

The Cattleman's Dilemma

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The word dilemma means to choose between two equally undesirable alternatives. It seems as if many of life's decisions could be classified as a dilemma. This certainly seems like the appropriate word to describe many decisions made by cattle producers. However, many times that dilemma is actually an opportunity to take a risk or make a change that could be extremely advantageous to the operation or be a costly mistake.

Situations such as drought, a bull getting in with the cows at the wrong time, and cattle not performing as expected may all create a dilemma. For instance, the dilemma created by drought may mean either marketing calves earlier than anticipated, purchasing more feed, or culling the herd. However, another alternative may be to sell out and custom graze cattle for someone else or to seasonally graze some purchased cattle. Similarly, what are the decisions to be made if the bull gets in with the cows at an inopportune time? A producer could leave the bull in with the cows and let the thing ride, give them all a shot of prostaglandin to abort any bred animals, or pull the bull as quickly as possible and then put the bull in at the correct time. Another alternative would be to pregnancy check the cows at some point along the way and market any animals that will not fit the desired calving season as bred females.

The point in all of this is to say that coronavirus has placed many cattle producers in a dilemma. The most obvious dilemma was when to market cattle. As soon as it was evident that coronavirus was going to be around for a while, cattle prices declined quickly. With the decline in prices, cattle producers were faced with the dilemma of selling cattle in the depressed market, holding the cattle a short period with the hope prices would improve, or retaining ownership in the feedlot. Unfortunately, many producers who held cattle in March and April were forced to move those cattle in May and June which probably did not provide them any benefit from a price standpoint. Similarly, producers who sent cattle to the feedlot in February and March are facing the sobering fact that they will have to market finished cattle on a terrible market which may have made them worse off than if they would have just sold the feeder cattle in the late winter or early spring. Many of the producers who did not market cattle in June and July are now faced with the same situation as those in March and April.

Now that we are in August, a large number of yearling type cattle are expected to be marketed. August is generally a good time to market yearling cattle, because prices begin to seasonally peak. At the same time, there tend to be a lot of cattle sold in August for October and November delivery. This is an opportunity for producers to take advantage of the positive nature of prices in August. Will that be a good idea this year? It is difficult to know, because the market has not rebounded to any degree to provide optimism. Regardless, producers in this time period will also face the same dilemma many before them have faced. Actually, some producers will be facing the same dilemma they faced in the previous months.

An alternative method of facing this dilemma as opposed to holding on to the cattle a couple more months or retaining ownership in the feedlot is to sell the cattle and then buy them back on paper using the futures market. This strategy is only appropriate for producers marketing 50,000 pound lots or more, but it is an alternative. Such a strategy may be considered speculation by some, because it opens the producer up to unlimited risk since they do not actually own any cattle. However, it may actually be less risky than retaining ownership of the cattle in the feedlot. If a person sends the cattle to the feedlot with the hope that cattle prices will increase, then that person is taking the risk of the market, risk of cattle performance, risk of feed prices, and risk of health issues with the cattle. If they sell the feeder cattle and buy them back on paper then they are only facing the risk of the market.

This is not meant to advocate utilizing the strategy discussed in this article. This is meant to stretch the readers mind to think of alternatives to any dilemma. The alternatives most people think

about tend to be the extremes. There are many alternatives for folks to evaluate, and they may just be the ticket to success.