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Threshold to profit

Cattle price breakeven calculators put quality into the equation for educated decisions

Cattle enterprises are risky business. You can invest a year's input into one annual calf sale, or look into ownership in the growing and finishing phases. As market prices move up and down, you have to appreciate a new tool that calculates "breakeven," the threshold to profit.

Paul Dykstra, beef cattle specialist with Certified Angus Beef LLC (CAB), developed a calf price breakeven calculator to do just that.

"This tool helps you understand the market and make the tough calls on whether to accept a bid," he says. "It can also help you make an informed decision on whether to retain ownership and finish your cattle."

Available at www.cabpartners.com/facts/breakeven.php, the breakeven calculator is a spreadsheet that can establish a reference point for producers. But an accurate calculation can only be determined if users enter precise data.

"Numbers you plug in must be solid, either taken from herd history, futures markets or a feedlot manager who has records of similar calves with similar history," Dykstra says. "The more you can document similarities, the more accurate results."

The calculator begins with an ending price for fed cattle, projected from the Chicago Mercantile Exchange Live Cattle Futures. It works backwards to predict some aspects of how your calves will perform in the feedlot, accounting for input costs and the final premiums and discounts.

"All these factors interact in the educated – or calculated – guess at a breakeven price for the day when your calves would be sold," Dykstra explains.

This calculator is unique because it factors in the premiums and discounts associated with percent Prime, the *Certified Angus Beef*[®] brand, Choice and lower quality grades, Yield Grades and carcass weights. It's easy to use for a technical tool: just hover the cursor to see instructions for each cell, or download the cell-by-cell guide.

“We didn’t completely reinvent breakeven, but there are new features that are often overlooked, including freight charges and dressing percentages,” Dykstra adds.

With enough detailed information, producers can decide whether to retain ownership or when to sell the calves after evaluating the input costs. And when the decision is based on more than a hunch, it can be a topic of discussion at the bank.

Knowledge is the key in deciding whether to hedge cattle, forward contract or wait to sell.

“The more you can educate yourself about your cattle, the better your prediction will be,” Dykstra points out.

Herd history provides average daily gain, feed conversion and carcass quality. If those are unknown, feedlot managers or nutritionists can help find logical numbers from calves of similar genetics, weight, age and nutritional background.

When all the numbers are entered, the calculator shows cost of gain and breakeven. “If you’re the seller, you might see that as a floor price,” Dykstra notes. “On the other hand, a buyer might see breakeven as the ceiling. The market works because no two producers plug in the same numbers. One bidder may walk away because the numbers don’t work for him, while another may bid significantly higher and see room for profit.”

And whether you are the calf buyer or have chosen to retain ownership, there’s also a “fed- cattle price calculator” at the cabpartners.com site, and it works the same way. When evaluating the futures price for the probable harvest month, those who use this calculator can know their target floor.

Overall, these are user-friendly tools, Dykstra adds. “All the calculations are performed by the spreadsheets, leaving just the data collection and entering to the producer.”

Buying or selling, “nobody wants to just break even,” he allows. “But with quality cattle and a cultivated awareness of the market, these tools can help you cross that threshold and harvest some profit.”

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