

## In The Cattle Markets

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### Fall Backgrounding and Stocker Margins ...

As fall weaning approaches it is prudent for cow-calf producers to assess backgrounding prospects and likewise for commercial stocker operators to assess available margins. Each of these decisions are driven by a comparison of expected value of gain (revenue associated with weight increase) and expected cost of gain (expense incurred in adding weight), coupled with the operators views and tolerance for associated risk.

Value of gain (VOG) is largely driven by cattle market fundamentals and can be assessed using available futures market and basis information. Accordingly decision tools available online are useful to gain VOG information. Producers with a specific weight gain and feeding duration in mind can utilize projections available on BeefBasis.com.<sup>1</sup>

As an example, as of August 10<sup>th</sup> suppose a producer near Salina, KS had 100 steer calves he expected to sell on September 16<sup>th</sup> weighing 550 lbs at \$225.82/cwt. Further suppose this producer was considering retaining ownership by backgrounding the calves until November 18<sup>th</sup> when he anticipates they would weigh either 650 or 700 lbs. The BeefBasis.com resource indicates the projected VOG would be \$71/cwt to \$95/cwt depending on the actual daily gain realized over 64 days.

Alternatively consider a stocker operation who is assessing prospects for buying these September weaned calves for placement in her operation with a planned sale date of January 20, 2016. A VOG between \$113/cwt and \$127/cwt may be expected for ending weights in the 750-800 lb range.

### Backgrounding and Stocker Example, Sept. 16th 550 lb Calves in Salina, KS

<i>Sale Wt</i>	<i>Sale Date</i>	<i>Sell Price</i>	<i>ADG</i>	<i>DOF</i>	<i>VOG \$/cwt</i>	<i>VOG \$/head</i>
650	11/18/15	\$ 201.94	1.56	64	\$ 70.61	\$ 70.60
700	11/18/15	\$ 197.74	2.34	64	\$ 94.79	\$ 142.17
750	01/20/16	\$ 195.70	1.57	127	\$ 112.88	\$ 225.74
850	01/20/16	\$ 190.98	2.36	127	\$ 127.12	\$ 381.32

Source: <http://www.beefbasis.com/VOG.aspx>

As noted earlier, it is not enough to understand expected VOG as cost of gain (COG) expectations must also be in hand for ultimate assessment of \$/head and \$/cwt margins for all

<sup>1</sup> <http://www.beefbasis.com/Default.aspx>

backgrounding and stocker placement possibilities. Producers with some insight on their own COG can compare those estimates directly with the VOG values from BeefBasis.com to derive estimated margins. Those producers with less operation-specific information on COG may utilize the *Buy-Sell* decision tool available on AgManger.info to identify breakeven prices for alternative COG (and other) assumptions.<sup>2</sup> This resource can be used to shed light on how sensitive expected margins are to adjustments in COG.

Ultimately all producers are encouraged to utilize the ever-growing set of online resources to gain additional information and make more informed decisions such as whether to place cattle in their backgrounding or stocker operations. Given the historically high value for cattle and the associated financial resources at stake, any marginal gain in information and associated improvements in decision making are inherently more valuable than in the past.

### The Markets

Cattle prices last week mostly increased from prior week levels. The 5-area live fed cattle price for the week was up nearly \$4/cwt while Nebraska yearlings traded higher at \$232.25/cwt. Corn prices were steady for the week trading at \$3.60/bu in Omaha.

<i>Data Source: USDA-AMS Market News</i>		<b>Week of 8/7/15</b>	<b>Week of 7/31/15</b>	<b>Week of 8/8/14</b>
<b>5-Area Fed Steer</b>	all grades, live weight, \$/cwt	\$151.13	\$147.37	\$159.92
	all grades, dressed weight, \$/cwt	\$237.60	\$233.51	\$251.03
<b>Boxed Beef</b>	Choice Price, 600-900 lb., \$/cwt	\$234.84	\$232.73	\$262.26
	Choice-Select Spread, \$/cwt	\$5.97	\$3.64	\$6.50
<b>700-800 lb. Feeder Steer</b>	Nebraska 7-market average, \$/cwt	\$232.25	\$230.82	\$246.00
	Oklahoma 8-market average, \$/cwt	\$220.74	\$217.82	\$227.72
<b>500-600 lb. Feeder Steer</b>	Nebraska 7-market average, \$/cwt	\$252.60	\$276.22	\$287.50
	Oklahoma 8-market average, \$/cwt	\$244.54	\$250.53	\$261.54
<b>Feed Grains</b>	Corn, Omaha, NE, \$/bu (Thursday)	\$3.60	\$3.59	\$3.46
	DDGS Price, Nebraska, \$/ton	\$135.40	\$135.30	\$101.10

<sup>2</sup> The direct link to this web dashboard tool is:  
<http://www.agmanager.info/livestock/budgets/production/beef/Buy-Sell.swf>