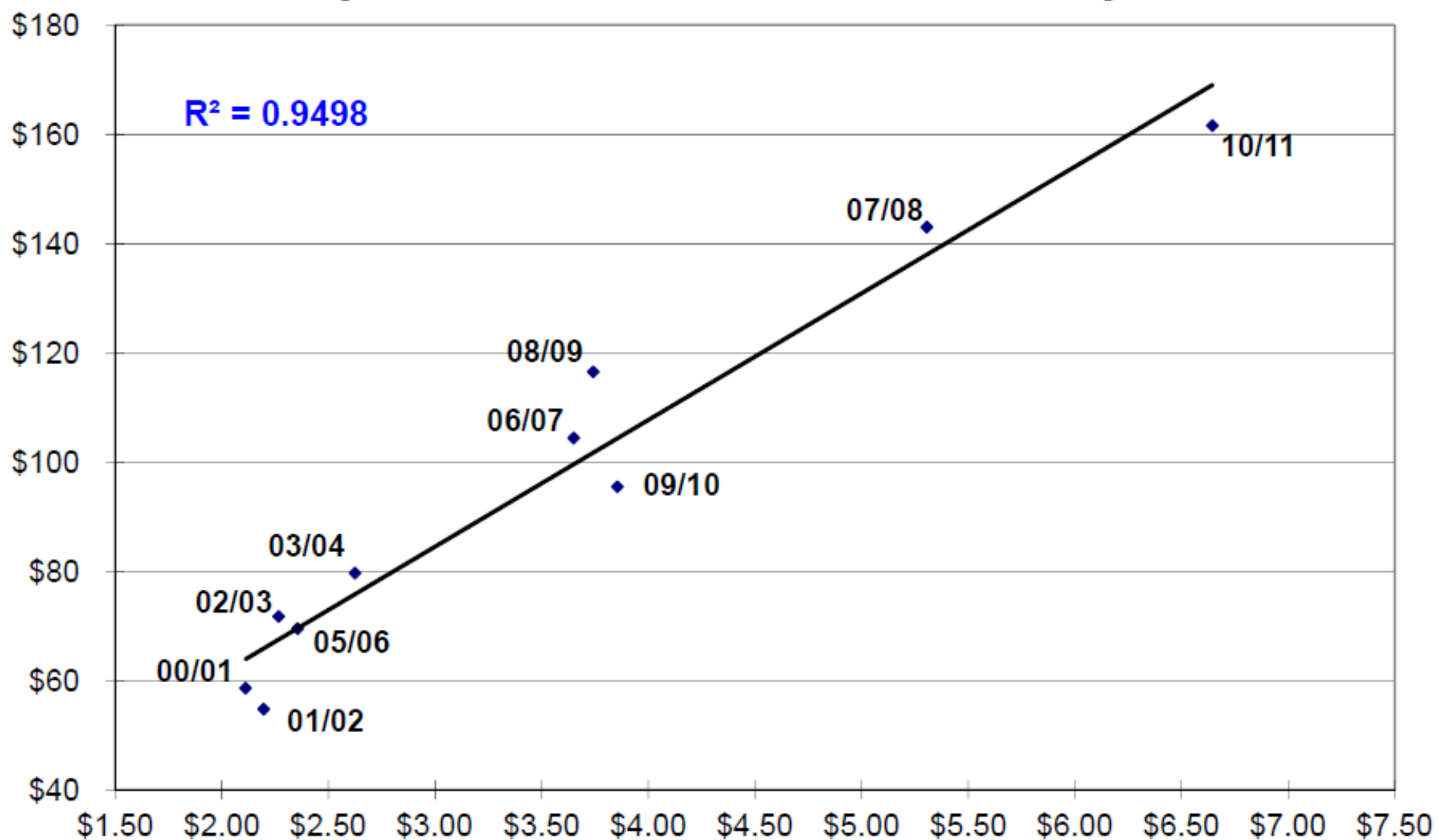


Illinois GCF 10-yr

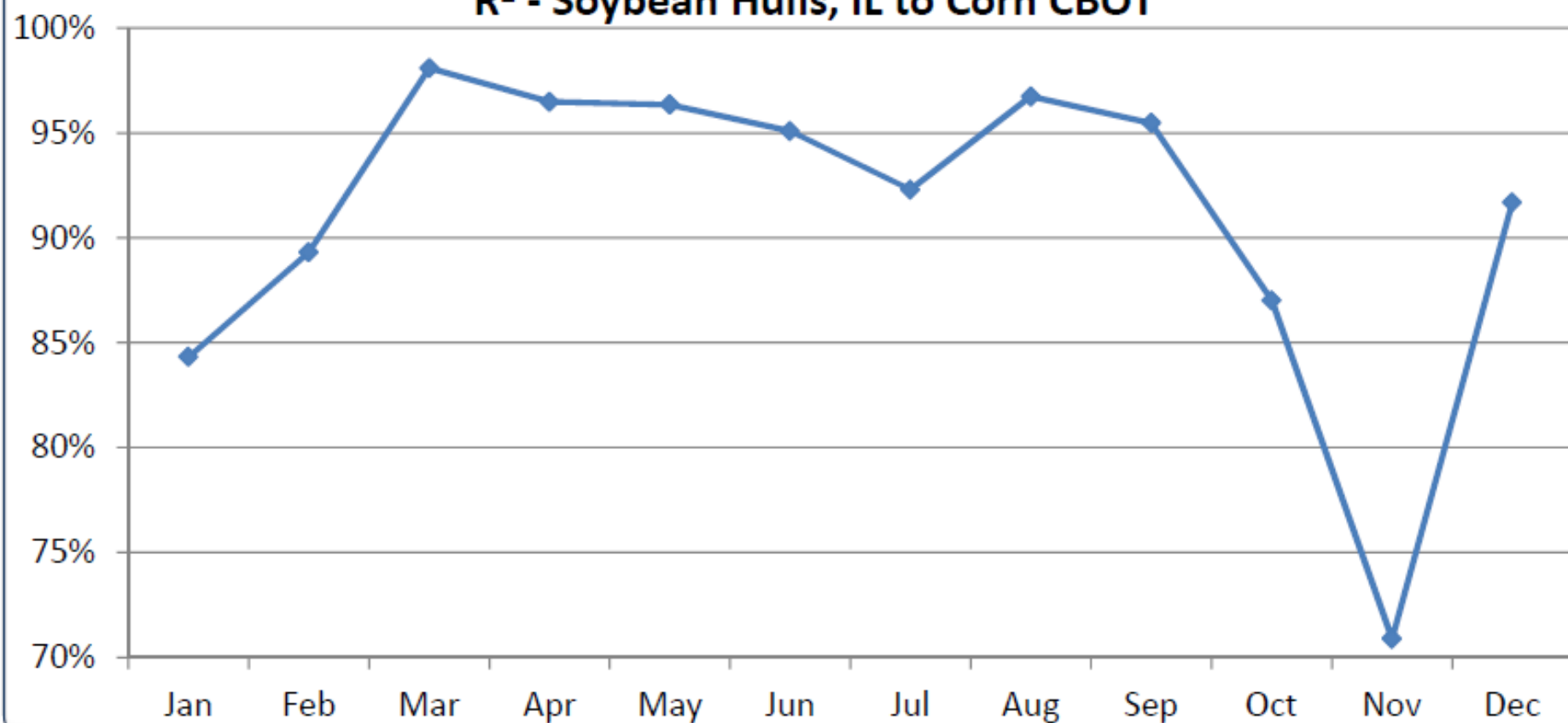


	D-J	J-F	F-M	M-A	A-M	M-J	J-J	J-A	A-S	S-O	O-N	N-D
Upmove	70.00%	50.00%	30.00%	20.00%	30.00%	40.00%	30.00%	60.00%	60.00%	80.00%	60.00%	60.00%
Ave. Upmove	\$10.05	\$4.37	\$2.45	\$8.10	\$2.34	\$10.19	\$5.82	\$9.09	\$9.39	\$10.42	\$10.31	\$4.79
Average Downmove	-\$7.94	-\$8.20	-\$7.70	-\$5.13	-\$7.19	-\$3.45	-\$5.48	-\$9.17	-\$2.99	-\$9.30	-\$4.57	-\$4.01

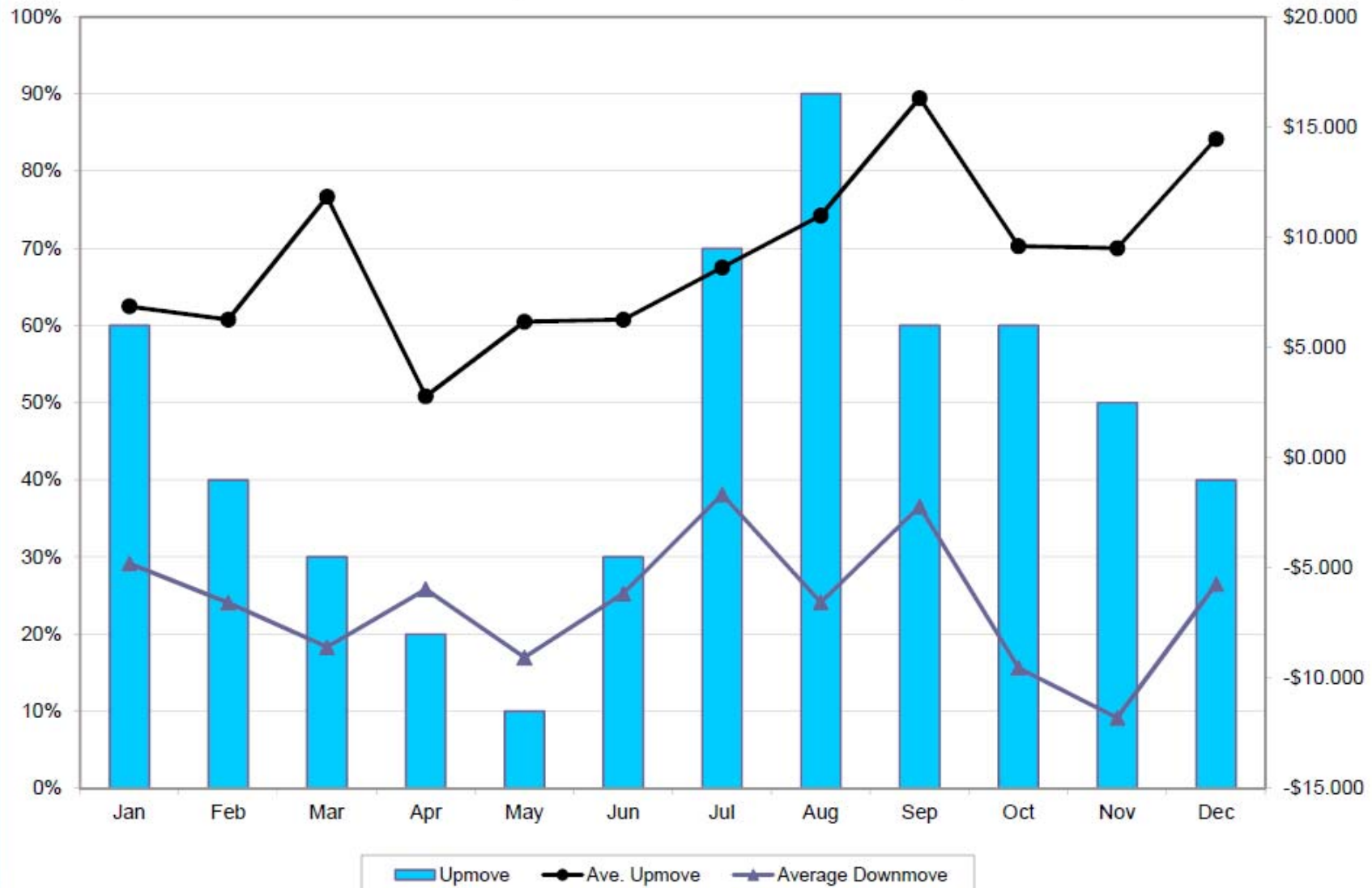
Soybean Hulls, IL to CBOT Corn 10-yr



R² - Soybean Hulls, IL to Corn CBOT

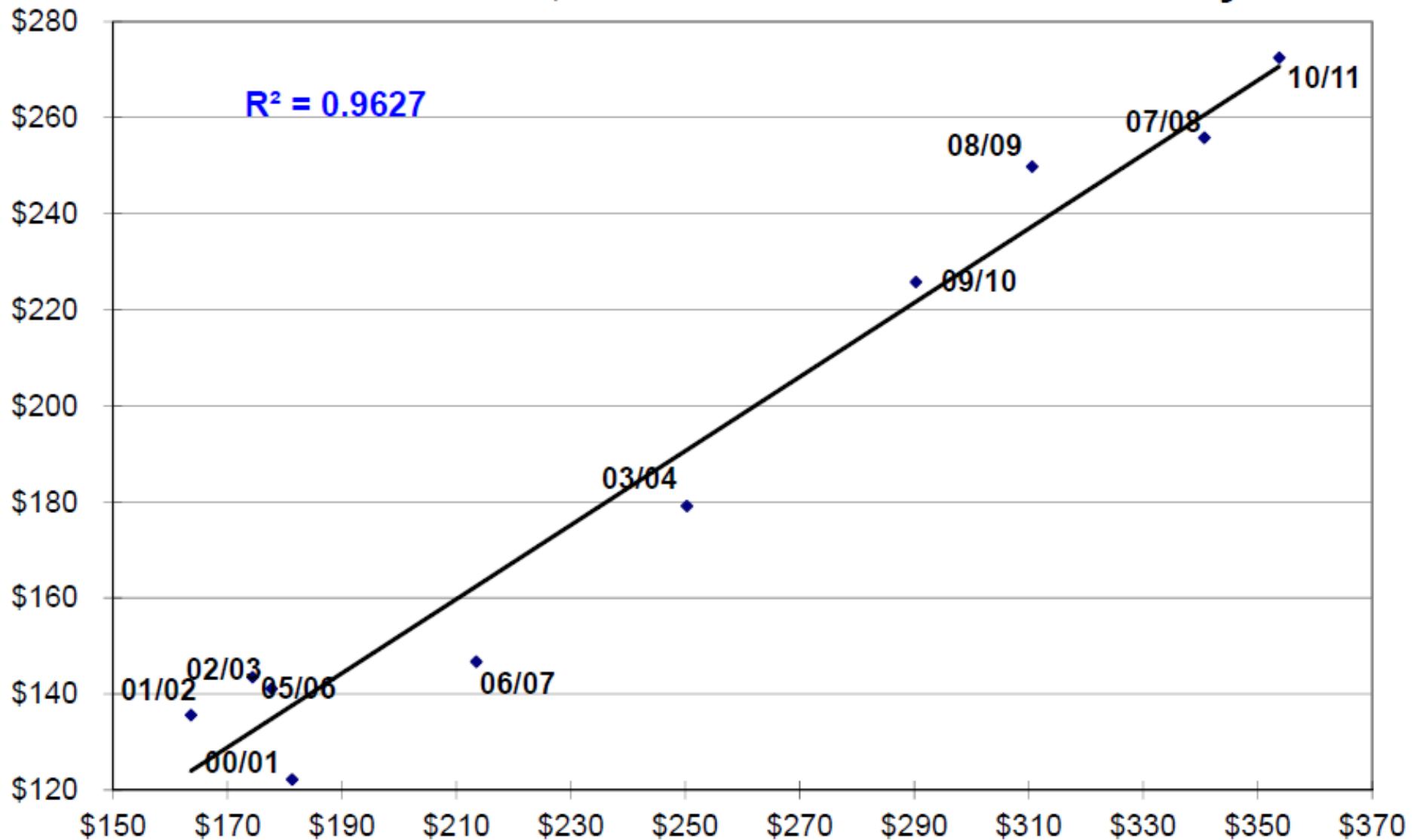


Soybean Hulls Illinois 10-yr

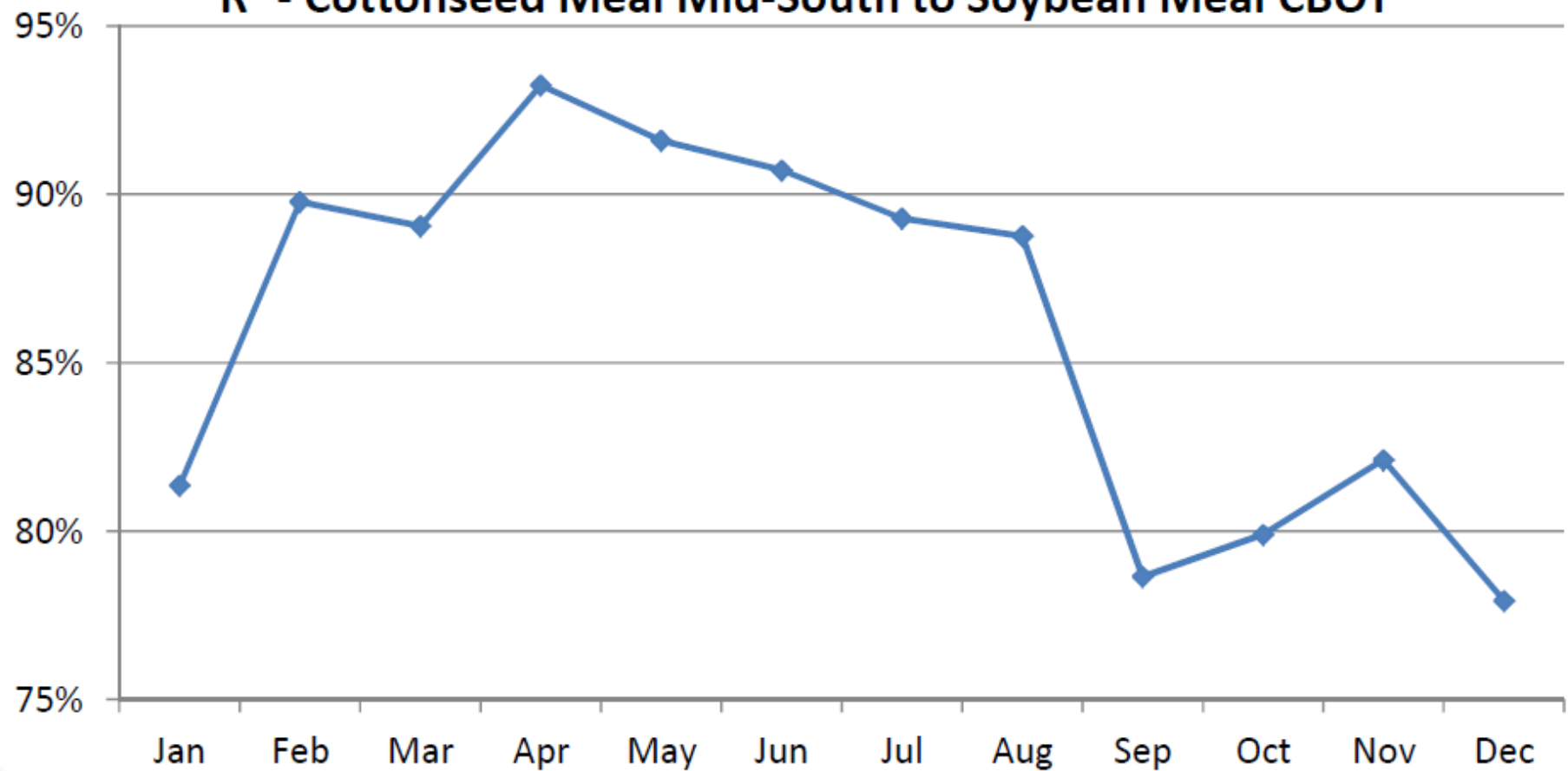


	D-J	J-F	F-M	M-A	A-M	M-J	J-J	J-A	A-S	S-O	O-N	N-D
Upmove	60.00%	40.00%	30.00%	20.00%	10.00%	30.00%	70.00%	90.00%	60.00%	60.00%	50.00%	40.00%
Ave. Upmove	\$6.87	\$6.27	\$11.84	\$2.79	\$6.18	\$6.27	\$8.63	\$10.98	\$16.32	\$9.60	\$9.51	\$14.46
Average Downmove	-\$4.80	-\$6.57	-\$8.59	-\$5.96	-\$9.05	-\$6.15	-\$1.66	-\$6.55	-\$2.21	-\$9.52	-\$11.79	-\$5.73

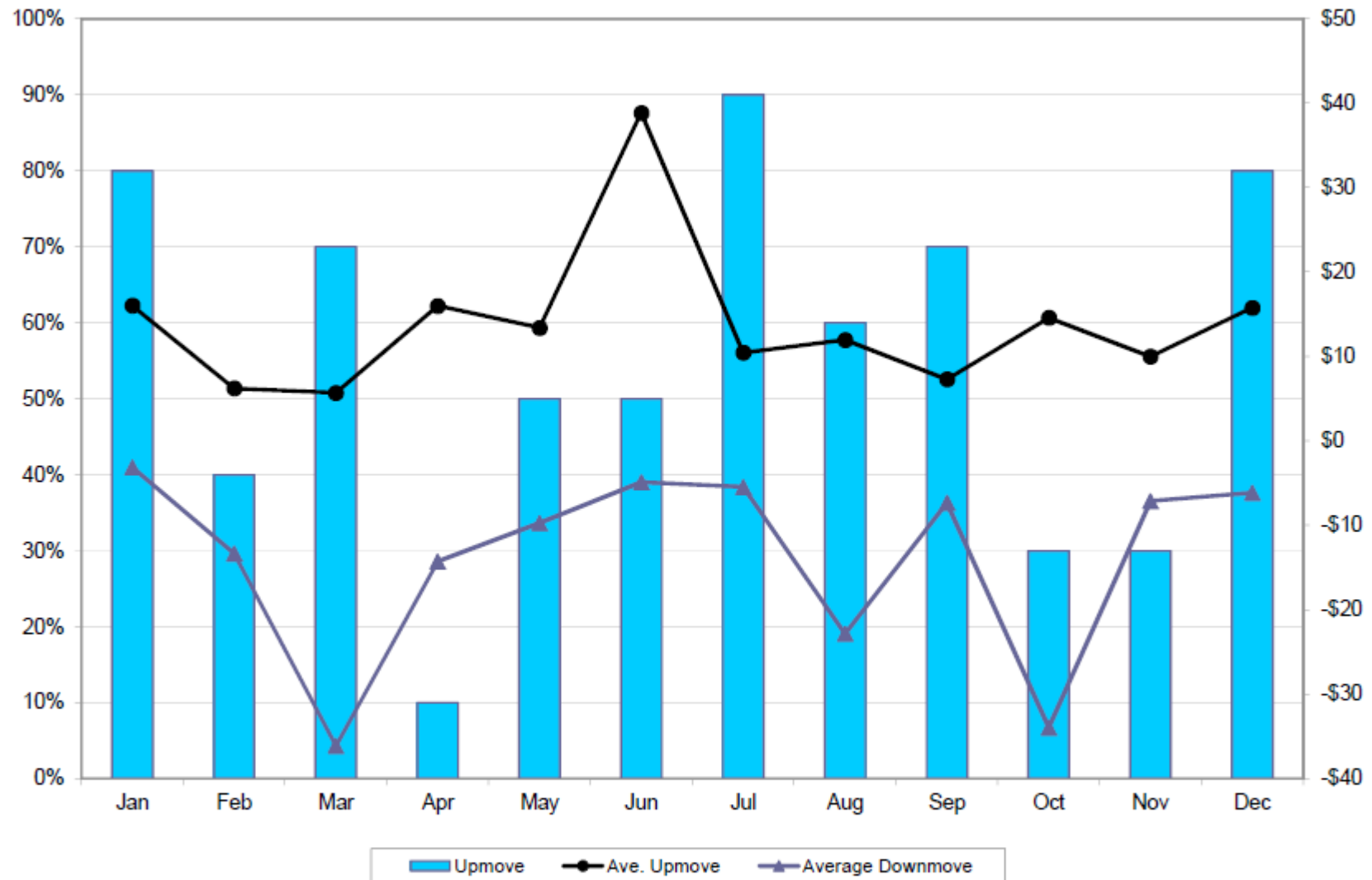
Cottonseed Meal, Mid-South to CBOT SBM 10-yr



R² - Cottonseed Meal Mid-South to Soybean Meal CBOT



Mid-South Cottonseed Meal 10-yr

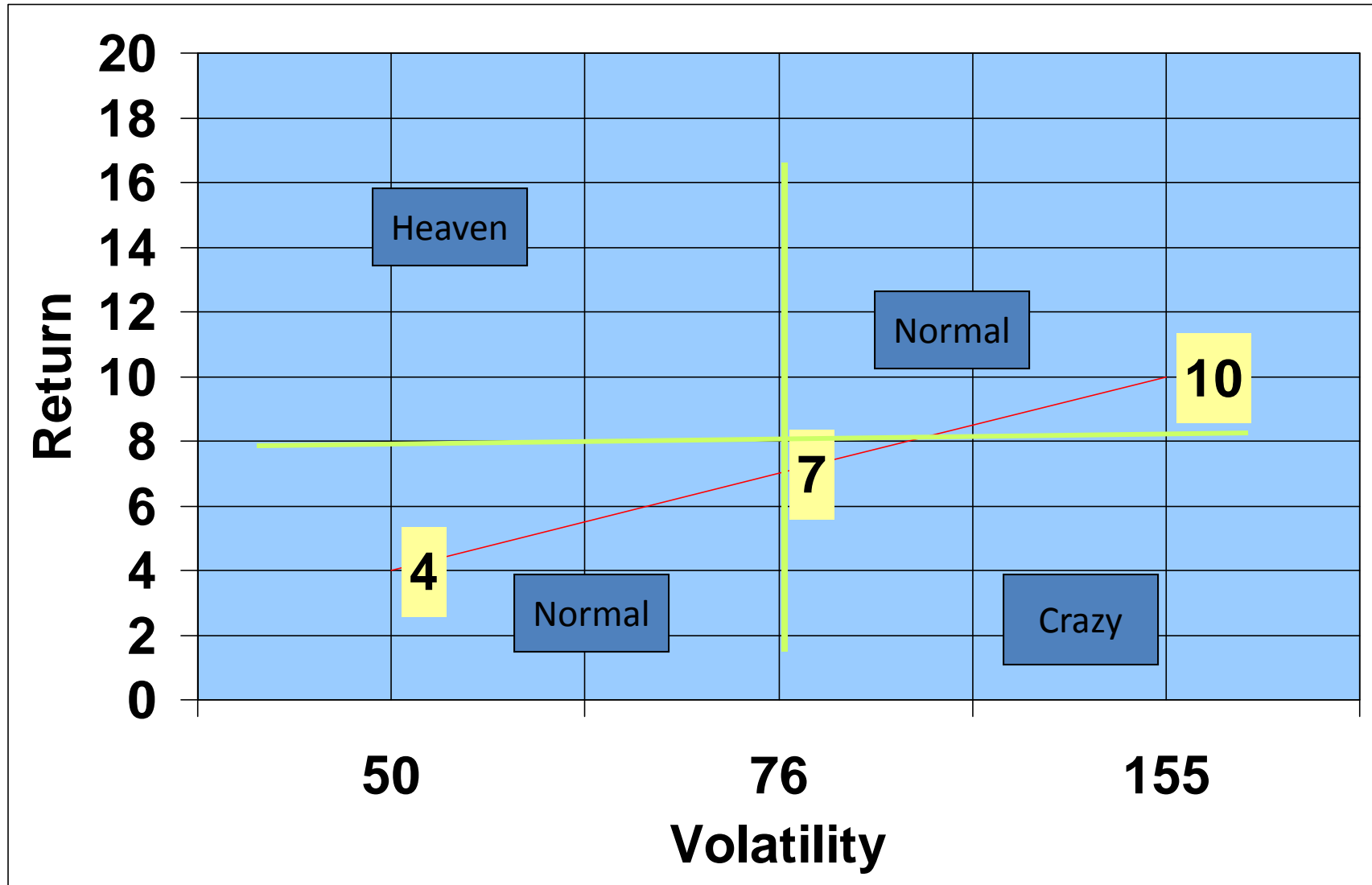


	D-J	J-F	F-M	M-A	A-M	M-J	J-J	J-A	A-S	S-O	O-N	N-D
Upmove	80.00%	40.00%	70.00%	10.00%	50.00%	50.00%	90.00%	60.00%	70.00%	30.00%	30.00%	80.00%
Ave. Upmove	\$16.03	\$6.24	\$5.70	\$16.01	\$13.40	\$38.85	\$10.45	\$11.96	\$7.31	\$14.59	\$9.99	\$15.76
Average Downmove	-\$3.12	-\$13.34	-\$36.11	-\$14.27	-\$9.72	-\$4.89	-\$5.44	-\$22.84	-\$7.31	-\$33.95	-\$7.12	-\$6.14

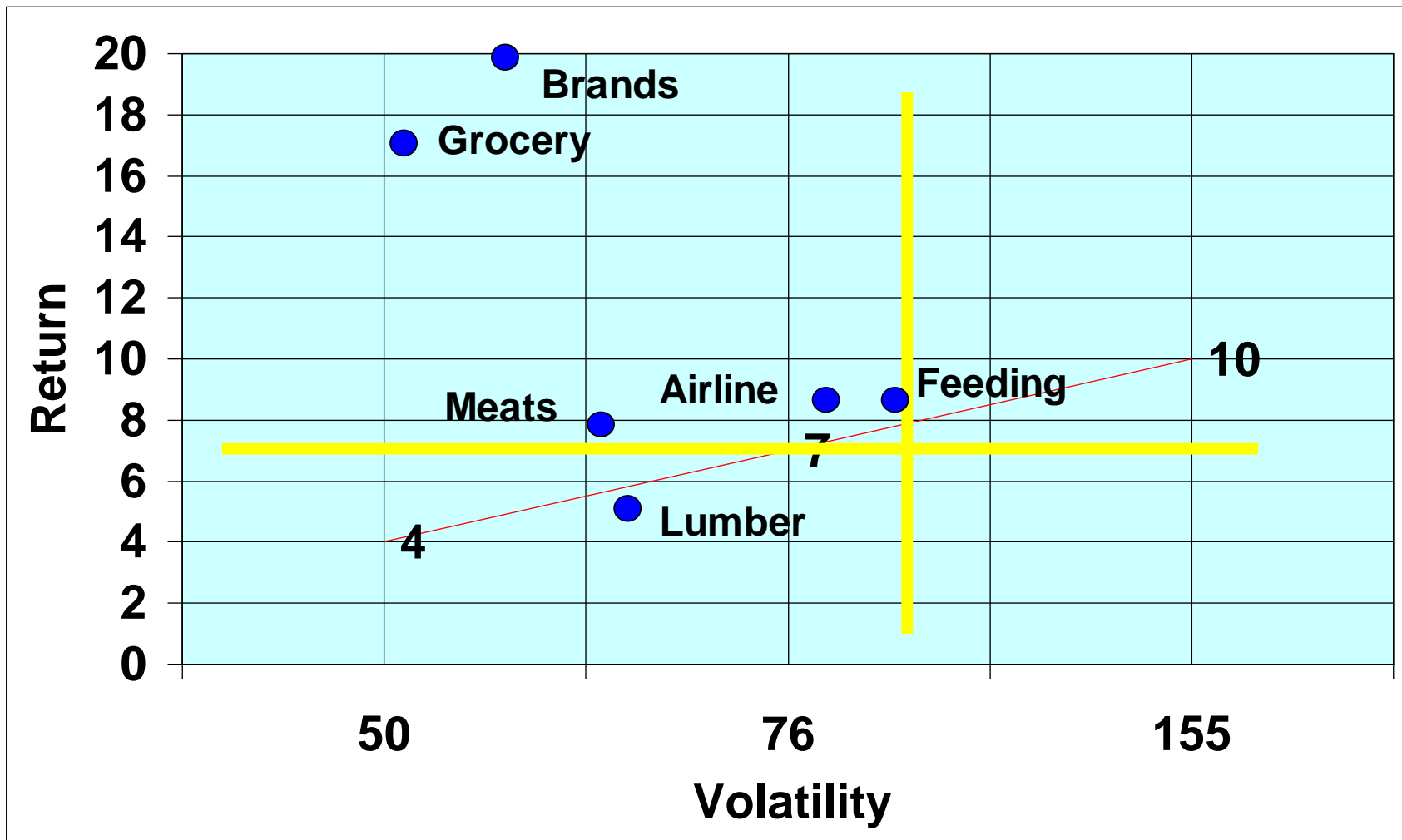
Rational Investing

Can the Cattle Business Deliver?

Risk vs. Reward



Risk vs. Reward



The Serenity Prayer for Stocker Operators

God, help me not to worry about the things
I can't control.

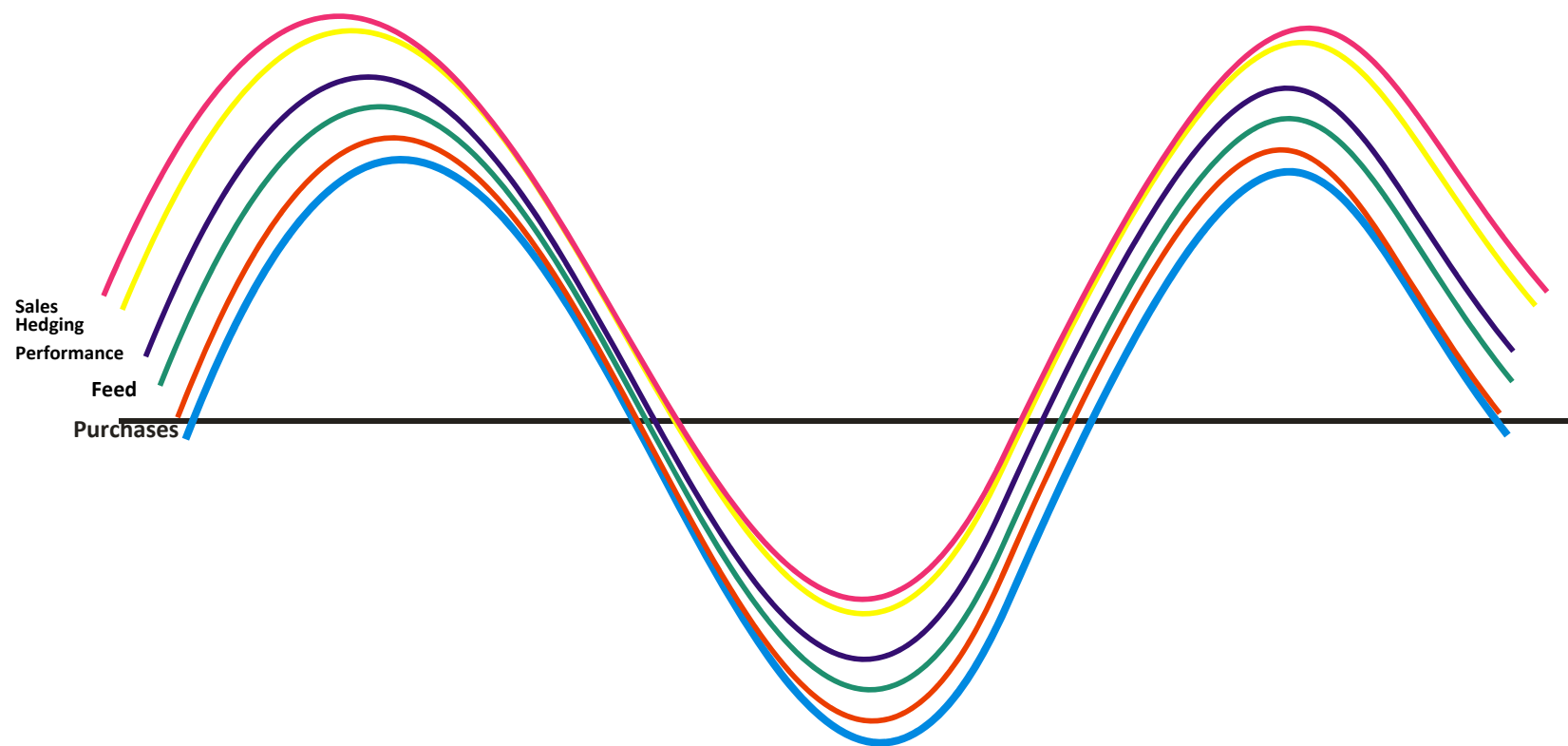
Give me the judgment and strength to work hard
on the things I can control.

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 macro economic 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

Risk vs. Reward

