Know when to hold 'em

John Maday, Managing Editor, Drovers CattleNetwork | Updated: 07/18/2014

Looking ahead to this fall, cow-calf producers face a serious dilemma: Sell calves at record-high prices at weaning, or sell them at record-high prices later. Not a bad problem to have, but one that deserves some scrutiny, as a variety of factors play into determining the "best" marketing plan for an individual ranch.

Derrell Peel, PhD, cattle marketing specialist at Oklahoma State University, says the cow-calf producer is in the driver's seat this year, as marketing calves right off the cow will generate good returns for most. Some might want to forward-contract and price their calves for fall delivery, but Peel does not see much downside risk in waiting to price calves later.

Kansas State University Agricultural economist Glynn Tonsor agrees, saying cow-calf producers face a blessing and a curse with multiple marketing options to consider this year. Tonsor sees four primary options for cow-calf producers to consider: sell at weaning, hold calves after weaning through a fall backgrounding period on forage, retain ownership through finishing, and finally, expand the herd by retaining more heifers.

Take the money and run

Marketing calves at weaning this fall remains an attractive option for many ranchers. South Dakota State University economist Darrell Mark, PhD, says the Livestock Marketing Information Center projects returns over cash costs, including pasture rent, to be near $350 per head for an "average" cow-calf operation in 2014. Last year's average return was about $123 per head, and the previous record-high average was $150 per head in 2004.

Mark adds that last October, five-weight steer calves in South Dakota sold for around $191 per hundredweight. This year, with prospects for a large corn crop and increasingly tight calf supplies, fall calf prices could be 10 to 15 percent higher than last year, which would put steer calf prices close to $215 per hundredweight this fall. As of early June, October 2014 feeder-cattle futures were trading slightly above $200 per hundredweight. With a historical basis trend of around $20 in South Dakota, Mark says, a futures-based price forecast adjusted for local basis would also suggest prices nearing $220 this fall. And, reports suggest some ranchers have forward-contracted calves for October delivery at well above $220.

Peel stresses that even in a record-high calf market, ranchers can benefit by participating in value-added preconditioning programs. From a buyer perspective, he says, the value of preconditioning in reducing the risk of calf morbidity and mortality is even higher given amount of money they are investing in feeder cattle. It is important though, for producers who invest in preconditioning to also market the cattle in a way that captures that value, such as through certified sales that attract buyers who recognize the benefits of preconditioned calves.

Evaluate backgrounding opportunities

Peel and Tonsor both say that while most ranchers will do well selling calves at weaning, those who have adequate moisture and ample forage might be leaving money on the table. With the value of gain on forage valued well over $1 per pound, the reward for putting another 100 to 200 pounds on calves in a fall backgrounding program could be substantial compared with selling at weaning.

K-State, Tonsor says, offers decision-support tools in collaboration with BeefBasis.com that can help ranchers objectively evaluate these marketing options and estimate returns based on projected market prices for their area. For example, looking at a 550-pound steer marketed on September 18 in Salina, Kan., versus the same steer marketed in December at 750 pounds, the calculator projects a value of gain at $126 per hundredweight.

The next step is for a rancher to look at cost of gain. Across much of the Northern Plains region, where forage conditions are good, backgrounding cost of gain will be well below that level, while ranchers in the Southwest likely would have significantly higher costs. As the projected cost of gain approaches the projected value of gain, the prospects for profitably backgrounding calves decrease.

Peel points out that producers should consider the quantity and quality of feed resources available, other potential uses of those feed resources, and labor and management considerations, all of which influence the cost of gain for retained stockers. He adds that retaining stockers is not an all-or-nothing decision, and ranchers can evaluate different options based on size and classes of cattle. For example, it might make sense to sell the heavy end of the calf crop at weaning and retain the lighter calves for backgrounding, or to sell steers and keep heifers.

Capture heifer value

As producers around the country begin rebuilding their herds, open commercial heifers have become valuable as potential replacements. For several months, Peel says, replacement heifers have been selling at little or no discount to steers of comparable weight. Some producers with good-quality genetics and excess forage might want to hold and possibly breed all their heifers, sort off replacements for their own herd and sell the rest as yearlings, bred heifers or as first-calf heifer pairs.

Peel adds that if ranchers are working to expand their herds by retaining more replacement heifers, they should take those costs and forage demands into account when considering a backgrounding program for their steers. Even where forage conditions are good, supplies might not be adequate to effectively feed steers, heifers and the gestating cow herd. Also, producers keeping more heifers for replacements might need the cash flow offered by selling the remaining calves at weaning.

Tonsor points out that K-State’s AgManager.com website includes an Excel-based decision aid to estimate the value of replacement heifers. Find it at agmanager.info/Tools/#LIVESTOCK.

Feed at your own risk

Peel says he is “not excited” about opportunities for retaining ownership through finishing this year. Even if corn prices move lower in expectation of a big crop, feeding margins are likely to remain tight. If ranchers value their calves appropriately going into the feedyard, and calculate their cost of gain and finishing breakevens, they’ll find a high level of risk compared with selling at weaning or after a backgrounding stage.

Tonsor also believes retaining ownership through finishing looks dicey this year. Cattle feeders saw some good profits this spring, but his projections indicate that trend will shift as high feeder-cattle prices push their costs to near breakeven levels. As of mid-June, his projections show feedyard returns declining though this summer, reaching $7 per head by September and a negative $83 per head by October. Projected fed-cattle prices remain strong, with an average around $145 per hundredweight in October, but high feeder-cattle prices push the breakeven price for fed cattle higher, with a projected average breakeven of $151.61 in October. That trend is likely to continue through this year and into early 2015, meaning thin to negative margins for cattle placed into feedyards this fall.

Some ranchers who have experience in finishing their calves in a value-added system – people who know from experience their cattle will perform well and bring premium prices – can still benefit from retaining ownership through the feedlot. But for others, Peel says, “this is not a good time to learn how to feed cattle.”

View the **digital edition** of the June-July issue of Drovers/CattleNetwork for articles on summer cattle health, silage production and more.