

Retained Ownership Profit Overview

Despite the fact that beef production has increased since last year, fed cattle prices have continued to climb throughout the summer and into fall. This has provided exceptional strength to feeder cattle markets across the county, including here in Kentucky. The fact that prices on light calves (i.e., under 500 pounds) have been better than they have in a long time has caused many producers to go ahead and part with this year's calves. The dry summer and fall weather has also factored into producers' marketing decisions this year. Many producers seem to feel that they will be short of hay this winter and are selling their calves to reduce the number of mouths that they have to feed. Even though calf prices are high and hay a little scarcer than we would like for it to be, there are some potentially profitable retained ownership opportunities available for producers to consider this year.

Backgrounding Outlook

Dry weather has reduced most pasture to brown stubble this fall. Recent rains have improved the looks of things considerably, but there won't be much stockpiling of fescue taking place this year. Backgrounding options are thus primarily limited to harvested feeds this winter. Fortunately, corn and other harvested feeds are quite inexpensive this year. Cheap feed is only part of the equation, though. Calf prices have been very strong this fall. There is a question as to how much value can be added to calves that are already priced fairly high. Budgets based on a corn price of \$2.10/bu indicate that backgrounding will return \$20 - \$25 over variable costs this year. Basically, if 5-weight calves can be sold for around \$92/cwt, the average producer is probably about as well off selling them at weaning as retaining them until spring. The bottom line is that whether or not backgrounding will pay this year will probably depend upon the individual producer's access to feeds. For example, producers who can feed home-raised corn with a market value of only about \$1.85/bu will fare very well by backgrounding even with very high priced calves. Likewise, producers who can receive truck-load deliveries of commodity feeds like corn gluten feed or soybean hulls can stand to background higher priced calves. On the other hand, producers purchasing all of their feed in small (3 or 4 ton) increments may have a hard time finding any profit in backgrounding.

Custom Feeding Outlook

The outlook for cattle feeding is very good this year. Inexplicably strong demand for beef has pushed cash fed cattle prices into the high \$60's/cwt about two months ahead of most analysts' schedules. As of early October, live cattle futures for February and April were offering cattle feeders the opportunity to hedge cattle at just over \$70/cwt. Low corn prices are also a very positive factor in the outlook for cattle feeding. A good deal of the profit potential from cattle feeding is being bid into feeder cattle prices this fall. Thus, feeding profits might not be as high as one might expect. Budgets based on 6-wt steer prices of \$83/cwt and corn prices of \$2/bu indicate about \$30/head of profits to cattle feeding. This assumes a late-March 1,150 pound steer price of \$69/cwt. Currently, southern Plains corn prices are below \$2/bu so there may some potential to increase that profit margin with forward purchases of feed.