Dakotaland Feeds, LLC

A NEWSLETTER OF DAKOTALAND FEEDS

Markets & Marketing

In a Nutshell:
- **Cattle herd is historically low**
- **Carcass weights are historically high**
- **Demand has been very strong**
- **There is a lot at risk every day, and volatility is huge**
- **Use risk management tools like puts, hedges, LRP**
- **Having a risk management plan is vitally important**

You have probably been watching the cattle futures markets pretty intently as a cattlemen and wondering *where does it go from here?* How do you protect yourself? I don't have all the answers for that, but I do think some pieces of important information to consider when you are trying to make wise decisions for your operations.

You have heard it a million times: The cattle herd is historically low. That means there literally aren't cattle in the country to harvest. We are making up for that lack of numbers with historically high carcass weights. When compared to other species, like pigs or chickens, the time it takes to get more calves into the pipeline is substantial simply because of the longer generation interval of cattle. If you save back a few more gilts to breed, you see those extra hogs hit the market in a year or less. With poultry, it is only a matter of months. With cattle, you'd better be patient because it takes years from the time you make the decision to keep a heifer, breed her, fatten that calf, and put it on someone's dinner table. In the last month or so, I finally heard a few people willing to breed more heifers, but it takes time. Given that, it appears the cattle market should be strong for another 2 years.

Those historically high carcass weights also mean we have historically high grading cattle. The percentage of carcasses grading choice and prime is higher than it has ever been. More days on feed means better grading cattle. We are producing more beef with fewer head.

Demand has been phenomenal. Surveys over time have emphasized taste above all other factors. Some commentary on the pork side derides the problem of pork being the quality destruction that occurred with 'the other white meat' campaign. Much of the pork has no marbling and poor taste, and so it continues to be a cheaper product than beef. We need beef to provide a consistent, high-quality product to keep demand where it is or grow it further.

What is meant by a strong market? Great question. If anyone tells you they have the answer, they typically also say that unforeseen circumstances could change everything tomorrow, making their analysis irrelevant. Markets change. We all inherently know that. But the total dollars add up to some really big amounts. There is a lot at risk every day. We need to use every tool at our disposal to take the risk out of our business. And we need to treat it like a business. We can't just be really good at the daily tasks. As the CEO of your business, you need to be focused on making the business work, not just fixing the water tank. Is the water tank important? Absolutely. But is making sure your next pen of cattle doesn't lose $200/hd important? Also yes. Who on your operation has the skills to do that job?

Using risk management tools like LRP (Livestock Risk Protection), puts, contracts, or hedges can all be intimidating to a new user. Find someone you trust and let them help you. If they understand your position, they are more than willing to help you. You can buy LRP on fat cattle, feeder cattle, and even unborn calves to protect a certain price at some date in the future. And you have options for coverage levels, typically from 75-100% of the futures price. You could select a lower coverage level to cover your fixed costs and spend a little less, but still cover fixed costs. LRP goes by the head instead of a 40,000 or 50,000 lb contract like futures, so you can cover anywhere from 1 head to 12,000 head. The premium is not due until the end date of your LRP. Sometimes you will get a check, and other times, the premium will be due at the end date. You can use puts in much the same way, but costs will be upfront. Sometimes the best way to learn is to just do it. You can tell someone how to implant a steer, but until you actually do it and feel the pellets in the ear, you don't have the same understanding. It is the same with the risk management tools out there. You can listen to someone explain it and think you understand how it works, but until you put your money down, it's just a theory.

It is more important than ever to have a plan for risk management. Some people have a much higher risk tolerance or more net worth to withstand substantial risk. Spending money for LRP or puts can sometimes seem like a waste, but when the market goes the other direction, it can feel like a saving grace. I've heard it referred to as sleep insurance, which seems fitting since you can sleep at night knowing you are financially protected.

The one thing that most market analysts agree on is that volatility will continue. With swings in the cattle market as big $7-13/cwt in a single day, your risk management plan is too important to ignore and hope for the best.

Our team will run breakevens for you should you need those for your bankers or your own information. We will do our best to connect you to knowledgeable people who work with marketing plans every day. Our job is to get your cattle to perform the best they can and the way you expect and we have a team ready to help you do that.

Roxanne Knock, PhD

What do you need to be thinking about this time of year?

- **Get prepared for calving: Get chains, OB sleeves, lube, and calf puller in place and colostrum replacement on hand**
- **Get colostrum replacer, electrolytes, and Calf Insure on hand for stressed or scouring calves**
- **Get Stress tubs for the first and second calf heifers (if not using Cow Balancer or cow liquid)**
- **Feed Rumensin to the cows to improve feed efficiency and to limit environmental coccidia prior to calving**
- **Scrape pens when possible to help avoid foot problems**
- **Set up an implanting protocol for calves to finish**
- **Remember to get MGA if you are planning to use a synchronization protocol for your heifers to calve early**
- **If cocci is an issue in early calves, consider using Deccox creep designed for small calves with low intakes**
- **Continue feeding Rumensin and mineral to spring calving cows**
- **Consider using Clarify (Diflubenzuron) or sterile wasps for fly control**

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