February 2012
University of Wyoming

BARNYARDS & BACKYARDS

University of Wyoming Extension · Profitable & Sustainable Agricultural Systems · RMA Risk Management Agency

Carbon County ranchers seek to manage risks of fat cattle prices, feed costs - Part 1

By James Sedman and John Hewlett

Carbon County ranchers Norm and Belinda Bell operate Bell Livestock. They run 300 cow-calf pairs and, for the last four years, have retained ownership of their steer calves.

They plan to do the same this year with their 155 steers at a central Nebraska feedlot. While the Bells are extremely happy with current cattle prices, they are concerned volatility in fat cattle prices and feed prices may affect profitability.

They hear a lot about the drought in the southern part of the country and are worried that, if they do not make a decision now, supply shortages in the fall could drive already high feed prices even higher.

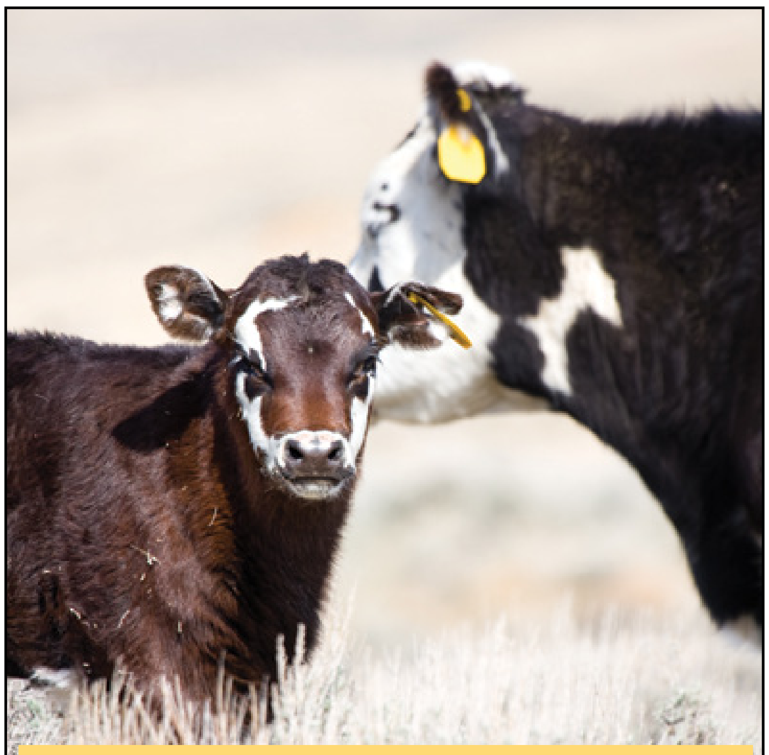
Risk Management Options

- The Bells discussed their risk management alternatives with a local crop insurance agent and are evaluating several options:
- Do nothing and "let it ride." While it may not seem much of an option, doing nothing can work as long as feed prices and cattle prices hold steady or increase.
- Livestock Risk Protection (LRP). LRP insurance is available under the Federal Crop Insurance Corporation program and is designed to help producers insure against price declines. Contracts range from 13 to 52 weeks and use a price index determined by Chicago Mercantile Exchange (CME) prices for the selected time period. LRP does not insure against losses of livestock or changes in feeding margin, nor does the actual price received for the cattle have anything to do with an indemnity payout. As a result, producers can take advantage of increases in cash price.
- Livestock Gross Margin (LGM). LGM insurance is a relatively new product that protects against losses in feeding margins – changes in cattle and feed prices. As with LRP, producers select a feeding period and insure livestock based on a gross margin guarantee. Indemnities are paid if the actual gross margin (determined by a CME index like LRP insurance) falls below the trigger level. Like LRP, what price the cattle actually bring on the cash market has no bearing on whether an indemnity is paid.
- Prepay their feed bill. The feedlot has offered the option of prepaying feed, specifically offering to lock-in the corn price at $6 per bushel for the duration of the feeding period if paid up front.
- Use the futures market. This is the most risky and potentially expensive of the alternatives, although it could also be the most profitable. The Bells' broker advised them to use options to minimize potential margin calls and risk exposure.

Future Discussion and Peril

In the next installment, we will look into how the various risk management alternatives would be applied to the Bells' operation. We will evaluate their strategy and how well it may work under two main scenarios – decreasing cattle prices and increasing feed/input prices.

James Sedman *is a consultant to the Department of Agricultural and Applied Economics in the University of Wyoming College of Agriculture and Natural Resources, and* **John Hewlett** *is a farm and ranch management specialist in the department. Hewlett may be reached at (307) 766-2166 or hewlett@uwyo.edu.*



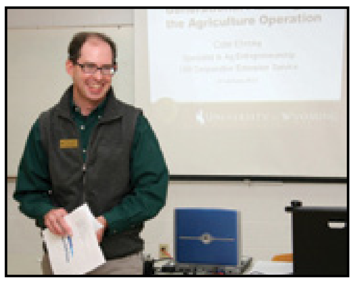
For more information

Contact a crop insurance agent to learn more about Livestock Risk Protection and other livestock insurance options or visit the Risk Management Agency's website at www.rma.usda.gov. For more information on livestock risk management and other risk management topics on the Web, visit the Western Risk Management library online at riskmgt.uwagec.org.

Planning farm, ranch succession subject of UW Extension workshops

Helping producers develop a farm and ranch succession plan is the goal of a two-day workshop at the University of Wyoming this month.

Developing the Next Generation of Management sessions are Friday and Saturday, Feb. 24-25, in the Senate Chambers room of the Wyoming Union on the Laramie campus. The sessions are hosted by the Department of Agricultural and Applied Economics and University of Wyoming Extension.



Cole Ehmke

"The workshop is a chance for the two generations of management in an ag operation to get together and talk specifics about what they envision as the future of the ranch and make plans for how they'll get there," said Cole Ehmke, a member of the economics department and extension personal financial management specialist. "There will be sessions on finance, communication, legal issues, organizational structure and more."

Registration is $35 per farm by Feb. 17 and $50 after.

Events start 9 a.m. Friday, and the last session begins at 7 p.m. Sessions begin at 8 a.m. and end at 12:15 p.m. Saturday.

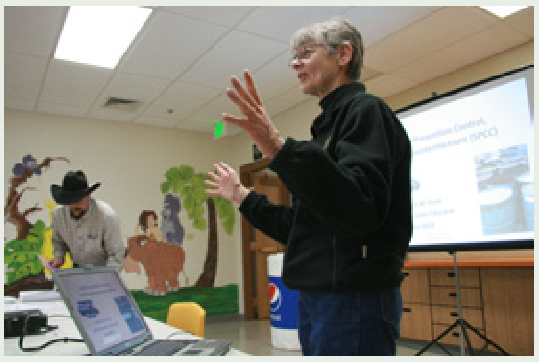
Each session will have a brief presentation followed by time for participants to separate into family/business groups and work together as they plan their future business arrangements, said Ehmke.

"It is important that all the players in the transition be present to participate in the planning process," Ehmke noted.

Special guest is professor and extension specialist Norm Dalsted of Colorado State University who will share his experiences with facilitating transitions.

For more information, contact Ehmke at 307-766-3782 or cehmke@uwyo.edu.

Session Season



University of Wyoming Extension educators and specialists gave presentations and demonstrations at the annual Fremont County Farm and Ranch Days in Riverton Feb. 1-2 and at WESTI Ag Days Feb. 7-8 in Worland. Top, from left, Alex Malcolm gives pesticide certification training in Riverton, Sandra Frost from Park County offers spring wheat information for the Big Horn Basin, Mae West of Carbon County presents cheatgrass data, Barton Stam of Hot Springs County oversees pesticide certification classes in Worland, beef cattle specialist Scott Lake's sessions at both locations were about feed efficiency and its effects on cattle, and Dallen Smith of Big Horn County at farm and ranch days fields a question about balancing sagebrush and forage production.