Gibson Insurance Group

"The Risk Management Specialists"

Livestock 2016

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Inside this issue:

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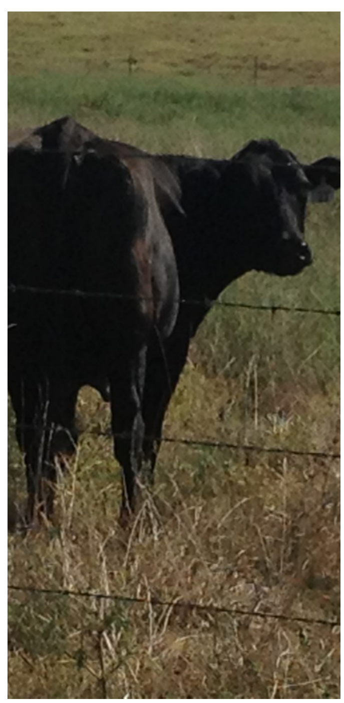
Livestock Price Protection - The Basics

Raising cattle whether it be a cow calf operation, backgrounding, or fed cattle operation, all have their unique set of challenges. Producers must be attuned to the health of the livestock, nutritional programs, weather adversities, and also the volatility of price in the cattle market. Most producers have developed a good plan when handling most of these issues, but when it comes to price many cattlemen find themselves at the mercy of the local markets. Today, it doesn't have to be that way.

Several years ago the USDA developed a risk management program that takes much of the price risk out of cattle operation. This product is called Livestock Risk Protection (LRP) and has one purpose, to protect the producer against declining prices. This product was designed for the cow calf producer, the backgrounder, the cattle finisher as well as for hogs and lambs

How the program works for cattle producers

The USDA uses the CME to establish what prices will be at specific times in the future by looking at the traded contracts on the specific kind of livestock being covered. Coverage prices, premiums and coverage lengths offered to the livestock producer will change daily. What is offered daily is based on current market conditions.



When a producer's coverage ends, the USDA will compare the coverage price that was established earlier with the feeder cattle index on the ending date. If the index is lower than the price established, the difference will be paid to the producer.

What is the feeder cattle index?

The CME Index was designed to use sale price data of feeder cattle within the major feeder cattle producing states. The Index uses steers meeting prescribed muscling frame score requirements, exhibiting no predominantly dairy, exotic, or Brahma breeding characteristics and none being labeled on the market news reports as fancy, thin, fleshy, gaunt, or full. Non-US origin cattle are also excluded. The steers must also be publicly reported from within the specified twelve feeder cattle producing states (12-state region). The data is collected by USDA / State

CME FEEDER CATTLE INDEX CALCULATION
Fri, 02/05/16

Sales figures for each class

2/5/2016 FRIDAY			Medium & Large #1 Steers 650-699 lbs			Medium & Large #1 Steers 700 -749 lbs			Medium & Large #1 Steers 750 - 799 lbs			Medium & Large #1 Steers 800 - 849 lbs			Medium & Large #1-2 Steers 650-699 lbs			Medium & Large #1-2 Steers 700 -749 lbs			Medium & Large #1-2 Steers 750 - 799 lbs			Medium & Large #1-2 Steers 800 - 849 lbs							
Sale Dat	Sale Location	Stat	Head	Weight	Price	Head	Weight	Price	Head	Weight	Price	Head	Weight	Price	Head	Weight	Price	Head	Weight	Price	Head	Weight	Price	Head	Weight	Price	Total Head	Total Weight	Weighted Average Weight	Total Price	Weightec Average Price
2/5/16	BELEN	NM	3	667	157.63	2	725	152.53	1	750	146.00	0	0	0.00	111	670	160.11	6	743	152.50	2	775	144.50	0	0	0.00	125	84579	676.63	13457286.83	159.11
2/5/16	BOWLING GREEN	MO	26	677	155.00	9	722	150.09	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	35	24100	688.57	3703594.82	153.68
2/5/16	BRUSH	CO																									0	0	0.00	0	0.00
2/5/16	BURWELL	NE																									0	0	0.00	0	0.00
2/5/16	car-jop video (sc)	s	0	0	0.00	140	750	153.50	0	0	0.00	258	819	150.85	0	0	0.00	0	0	0.00	110	795	152.00	0	0	0.00	508	403752	794.79	61284806.7	151.79
2/5/16	COLORADO DIRECT	CO	0	0	0.00	0	0	0.00	735	775	160.47	665	816	155.42	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	1400	1112265	794.48	175744832.6	158.01
2/5/16	CRAWFORD	NE	40	690	168.75	8	708	157.88	8	776	139.87	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	56	39472	704.86	6420045.28	162.65
2/5/16	CRESTON	IA																									0	0	0.00	0	0.00
2/5/16	DUNLAP	IA	101	674	172.36	201	733	167.82	157	786	158.08	119	818	153.68	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	578	436151	754.59	70925565.42	162.62
2/5/16	FT. PIERRE	SD																									0	0	0.00	0	0.00
2/5/16	HERREID	SD	158	678	175.68	75	730	162.53	216	759	160.80	117	836	149.29	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	566	423630	748.46	68682610.5	162.13
2/5/16	IOWA DIRECT	IA	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	0	0.00
2/5/16	KANSAS DIRECT	KS	0	0	0.00	0	0	0.00	334	761	159.02	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	334	254174	761.00	40418749.48	159.02
2/5/16	KNOXVILLE	IA																									0	0	0.00	0	0.00
2/5/16	LEXINGTON	NE																									0	0	0.00	0	0.00
2/5/16	MONTANA DIRECT	MT	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	0	0.00
2/5/16	NEW MEXICO DIRECT	NM	0	0	0.00	0	0	0.00	1070	775	157.00	0	0	0.00	280	686	161.42	41	741	153.90	350	750	153.35	550	800	154.53	2291	1754211	765.70	274121014.5	156.26
2/5/16	OKLAHOMA DIRECT	OK	0	0	0.00	132	737	157.86	67	750	156.98	476	823	151.03	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	675	539282	798.94	82411197.68	152.82
2/5/16	SOUTH DAKOTA DIREC	SD	0	0	0.00	0	0	0.00	195	750	161.66	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	195	146250	750.00	23642775	161.66
2/5/16	SUPERIOR VIDEO (SC	S																									0	0	0.00	0	0.00
2/5/16	SUPERIOR VIDEO (NC	N																									0	0	0.00	0	0.00
2/5/16	TEXAS DIRECT	TX	0	0	0.00	65	740	155.50	412	761	158.33	180	807	152.17	63	683	162.57	266	729	156.42	627	770	154.76	21	816	149.43	1634	1243761	761.18	193829751.1	155.84
2/5/16	TORRINGTON LIVESTO	WY	0	0	0.00	0	0	0.00	6	752	154.00	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	6	4512	752.00	694848	154.00
2/5/16	WOODWARD	OK	83	675	169.43	153	724	162.23	132	758	158.70	263	831	152.31	0	0	0.00	50	738	155.42	44	780	152.77	7	838	148.00	732	562492	768.43	88475784.34	157.29
2/5/16	WY-NE DIRECT	N	0	0	0.00	140	740	163.50	0	0	0.00	132	800	158.00	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	272	209200	769.12	33623400	160.72
2/5/16	DAILY TOTALS		//////////																								9407	7237831	769	1137436262.15	157.15
2/5/16	SEVEN-DAY TOTALS		//////////																								33791	25256673.03	747	4044841303	160.15

BLANK CELLS INDICATE THAT A SALE WAS NOT HELD OR A WEIGHTED AVERAGE REPORT WAS NOT ISSUED   lower case indicates special sale

Net Change 0.48

REPORTED INDEX 160.15

REPORTED CHANGE 0.48

Reporting Auction Sites for Friday February 5, 2016

CME Feeder Cattle Index for February 5, 2016

Livestock Price Protection - The Basics

Market News Reporters and released on the Internet at www.ams.usda.gov/marketnews.htm.

The Index is a seven-day weighted average and is defined as “the total dollars sold during the seven-day period divided by the total pounds of feeder steers sold during the same seven-day period.” Every pound of feeder steer sold during the seven-day period has the same impact on the final price. The index always reflects lagging data because that is the only data available. For example, on Friday, June 15, 2012 an updated index reflected data through June 14.

A practical example of how this works for feeder cattle.

Joe Farmer has weaned 50 head of 500 lb heifers that he intends to background until the end of May.

He could sell these calves today at the local auction for $160/cwt. He expects these calves to gain 2.0lbs/hd/day so by the end of May these cattle will weigh 740 lbs. He expects the cost of gain will be $0.50 per pound.

Looking at the price floor established with LRP Joe sees that he can lock in a minimum price of $142.20 for these calves on May 26th.

When May rolls around Joe has decided to breed these heifers as the cash markets have fallen significantly.

On the 26th of May the feeder cattle index for heifers is established at $120. Joe had established a minimum price of $142.20 so Joe will be issued a loss payment of $22.20/cwt or $164.28/head.

In this example you will notice that Joe did not have to sell his heifers to

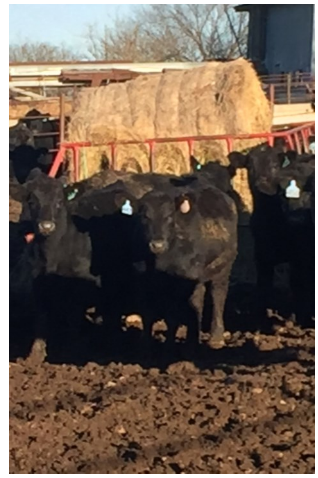
Livestock Price Protection—The Basics (continued)

get paid a claim. The claim is always based by comparing the guarantee against the feeder cattle index. If the index is lower than the guarantee then an indemnity will be paid. This situation remains true for all feeder livestock. However with finished cattle they will need to go to slaughter within 30 days on either side of the ending date as there is no other use for slaughter cattle other than for meat.

For the cow calf operation I generally have producers look at this process a little differently.

We need to know the costs of producing a calf to weaning weight. We also need to know when the producer would typically market these weaned calves. This date would be dependent on the calving season. Most producers usually wean calves around 200 days after the calving period has ended.

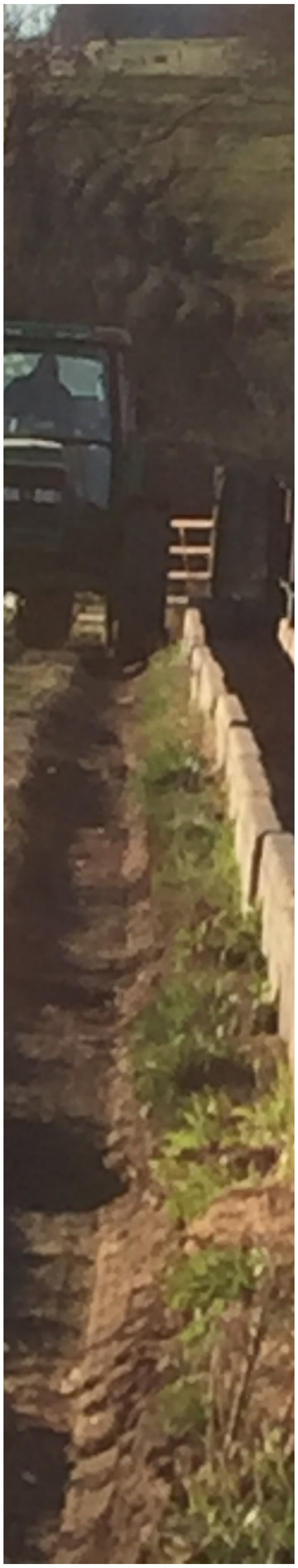
To figure these costs I will use a spreadsheet from Iowa State University Extension for demonstration purposes and insert



Hay and Pasture Calves Sold

	Price	Unit		Quantity	Unit				Total
Production Efficiencies									
Calf weaning rate	90%								
Calf death loss	1%								
Cow death loss	2%								
Cow replacement rate	10%								
Income	**Price**	**Unit**		**Quantity**	**Unit**				**Total**
Heifer calves	$1.52	*per lb*	x	500	*lbs*	x	0.34 *head*	=	$261.03
Steer calves	$1.78	*per lb*	x	550	*lbs*	x	0.45 *head*	=	436.14
Cull cows	$0.78	*per lb*	x	1350	*lbs*	x	0.08 *head*	=	84.24
Gross Income									$781.41
Variable Costs									
Feed Costs	**Price**	**Unit**		**Quantity**	**Unit**				
Pasture	$56.00	*per acre*	x	2.5	*acres*			=	$140.00
Pasture fert. & misc. costs	$20.00	*per acre*	x	2.5	*acres*			=	50.00
Corn	$3.70	*per bu*	x	4	*bu*			=	14.80
Modified distiller grain	$80.00	*per ton*	x	0	*tons*			=	0.00
Salt and minerals	$0.09	*per lb*	x	60	*lbs*			=	5.40
Supplement & minerals	$0.16	*per lb*	x	0	*lbs*			=	0.00
Grass hay	$46.00	*per ton*	x	2.1	*tons*			=	96.60
Corn stalks	$3.00	*per acre*	x	4	*acres*			=	12.00
Other									0.00
Total Feed Costs									$318.80
Veterinary & health									$25.00
Machinery, equipment, fuel & repairs									15.00
Marketing & miscellaneous									20.00
Other									0.00
Interest on variable costs	5%		x	6	*months*			=	8.52
Labor	$13.00	*per hr*	x	3	*hours*			=	39.00
Total Variable Costs									$426.32
Income Over Variable Costs									$355.09
Fixed Costs									
Machinery, equipment, housing & fences									$65.10
Interest & insurance on breeding herd									41.20
Bull depreciation/replacement									12.00
Total Fixed Costs									$118.30
Total All Costs									$544.62
Income Over all Costs									$236.79

Livestock Price Protection - The Basics (continued)



the numbers from my farming operation.

When I look at the Iowa State spreadsheet I first enter the weaning % of cows bred. Typically we will wean about 90% of the cows that are bred.

A small calf death loss and cow death loss will be figured into this spread sheet and 10% of the heifer calves will be saved as replacements to the cow herd.

My fall calving was completed by 12-10-2015. On January 6th I looked at the LRP offerings and saw that I could put a minimum floor under my steers for $178/cwt and $159/cwt for the heifers at the time of weaning (June 1, 2016).

Because I will be keeping back the best of the heifer crop I reduced the heifer price by $6 and entered $152 into this formula.

For the rest of the formula we just need to enter in the real costs of production of the cattle that we raise on our farm.

In the end you will see that I have expected costs to keep a cow of $544.62 per year. On January 6 I could establish income using the LRP program for these calves of $781.41 which would generate a profit of $236.79 per head.

By doing this I have eliminated the price risk of further decline in the market until the date of 6-1-2016.

Like in the first example, if the feeder cattle index on 06-01-2016 came in below the prices that I have established using the LRP program I will be paid an indemnity of the difference. Again, it is not the price that I get for my cattle but rather the value of the index on 06-01-2016 that will determine a loss.

With the direction and the volatility of the cattle market, I have found this tool to be a key element in the profitability of my operation.

PRF - The Basics

Lack of rainfall is the leading cause of loss in the production of forage. The USDA/RMA created a program to help livestock and hay producers manage this risk and called it the Pasture, Rangeland, and Forage Rainfall Index. The Pasture, Rangeland, and Forage rainfall index, or PRF, is a single peril product that protects against the shortage of rainfall over a specific area during specific time periods. It does not cover flood, freeze, insects or disease, only for shortages of rainfall.

Anyone that has an interest in the production of forage on specific acres of ground is eligible for PRF coverage. This includes owners of livestock that graze for forage, landlords, tenants, hay producers, custom operators, and seed producers.

Where your acres are located is important. PRF is based on the historical precipitation of small areas called grids. These grids are approximately 13 x 13 mile boxes in which the precipitation data has been collected by the National Oceanic and Atmospheric Administration. Only the rainfall data from the grid in which your covered acres lie will be used to determine the index of the average amount of rain-

PRF - The Basics (continued)

fall for your coverage.

PRF coverage is broken into 2 month interval periods, which allows the producer to choose the specific months that he needs to have adequate precipitation for his forage production needs.

The same month cannot be included in more than one selected index interval for the same county, grid ID, intended use, irrigated practice, and share. He must select a minimum of 4 months, with no 2 months overlapping. Each of the interval periods has its own historical rainfall data within a particular grid.

There are two types of acres that can be covered under the PRF program, hay or pasture. Eligible acres are any acres in which haying or grazing is practical. Any acres that are not suitable or practical for haying or grazing or any acres planted to an annual are not eligible for coverage. If you hay and graze the same acre, it is up to you to determine the most important use for that acre to insure. Producers are not required to insure all of their eligible acres.

Each acre of hay or pasture is assigned a base value for coverage purposes. Producers can choose to protect from 60 to 150 % of the dollar value of the county base rate per acre of the selected type.

Producers are also allowed to choose a coverage level between 70 to 90% of the historical rainfall index. Anytime the current Rainfall Index for an insured Interval is below the chosen coverage level the producer is deemed to have suffered a loss and an indemnity is

due.

PRF is part of the Federal Crop Insurance program and producer premiums are subsidized by the Federal Government by at least 51% to eligible applicants.

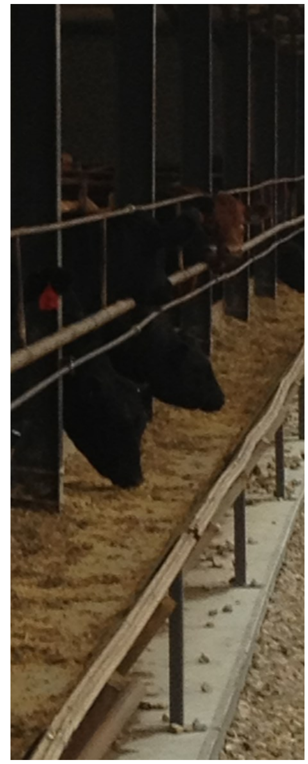
Application for PRF coverage must be made by November 15 to be eligible for coverage the following year. The PRF policy is a continuous policy meaning that a producer is eligible for coverage each year without having to reapply. It will remain in place until the producer either changes coverage or cancels the policy.

The application itself does not create premiums. This is done when the producer makes an acreage report in which he reports to his agent the amount of acres, type of crop, Index Intervals that he wants coverage on. Premiums are not due till September 1 of the insured year.

Any claims due to a producer are paid automatically after the index values for an insured interval have been published by RMA. There are no claim documents that a producer must fill out or return to his agent.

PRF is made to work hand in hand with current FSA Disaster Assistance programs like the Emergency Livestock Assistance Program, Livestock Forage Program, and the Farm Storage Facility Loan Program. Producers are also allowed to have FSA's NAP coverage along with PRF coverage on their forage acres.

You don't need to have an extended drought like those in the southern plains suffered in 2011-12 or that the Midwest



PRF
NOVEMBER 15
Sales Closing
Acreage Reporting Due

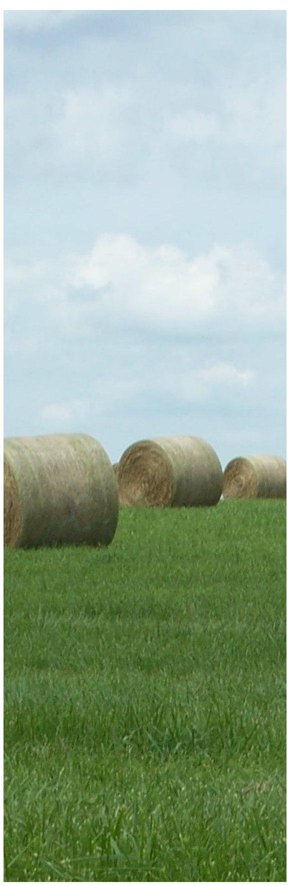
Check Out Our Website Improvements

Updated LRP Calculator

with help boxes for each drop down box

New Beef Cow-Calf Enterprise Calculator

Modeled after the Iowa State University Extension's Cow-Calf Calculator



PRF - The Basics (continued)

suffered in the summer of 2012 to realize the impact that a shortage of precipitation over a 2 month period can have. PRF is an important and cost effective risk management tool for producers who depend on forage production in their farming operation.

What Is Going On In The Beef Market?

The last several years most people in the cattle sector have focused on supply side economics. The nation's cattle inventory numbers were the lowest they have been in decades. These numbers coupled with booming export sales, a weaker dollar, and over capacity of feed yards, helped to fuel a buying frenzy that sent cattle prices to historic levels.

At the same time the pork and poultry industries were having considerable problems with diseases that curtailed production and caused exports to be banned by several countries.

As the cattle market prices steadily increased, more and more momentum traders and index funds entered the market in hopes of generating a profit on these large price moves.

As prices rose, cattlemen started the expansion of the cow herd by saving heifers at very pronounced rate. At the same time, packers were so desperate to get cattle that they didn't discount those cattle that were over finished to 4+ yield grades. This encouraged the feeders to hold cattle longer and continue adding to the carcass size to maximize their profits.

At the start of 2015, the USDA cattle inventory data indicated that the cattle slaughter for the year would be down by 5%. As it turned out, the amount of beef available to consumers actually increased by 1%. This was caused by two different forces. The first was by the higher weights we added in the feed yards and the second was due to the increased imports of beef brought into this country.

By mid-year 2014, this market had topped, since it had reached levels that were too high to sustain. The trend had changed. The momentum traders and index funds began the process of reversing their positions, accelerating the downward momentum of this market.

At the same time, economic troubles became common world wide. The dollar began to strengthen against foreign currencies. The exports of beef began to slow. This is what has happened over the past 18 months.

Where are we now and what should we expect in this industry in the near

What Is Going On In The Beef Market? (continued)

future?

The current price trend is down. From August 1, 2015 to February 1, 2016 the CME's Feeder Cattle Index has fallen over $57 per cwt.

Let's look again at the facts. Brazil is the second largest exporter of beef in the world behind the United States. The high value of our dollar compared to the Brazilian Real gives Brazilian beef a monetary advantage in the world export markets. The potential loss of sales to these export markets will increase the domestic supply of beef, further deteriorating prices.

The USDA expects beef production in 2016 to rise by 4%. The annual cattle report estimates the total cattle inventory in the US to be up 3.2% from a year ago to 92 million head. It is also estimated that number of feeder cattle outside the feedlots to be up to 25.9 million head, 5.3% higher than a year ago.

USDA reports show that rapid expansion is also underway in the breeding herd. Beef cow numbers are up 4% over the last year and a 3% increase in heifer retention will be adding additional numbers to the cow herd. The number of these heifers expected to calve in 2016 is up 6%.

The total beef and poultry numbers for the 4th quarter of 2015 look like this.

Domestic available beef was up by 2.6% and an additional 1.1% was available from frozen stocks and larger imports over a year ago

Pork supplies are estimated to be up 5.3% over a year ago.

Broiler supplies have seen the largest jump in history with an additional 6.9% increase over a year ago.

There are many factors that effect markets that are outside the realm of production. The world economy is not doing well at all. The drop in oil prices could bankrupt several countries. Russia, Venezuela, Ecuador, and Saudi Arabia are all countries that live on the exports of oil. In turn this could put extreme pressure on the world banking system. As the currency rates of these nations fall against the dollar our exports become more expensive, thus less attractive.

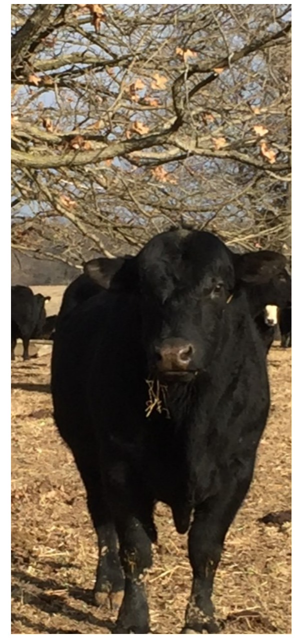
Putting this all together I am confident that the trend will remain lower for the next year for all of the meat industry.

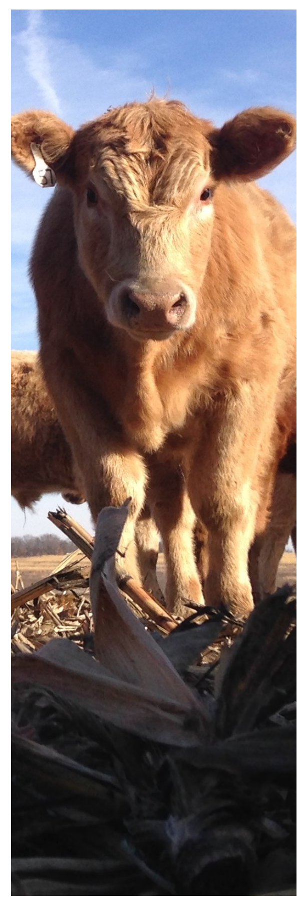
Where is the bottom to the cattle market? That is anyone's guess, but without bullish news I would expect this market to continue to erode over the near term.

Producers will need to remain cost conscious during this period of time and be realistic with expectations of price movements in the market.

On the positive side, as cattle prices have fallen so have the input costs to produce beef. Corn and nearly all of the proteins have come down considerably over the last year. Fertilizer prices have also fallen. I would expect land prices and cash rents to fall as the profitability in agriculture is challenged.

Remember, the sales price is not the most important factor when we sell livestock. The margin between what you spent and what you made is where we make our living. I would much rather make $100 per head selling feeders at $1.50 than I would losing money selling cattle at $2.00





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Rural Crime Meeting

Hosted by California FFA

Open to the Public

Thursday March 3 at 7:30 PM

At

California High School Ag Building

Presenters: Missouri State Highway Patrol Rural Crime Unit

Moniteau County Sheriff's Department

Please join us to learn more about rural crime and how we can prevent it in our area

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