Take Advantage of High Prices While They Last

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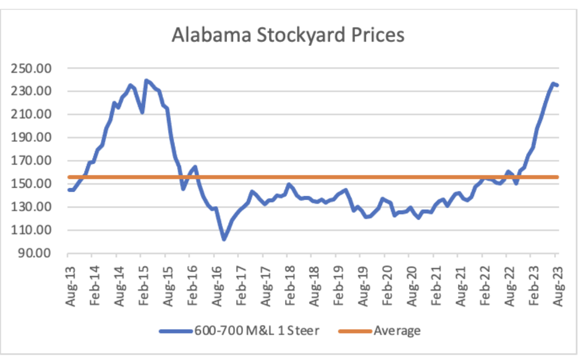
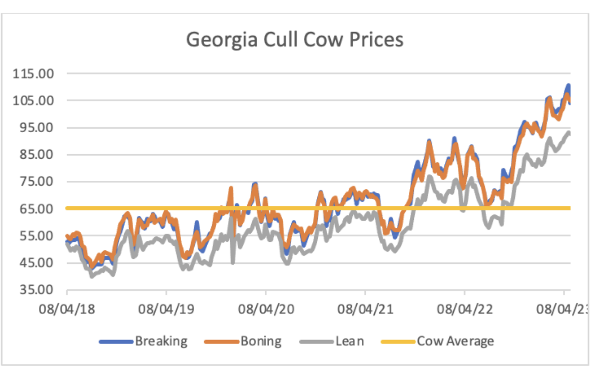
Cattle prices are historically high currently (figure 1), and they are projected to stay that way at least in the near term. In fact, many livestock economists anticipate prices will strengthen even more into next year. The question for Alabama Cattle producers is how to respond to high prices.

Figure1.



Data Source: USDA-AMS. Livestock Marketing Information Center.

Figure 2.



Data Source: USDA-AMS. Livestock Marketing Information Center.

The initial response of producers to high prices is to maintain or expand their herd to capitalize on feeder prices. After all, what cattle producer wouldn't want more calves to put on the trailer when they are getting north of 2 dollars per pound for anything that can walk onto the trailer most days. While this is certainly appealing, producers should consider both short term and long term goals as they make their production and marketing plans for the fall of 2023 and spring of 2024.

The first consideration is should I cull cows? The answer to that is most likely yes, especially given that the best time to sell culls is when cull prices are high. Cull prices look extremely good right now (figure 2) and with the much smaller cattle inventory we currently have there should be continued demand at least through the short term.

There are a couple of things to consider when thinking about culling plans. First, cull any cow that hasn't produced a calf in the last year and isn't bred currently. The cost of carrying a brood cow is estimated to be more than $1000 per year and we simply shouldn't spend that on employees (cows) that aren't getting their job done. Second, consider age, quality, and disposition.

Producers have an opportunity to cull underperforming or problem animals and in so doing improve the overall genetics of their herd. Producers should also evaluate their cattle to pasture ratio. Many Alabama cattle farms are overstocked and a great time to rectify that is when prices are high for our culls. Stocking rates in Alabama should normally be between 1.5 and 2 acres per cow-calf pair, but the reality being the ratio is much smaller than that.

The other consideration for most producers should be whether to try to price protect calves going forward. Prices are high now, but how long will they remain high? There is a lot of speculation on when prices will move one way or the other, but from a realistic standpoint it's impossible to know with much clarity. There are just too many factors that affect prices. So, what does that leave for options for producers?

There is usually discussion of futures contracts and/or options to protect prices. This is a good opportunity for some producers, but many Alabama producers would benefit by looking at other alternatives. The way a futures contract works to protect prices is by working as a counterbalance to actual cash market for calves. A producer would sell a futures contract for a certain price , with the assumption that the prices may go lower. If they do, then the producer buys a contract at the lower price to fill his obligations to the market and profits the difference in the contracts. This price gain in the futures market then helps to counterbalance the loss we assume in the cash market because of the lower prices when we sold our actual cattle. Sounds complicated, and it is. It is also a game of volume. Producers should balance the futures contract (which is on a truckload basis 50,000 pounds) and their volume of actual cattle. So, if you don't have truckload of feeder calves (many producers don't) then you are no longer hedging your prices and have now become a market speculator. This is usually not a good idea and probably shouldn't be considered by most producers. Options are exactly what the name says, an option to buy or sell a contract at a given time. The concept is that if the market goes up instead of down, you don't exercise the option and you make money on the cash side with the animals. Seems like a great thing that allows you a floor and where you can remove the ceiling, but it comes at a fairly heft price. Again, if you don't have the animals, you are speculating, and we don't usually recommend that.

An option that many producers might want to consider is Livestock Risk Protection (LRP) insurance. This gives you a lot of the benefits of a futures contract or option, but with more flexibility. LRP insurance can be bought for as few as 1 animal and is heavily subsidized. This makes it both realistic and affordable for small and large producers. For more information on LRP and how to find an authorized agent, visit the USDA Risk Management Agency (RMA) website (https://www.rma.usda.gov/) .

There are a lot of reasons to be excited about the cattle markets as we finish this year and go into 2024. There is a great opportunity to be profitable and improve genetics. Take advantage of high prices while they are here.