Cow Country Reporter

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News from your CEO

STOP NOW, if you have not paid your 2017-2018 CPL dues please write a check for $50.00 or pay with your credit card by going to our web site (www.lacattle.org) and reup online.

We have said "good bye" to Harvey but we will not forget Harvey's destruction anytime soon. According to information from Texas A&M, 54 counties in Texas were declared disaster areas which represent 1.2 million cows amounting to 27% of the state's cow herd. This statement is not to say all of these cows were lost, however, the effects of flooding and tornadoes could result in loss of numbers. As of September 1, 2017, twelve Louisiana parishes were declared disaster areas (Beauregard, Calcasieu, Cameron, Jefferson Davis, Vermilion, Acadia, Allen, Iberia, Natchitoches, Rapides, Sabine and Vernon). Farm Bureau has reactivated their hay hotline, contact Carey Martin 225-922-6226 or carey@LFBF.org for details. Well, we will enter the Fall of 2017 by repairing, replacing, accessing losses of crops and livestock with that "we can do this" attitude that the agriculture community is noted for.

Cattle started coming to market about two weeks early in Louisiana in the week ending August 4. Cattle prices moved lower as supplies increased and the beef industry made their big meat sales for the last beef event, Labor Day weekend, we will not see another big demand for beef more likely until December. With calf prices trending lower, but higher than last year at this time, your marketing plan is, do I hold them until after Thanksgiving or sell now? Hopefully the bulk of our producers have already sold their calves.

Call our toll-free number 888-528-6999, ext. "3" for weekly price info. If you were not adversely impacted by Harvey you are blessed. Return your blessing by giving to those that have been. Enjoy the season of Fall.

Dave Foster, CEO

Is it stocker time?

Derrell S. Peel, Oklahoma State University Extension Livestock Marketing Specialist

Labor Day seems a bit early for many producers to be talking seriously about fall and winter stockers. However, a wet and cool August opens up a broader set of stocker possibilities than is typical in Oklahoma. Most of the state received upwards of double normal precipitation in August and forage is green and growing most everywhere. Below average temperatures in August resulted in cool soil temperatures that allow winter wheat to be planted at any time. Some wheat was planted by the end of August and much more ground is ready to plant. The one caution that producers are reporting is that armyworms are already active and are a threat to newly emerged wheat as well as other forages.

Early planted wheat along with other forages may add 30 or more days to the front end of winter grazing. At the same time, expectations for 2018 wheat prices are dismal enough that some producers are beginning fall grazing with an intent or high likelihood of grazing out wheat next spring. A full graze-out adds another 75 or so days to the winter dual-purpose grazing period. Together, these conditions suggest the possibility of 220 or more days of grazing compared to a more typical 120 day winter grazing period.

With a significantly longer grazing season ahead, producers can evaluate a wider range of grazing options than normal. An early start to

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Is it stocker time?

fall grazing means that a single set of stockers may be too big by the end of graze-out. Producers may consider purchasing very lightweight stockers (which bring additional management challenges) or consider two sets of stockers between October and May. This would imply selling the first set in January and starting with a second set for graze-out. Two sets of stockers allow producers to consider a wider range of purchase weights and perhaps avoid demand bunched around lightweight stockers. It is common in the fall to see prices for typical stocker sizes (400-525 pounds) to be high relative to heavier stockers (550-650 pounds). Current prices for stocker cattle suggest that a wide range of purchase weights (400-650 pounds) all offer roughly the same value of gain and similar potential for returns.

Stocker purchase prices typically decline seasonally a bit from September into October. Last week's Oklahoma average price of $170.88/cwt for 475 pound, med/large, number 1 steers would be expected to decrease $2-4/cwt. in the next month based on average seasonal patterns. However, stocker prices in Oklahoma are notoriously variable in September. In years with good early forage conditions (such as this year), stocker prices may show little seasonal decline and may even increase into October. Conversely, a larger 2017 calf crop implies bigger fall runs that may keep seasonal pressure on prices, especially into later October and November.

Combinations of stocker production alternatives mean that stockers could be marketed from January through May, 2018. Currently, Feeder futures are trading in a narrow range from about $141/cwt. in January to $139/cwt. for March and May. Depending on expected sale weights and timing along with other budget factors, it appears that there is potential to manage risk on winter stockers and protect reasonable return possibilities.

Amazon Poised to Disrupt the Grocery Industry

Source: AgNetWest

Whole Foods and Amazon announced their $13.7 billion merger deal on June 16, sending a wave of concern through the grocery industry. Whole Foods' first day of operation as part of Amazon saw prices on popular items drop by a third. More discounts are expected in the future in their effort to shed the grocer's reputation for high prices.

In a Whole Foods in downtown Los Angeles, the price of organic Hass avocados was slashed by 33 percent. Boneless rib eye prices dropped nearly 18 percent, while the price for "responsibly farmed" Atlantic salmon filets declined almost 29 percent. For some products, Whole Foods' prices were lower than big name competitors in the area.

Amazon was already making waves in the food industry before the Whole Foods announcement. Amazon Technologies has filed over 110 food related trademarks. A portion of those trademarks involves the phrase "single cow burger." Amazon is already marketing their Wagyu beef burgers, made from grass-fed cattle raised in California, as being produced from a single cow instead of trimmings of multiple animals like most other burgers. While there is no evidence showing single-cow burgers are any safer, tastier or have less impact on the environment, the inference is still being made to consumers.

The company hopes to soon be selling substantial quantities of beef and other proteins, potentially making Amazon a major player in the beef industry. The future could see the company holding enough leverage to potentially force changes to systems of production, such as environmental stewardship and sustainability.

Analysts are predicting that Amazon's move into the food business will address the demand for affordable, quality food products delivered quickly. However, analysts also estimate that overall prices in Whole Foods stores will need to be reduced by 10 to 15 percent to effectively compete with competitors in the grocery industry.

U.S. Beef Not Popular In Beijing

U.S. beef does not sell well in Beijing one month after it entered the Chinese market for the first time in 14 years, Securities Daily reported.

A salesperson at a Beijing store told the paper that imported U.S. beef is expensive and looks darker than other beef, so buyers are more interested in buying fresh meat at competitive prices.

The paper found U.S. beef is not offered for sale on a large scale although some e-commerce stores and supermarkets announced in the past it would be sold.

One store was found to sell U.S. beef produced on June 28 and packed on Aug. 16 with an expiration date of year hence. A salesperson said it took two months for U.S. beef to hit the Chinese market and that fresh beef tastes better than frozen cuts, "so real beef lovers will not buy the U.S. meat."

The beef sells for 106 yuan to 316 yuan per kilogram in Wumart retail outlets.

Insiders told the paper prices of U.S. beef are higher than estimated and has not caused a drop in prices for Chinese beef on the market.

Wang Chengcheng, an analyst with Sublime China Information Co. Ltd., said U.S. beef imported into China abides by strict requirements and will not flood the market with poor quality meat.

But the import still affects the domestic beef market. China's cattle industry lags behind U.S. producers in branding and efficiency, reported the paper.

Profit Tip: Developing a Risk Management Strategy for Beef Enterprises

Source: The Stock Exchange via University of Nebraska-Lincoln Extension

Developing risk management strategies for your operation is an important thing to give a little thought to as you go about making decisions. There are four main strategies a producer can use to manage risk:

1. avoid the risk
2. transfer the risk
3. control the risk
4. accept the risk

Avoid the Risk

Avoiding risk is a case of simply not doing the thing that exposes you to the risk. For example, if you want to avoid the risk of retaining heifer calves and trying to get them bred, you can simply not retain them anymore and buy bred heifers that are guaranteed pregnant. Keep in mind, avoiding a risk can sometimes expose you to a greater risk. This certainly might be the case if you suddenly stopped raising your own replacement heifers and started buying them from someone you didn't know.

Transfer the Risk Outside Your Business

Transferring risk outside your farm or ranch is usually done through insurance or marketing contracts. Insurance contracts provide protection from downside risk in exchange for a premium expense. By paying the premium, you essentially transfer some of the potentially bad outcomes to an insurance company that is better equipped to tolerate the risk. Insurance has the effect of truncating your distribution of possible outcomes on the downside in exchange for subtracting the insurance premium expense from every outcome. Marketing tools like a put option work exactly the same way.

On the other hand, a marketing contract that locks in your price on some or all of your production would have the effect of squeezing your distribution of outcomes into a tighter range of possibilities. You are transferring some of the risk associated with the full range of possibilities to the person you are contracting with in exchange for a risk premium that they collect from you up front by offering you a contract price that is slightly in their favor compared to what they expect the actual price to be at the end of the contract period. The more you lock in, the tighter the range becomes for the outcome. As you lock in more and more, you transfer more of the potential upside and more of the risk premium to the person you are contracting with in exchange for also transferring more of the downside risk to them.

Evaluating insurance and marketing contracts can be frustrating if you only do it after the fact. Once the outcome is determined, it is tempting to declare the decision good or bad based on whether the contract worked in your favor. That is a bad habit to get into. You should always make a sincere effort to evaluate the insurance or marketing decision at the time you make it in terms of what it costs you in premium compared to the benefit of transferring the risk to a party outside of your farm or ranch.

Control the Risk

Controlling risk is by far the most active form of managing risk. There are two primary ways to control risk. You can either control the probability of the outcomes occurring or control their impact if they do occur. Very seldom can you do both with one tool.

For example, you can influence the probability of your replacement heifers getting pregnant by maintaining proper nutrition and a number of other things. Is this a good strategy? Probably, but you need to compare the extra expense with the increased pregnancy rate of your heifers to determine the value of this strategy. If you wanted to control the impact of your heifers not getting pregnant, you need to move to a different strategy.

Controlling the impact of risk involves using strategic risk management tools like diversification, keeping extra reserves on hand, and maintaining flexibility to lessen the impact of a bad outcome or increase the impact of a good outcome. For example, exposing extra heifers to breeding will lessen the impact of a poor conception rate. Maintaining the flexibility to buy bred replacement heifers would also lessen the impact without the need to increase the number of heifers you retain. This can also be thought of as diversification in that you have more than one source from which to obtain bred replacement heifers.

Accept the Risk

Risk is usually associated with a potential reward. Sometimes there are no tools available to control or transfer risk or the tools are just too expensive to justify using them. In this case, accepting the risk might be the right strategy. Producers speculate on risk all the time. That's where a lot of the profit in farming and ranching exists. However, it should be done with careful evaluation of the potential impacts and your willingness to accept the probability of their occurrence.

Summary

Risk management is an activity that can pay big dividends. Thoughtfully considering and evaluating various risk management strategies as a habit of doing business can lead to a stable and prosperous future for your operation.

Reference

Jay Parsons, Farm & Ranch Management Specialist

University of Nebraska-Lincoln

Fed Cattle Market... Ugly

Cassie Fish -- cassandrafish.com

The technical performance of Oct LC this week has been horrible. An outside week with a highly likely lower close after failing at key technical overhead resistance- this week's action has left no question that a bottom is not in sight. Oct has retraced to the high it made last January of $104.47. Now that it's September, Oct will be pelted by rollover for the next 2 weeks. Since it's trading par to cash and there is no reason to believe that next week's cash price will be any better than steady, the near-term outlook is grim for bulls.

The anticipation of worsening fundamental news in September and October consistently fuels the fire of the decline. There is an abundance of talk about more-than-ample fed cattle supplies in Texas for September, yet formula numbers are supposed to drop- a puzzle. Cattle are reportedly being hauled north to Kansas to die and that is expected to increase. The labor-restricted fed kill capacity concern is the noise dominating the background of all thoughts and conversations. How much is fear-mongering and how much is fact matters little, if at all, until this market has exhausted itself on the down.

Why did the market bottom October 13, 2016? What made that day, 'the' day? Some cattle market bottoms have been memorable. Others have not. What is true is anticipation many times has a greater impact than reality itself. Will the industry lose currentness in September heading into fall as cattle weights seasonally increase? Are the numbers really there in Iowa and eastern Nebraska this year?

No way to know until more time goes by.

The cattle feeding industry did a great job getting current and staying current in 2017. Beef demand has grown all year, domestic and export. Packers have run the most +500 weekly fed slaughters since 2013, after adding some staff and picking up line speeds. And up until August, cattle feeders had a profitable year. But now the losses, premium board and lousy swap for replacements have eclipsed the memory of all that went right in 2017. Relief that things went better than expected has been replaced by dread that last year's Q4 lows won't hold.

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