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TO RETAIN OR NOT TO RETAIN?

That's the question many cow-calf producers have pondering with their calves this fall. For those considering retained ownership of their cattle through backgrounding or finishing this year, the decision is difficult given strong feeder cattle prices brought on by a historically high slaughter cattle market. Darrell Mark, UNL Extension Livestock Marketing Specialist, in an October 6th newsletter hints the best option appears to be selling calves.

Nebraska fed cattle prices topped $90.00 per hundredweight in September, while the Chicago Mercantile Exchange September Feeder Cattle contract traded at over $100.00 per hundredweight. A year ago, fed cattle prices were in the upper $60.00's. In terms of actual values, these are the highest prices on record. If you take inflation into account, the $92.00 price on September 9th in real dollars equals the annual average real prices for 1991, 1992 and 1993 when actual fed cattle prices averaged around $75.00.

A tight cattle supply, increased consumer demand for beef, and a positive international trade market are responsible for higher prices. All-time real-dollar records or not, price improvements are especially welcome after several years of slumping prices and drought.

Cow-calf producers that wean and sell calves in October/November can forward contract sales of 550 lb. steers for about $109.00 in the North Central states. At least three alternatives that could be considered include:

1. Selling the steer calves for October/November delivery.
2. Backgrounding the steers until they reach 750 lbs. in late January.
3. Finishing the steers to 1,250 lbs. by June.

Mr. Mark looked at the three alternatives recently and talked about them at the price outlook meeting at Saline Center the end of September.

Under alternative 1, the producer will receive $600.00 revenue and not be exposed to downside price risk.

For alternative 2, the January selling price for the 750 lb. steer is $91.14/cwt (based on January feeder cattle futures at $89.60 and Nebraska 3-year average basis of $1.54). Total feeding costs would be about $100.00/head based on a feeding cost of gain of $50.00/cwt, putting the breakeven at about $93.33, or about $2.00/cwt more than the expected selling price.

Under alternative number 3 (finishing the steer calf), the total feed expenses would be $350.00 using a feeding cost of gain of $50.00/cwt. Again, valuing the placement cost of the steer at $109.00/cwt, the break even for this scenario is $76.00. With June live cattle futures at $72.30 and an expected basis of $0.17 in Nebraska, the expected selling price of $72.47 is still about $3.80/cwt lower than the break even. Alternatives 2 and 3 also include more risk for the producer

(feed costs and sale price risk) unless these risks are hedged (note that the break evens above do not include hedging costs).

Thus, based on current market prices, it appears that the highest return is to sell calves now. Of course, backgrounding or feeding programs that utilize more roughage (e.g. wheat pasture, silage cut due to drought, etc.) may lower feeding costs enough for some producers to project some profits to retaining ownership. Still, it looks like the pencil will have to be sharpened pretty closely. For more information, go to the web at http://agecon.unl.edu/markets

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