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## In The Cattle Markets

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### Evaluating Retained Ownership Alternatives

There are two key factors that determine the profitability of all retained ownership alternatives. The first is the direction of the market during the retained ownership program. If the overall market level moves higher, then producers are almost sure to make money and conversely if the market level moves lower, producers almost sure to lose money. Now don't expect me to be very good at telling you which is going to occur. The other key factor is the overall cost per pound of gain in the program compared to the overall feedlot cost per pound of gain. If you can add weight cheaper outside of the feedlot, you can frequently see a positive return to do so.

The reason this relative cost of gain is so important, is that feeder cattle prices are determined primarily by the expected cost of gain in the feedlot and the expected fed cattle price. Consider the following example: for the week ending Nov 28, 2009 the following prices were observed at Nebraska auction markets (750 lb steers \$99/cwt, \$743/hd and 550 lb steers \$109/cwt, \$600/hd). The added value for 200 pounds was \$143/hd or about \$.715/lb ( $\$143/200$ ). Data Transmission Network (DTN) estimated the total cost of gain to be about \$.71/lb for the same time period.

Here is another approach that results in the same type of conclusion. In the middle of November, June Live Cattle futures were trading at \$85 per cwt. For a 1,300 lbs fed steer that would be an expected gross return of \$1,105 per head ( $\$85 * 1300$  lbs). If the cost of gain in the feedlot was expected to be \$.69/lb, than adding 700 pounds to a 600 lb steer would cost \$483 per head. To make any money (expected money) feedlots would have to buy a 600 lb steer for less than \$622 per head ( $\$1,105 - \$483$ ). The market price would have to be less than \$1.04 per lb ( $\$622/600$  lb). For the week ending November 14, the price for 600 pound steers in Nebraska auctions averaged \$1.03 per pound.

The markets are fairly rational. They usually contain more information in them than most people realize. Analysis of alternative retained ownership programs is fairly simple. You the producer simply need to evaluate your expected cost of gain and then compare it to the expected cost of gain in a feedlot and you can project your expected return. For example, suppose you plan to retain a 500 pound calf through the winter and the keep it on grass next summer. You expect to sell a 900 pound yearling at the end of the program. You are therefore putting on 400 pounds of gain. Now suppose that you estimate you can add that gain for \$.50 per pound and that the feedlot cost of gain is expected to be \$.70 per pound. Your expected return to the retained ownership program would be \$80 per head ( $\$.70 - \$.50 = \$.20 * 400 = \$80$ ). I say your expected return, because if the overall market trends lower over the time period you will earn less and if the overall market trends higher you will earn more.

But, the key to the long term success of a retained ownership program outside of a feedlot is to be able to add weigh cheaper than the feedlot. And you can take that rule of thumb to the bank.

## The Markets

The fed cattle market was lower this past week, the lowest it has been all year. Most trade took place on Wednesday and Thursday this week on decent volume. Prices were mostly \$79 on a live weight basis and were \$127-128 on a dressed basis. Choice boxed beef prices were almost \$3.50 lower this week. The Choice-Select spread increased a few cents and is narrower than the typical level. Feeder cattle prices were mixed this past week compared to the previous week. Montana prices were generally \$1-2 higher on both weights of feeder cattle. Nebraska prices were \$1.50 and \$5.50 lower for 750 and 550 pound steers. Oklahoma prices were \$.50 and \$1.50 lower for 750 and 550 pound feeder cattle compared to last week. Corn prices were \$.04 per bushel lower than last week. Dried Distillers Grain prices were about \$1.50 per ton lower and wet distillers were a little lower per ton in Nebraska for the week.

		<b>Week of</b>	<b>Week of</b>	<b>Week of</b>
<i>Data Source: USDA-AMS Market News</i>		<b>12/11/09</b>	<b>12/04/09</b>	<b>12/12/08</b>
<b>5-Area Fed Steer</b>	all grades, live weight, \$/cwt	\$79.20	\$81.73	\$84.03
	all grades, dressed weight, \$/cwt	\$127.52	\$130.03	\$132.12
<b>Boxed Beef</b>	Choice Price, 600-900 lb., \$/cwt	\$136.08	\$139.48	\$143.13
	Choice-Select Spread, \$/cwt	\$6.84	\$6.73	\$9.56
<b>700-800 lb. Feeder Steer Price</b>	Montana 3-market average, \$/cwt	\$90.76	\$88.92	\$84.46
	Nebraska 7-market average, \$/cwt	\$94.94	\$96.55	\$92.87
	Oklahoma 8-market average, \$/cwt	\$94.03	\$94.67	\$90.60
<b>500-600 lb. Feeder Steer Price</b>	Montana 3-market average, \$/cwt	\$105.17	\$104.42	\$95.11
	Nebraska 7-market average, \$/cwt	\$105.95	\$111.46	\$103.21
	Oklahoma 8-market average, \$/cwt	\$105.14	\$106.79	\$95.07
<b>Feed Grains</b>	Corn, Omaha, NE, \$/bu (Thursday)	\$3.51	\$3.55	\$3.43
	DDGS Price, Nebraska, \$/ton	\$125.10	\$126.50	\$105.00
	WDGS Price, Nebraska, \$/ton	\$36.80	\$37.00	\$38.70