

Managing at the (Stocker) Margins

Before discussing the importance of margins for stocker operations, I want to be clear that the first step of deciding whether or not to engage in a stocker operation is not to look at the market conditions. The first step is to identify some potential stocker programs in relation to available resources and management. These programs may emphasize buying lighter (heavier) weight cattle or adding significant weight to cattle versus turning cattle over quickly. Once potential programs have been identified, choose a program based on market conditions (price spreads).

For producers involved in stocker operations, the price differential between what calves are purchased and sold for is more important than the absolute selling price. The producer's gross margin increases as a result of narrow margins between what the stocker calf is purchased for and sold for as a feeder calf (the buy/sell margin). The buy/sell margin reflects information including changes in supply and demand fundamentals during the time period that cattle are in a stocker operation. These changes could be typical seasonal price patterns or a sudden change in demand for cattle.

Since most cattle in Louisiana are marketed prior to weights typically associated with feeder cattle (700-800 pounds), data from other states can be useful to understand the margins producers may face. First, some comparisons between stocker calf markets are needed. The table below details the difference in prices received in the different states which largely reflect transportation costs.

Table 1. Price differentials between Louisiana, Oklahoma, and Texas Markets, 2004-08.

| | 500-550 lb calves | 550-600 lb calves |
|-----------------------------------|-------------------|-------------------|
| Oklahoma City (Med-Large, 1-2) | \$116.50/cwt | \$111.56/cwt |
| Louisiana (Med-Large, 1-2) | \$104.41/cwt | \$99.94/cwt |
| Texas (Med-Large, 1-2) | \$110.71/cwt | \$107.88/cwt |
| OKC-Louisiana Differential | \$12.09/cwt | \$11.62/cwt |
| Texas-Louisiana Differential | \$6.30/cwt | \$7.94/cwt |

Source: Livestock Marketing Information Center and USDA AMS

The figures on the next page illustrate the price indices for southern plains feeders and the historical buy/sell margins for Texas. The "max" or "min" index line represents the maximum (minimum) percentage the average monthly price was relative to the average price for feeders from 1998 to 2007. Oklahoma's buy/sell average margin for cattle sold in March is -\$9.44/cwt relative to October purchase prices with the average margin for cattle sold in April being -\$8.93/cwt from 1996 to 2008.

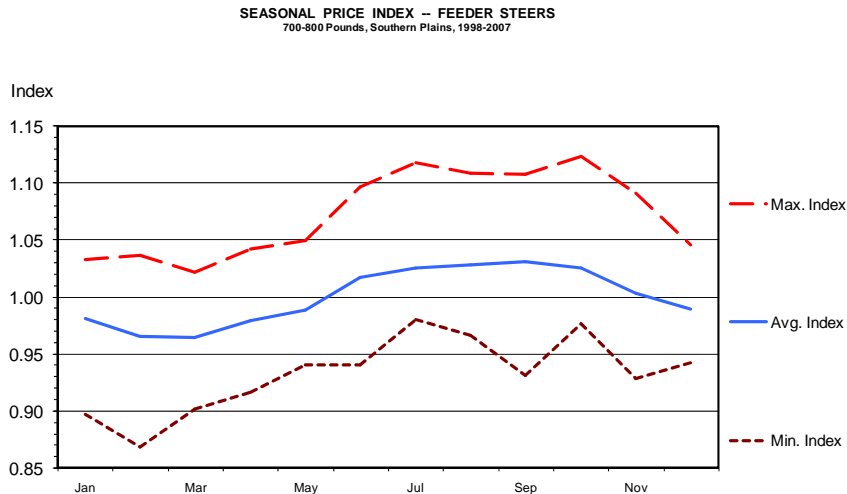


Figure 1, Seasonal Price Index for Southern Plains Feeders, 1998-2007
Source: Livestock Marketing Information Center

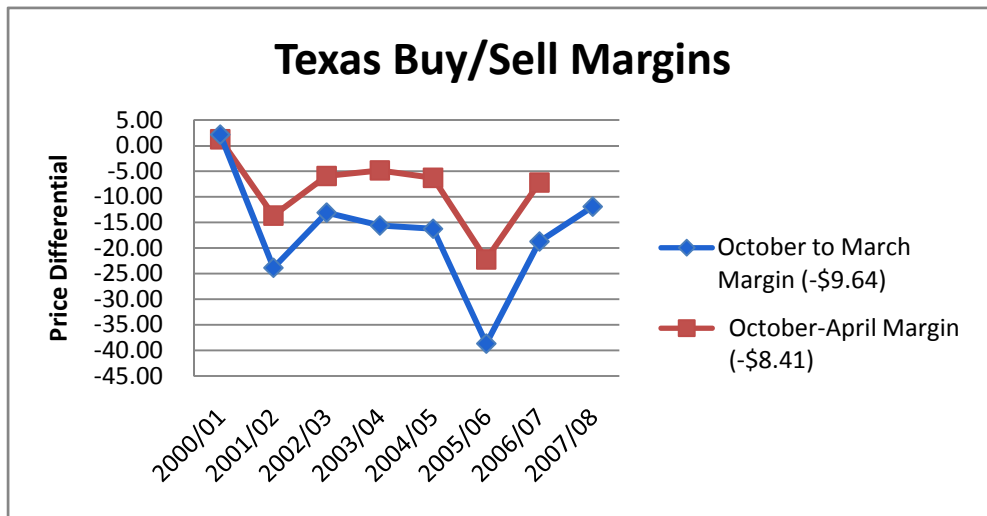


Figure 2, Texas Buy/Sell Margins for March and April, 2000-08.
Source: USDA AMS and Livestock Marketing Information Center
Note: Average margin in parentheses

Turning our attention to market related news, the next round of the Cooperatives Working Together (CWT) milk dairy buyout mentioned a few weeks ago is now accepting bids until Friday, May 1st. Jerry Kozak, President and CEO of the National Milk Producers Federation stated the number of bids accepted will depend on the number of bids received and the price level of bids. CWT states it will not pay more for cows than what they are currently worth. The number of dairy cows culled will impact the beef industry, though it's too early to tell how many animals will be culled. Based on previous years' information, CWT participation has seen about 50,000 cows culled each time a buyout has been initiated.

The byproduct values from cattle may not get much thought, but they are an important part of packer margins and ultimately cattle prices. Summer 2008 saw these values in the \$12/cwt range, but now

have fallen to the \$6-7/cwt range. These values are dependent on foreign demand for the hides, tallow, and organs. Values in the \$8-9/cwt range have been the average since 1999.

The USDA released its Prospective Plantings Report on Tuesday with soybean acreage posting the largest increase. Expected corn plantings are expected to be down a million acres, though this is less than the acreage shifts for the crop seen the past couple of years. Dr. Kurt Guidry feels that 2009/10 marketing year may be similar to the 2008/09 marketing year in terms of demand and supply conditions. The report seems to provide a solid foundation for support for prices according to Dr. Guidry. One thing "missing" from this report was approximately 7 million acres likely due to producers not sure what their intentions are when the survey was mailed in February. These acres more than likely will be planted, but which crop won't be known until late June when the USDA Acreage report is released. If one commodity were to get all 7 million acres, which is unlikely, there would be price impacts for the commodity (and indirectly the livestock commodities).

The Prospective Planting report also contained information that corn stocks were up slightly over this time last year due to soft demand. Soybean stocks were down about 9% year to year due to strong sales to China.

From the humorous but true department, a report from the USDA Foreign Agricultural Service was sent out early this morning with the title "Bavarian Parliamentarians have to admit 'A Cow Remains a Cow'." The report states that a long term research project presented to German members of parliament found that feeding cattle Bt corn does not alter cattle or their products. Unfortunately, this science is not likely to change public opposition to genetically modified organisms in Germany (and the rest of Europe).

Heavy snowfalls in the High Plains shut down packing plants in the area late last week with live prices finishing at \$87.97 and \$141.55 for dressed prices. Cash trade was inactive until Thursday and Friday of this week with Nebraska choice and select dressed carcasses going for \$135. Limited trading in Kansas today saw dressed prices at \$134. Nebraska live prices on Friday were in the \$84-85 range. No live trade has occurred in the southern plains as of 3:30 pm, but USDA is reporting increased buyer inquiry.

Boxed beef prices saw some slight gains from last week, but the choice-select spread for the week saw the value of select boxes of beef be \$0.13 greater than choice boxes. Choice boxed beef prices averaged \$135.20 for the week compared to \$135.33 for select. Beef production was up this week due to decreased production late last week as heavy snowfall occurred (478.2 million pounds of beef compared to 459.2 million last week). Pork production was down to 442.1 million pounds this week compared to 448.5 million last week. Total broilers slaughtered this week are estimated at 156.6 million. LA broiler egg sets stayed constant at 2.23 million with placements at 1.909 million. The placements represent 45% decrease in placements from last week and 49% decrease from this time last year. The decrease is at least partially attributable to the Farmerville facility currently being idled.

Compared to last week's sales in Louisiana, slaughter cows and bulls sold steady to 1.00 higher. Feeder steers sold mixed, bulk steady to weak. Feeder heifers sold steady to 3.00 higher.

Table 2. Louisiana Auction Prices for the Week Ending, 2009.

| Weight | Steers | Heifers | Slaughter Classes | |
|----------------------|-----------|----------|---------------------------|------------|
| 200-250 | \$108-119 | N/A | Breaking (850-1200) | \$43-48.50 |
| 250-300 | \$105-121 | N/A | Boners | \$42-52 |
| 300-350 | \$100-125 | \$96-113 | Lean | \$36-47 |
| 350-400 | \$100-120 | \$90-102 | | |
| 400-450 | \$94-118 | \$84-102 | Bulls, YG 1-2, <1,500 lbs | \$47-54 |
| 450-500 | \$89-114 | \$80-95 | Bulls, YG 1-2, >1,500 lbs | \$55-64 |
| 500-550 | \$91-110 | \$82-104 | | |
| 550-600 | \$81-113 | \$76-98 | | |
| 600-650 ¹ | \$85-100 | \$79-89 | | |
| 650-700 ¹ | \$85-100 | \$79-89 | | |

Note: All prices are in \$/cwt, steers and heifers are Medium and Large 1-2

Price ranges may reflect higher prices received in northern areas of the state in the middle of the week

¹ Represents the price was reported in hundred pound increments as opposed to fifty pound increment.

Source: USDA AMS

Table 3. Louisiana Auction Prices for the Week Ending, March 27, 2009.

| Weight | Steers | Heifers | Slaughter Classes | |
|---------|-----------|----------|---------------------------|------------|
| 200-250 | \$125-160 | N/A | Breaking | \$42-48 |
| 250-300 | \$104-121 | N/A | Boners | \$43-51 |
| 300-350 | \$100-120 | \$90-108 | Lean (850-1200) | \$37-46 |
| 350-400 | \$98-119 | \$85-103 | Lean (750-850) | \$34.50-41 |
| 400-450 | \$96-117 | \$83-100 | | |
| 450-500 | \$88-113 | \$79-98 | Bulls, YG 1-2, <1,500 lbs | \$58-61 |
| 500-550 | \$85-106 | \$75-97 | Bulls, YG 1-2, >1,500 lbs | \$55-63.50 |
| 550-600 | \$83-103 | \$79-95 | | |
| 600-650 | \$82-98 | \$80-87 | | |
| 650-700 | \$81-96 | N/A | | |

Note: All prices are in \$/cwt, steers and heifers are Medium and Large 1-2

Price ranges may reflect higher prices received in northern areas of the state in the middle of the week

Source: USDA AMS

Table 4. Futures Prices

| Month | Live Cattle | Change* | Feeder Cattle | Change* | Corn | Change* |
|-------|-------------|---------|---------------|---------|---------|---------|
| Apr | \$ 86.050 | 1.725 | \$ 95.400 | 2.275 | | |
| May | | | \$ 96.700 | 2.400 | 404 1/2 | 17 1/2 |
| Jun | \$ 84.175 | 2.600 | | | | |
| Jul | | | | | 414 3/4 | 17 1/4 |
| Aug | \$ 84.800 | 2.275 | \$ 98.750 | 1.850 | | |
| Sept | | | \$ 99.700 | 1.975 | 423 1/2 | 16 1/2 |
| Oct | \$ 88.525 | 2.350 | \$ 99.875 | 2.050 | | |
| Nov | | | \$ 99.850 | 1.650 | | |
| Dec | \$ 90.200 | 1.475 | | | 435 1/2 | 16 1/4 |
| Jan | | | \$ 99.300 | 0.850 | | |
| Feb | \$ 91.400 | 1.700 | | | | |
| Mar | | | \$ 98.800 | 1.000 | 446 3/4 | 14 3/4 |

Source: DTN

* Change is from the previous Friday's close