



## TAKING PRIDE IN OUR CUSTOMER'S SUCCESS

A Publication of Rippe Gelbvieh

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### HOW TO LOCK IN THE PRICE OF YOUR FEEDER CALVES?

Volatile. These days it seems that one word can describe the prices of all agricultural products we produce; whether this is good or bad I am not sure because I could argue both sides. Demand of beef in the United States has been tremendous this summer. The packers harvested over 700,000 head last week alone. Because of this, we have seen an increase in the price of cattle the last two weeks, which is atypical for this time of year. Will this continue the rest of the summer? I don't believe anyone has the answer to that. I do know that the current price for feeder calves is well above their cost of production and some producers are looking into the possibility of hedging their calf crop. Due to this opportunity, I decided to write an article on the different methods of controlling price risk in feeder calves. I am going to give a brief description of each method as well as the pros and cons of each alternative. The four alternatives I am going to discuss are futures contracts, options contracts, livestock risk protection insurance program, and forward contracting with a feedlot.

A futures contract is a highly standardized agreement between two parties to buy and sell a specific amount and quality of a commodity at an agreed price at some specified time in the future, and at a specific place. The commodity we are dealing with is feeder calves where one contract is 50,000 pounds. This price is based on a 750 pound feeder calf, therefore, one contract would account for approximately 67 calves. Most producers calves would not reach this weight until late fall or early spring. Consequently, I would advise looking at either the November or January fu-

Method	Pro	Con
<b>Future Contract</b>	Most Rewarding in a a downtrending market	No Upside Potential/ Margin Calls
<b>Option Contract (Put)</b>	Upside Potential still available	Pay Premium
<b>LRP</b>	Great for Small Producers	Pay Premium
<b>Forward Contracting</b>	Price is set	Control is lost

tures price. Keep in mind, futures contracts expire around the 2nd week of the month. The current November feeder calf price is around the \$1.13/cwt range. Let's say for instance that you typically sell your feeder calves the first week of November and they average 750 pounds and you have 67 calves to market. In order to hedge on the futures market the first step is getting a broker. To hedge your feeder calves, you could sell one November feeder calf contract on the futures market today. Then when you sell the feeders at the sale barn, to get out of the futures market you simply reverse your position by buying one contract of November feeder calves on the futures market board. If the price went down you would make money on the futures board and if it went up you would lose money on the futures board but you would obviously sell your calves for more money. Basis is the factor that indicates your profits or losses, but that is more detail than there is room for in this article. The advantages I see with this program is that you can roll or lift your position any time you want and you do not have to pay a premium for this other than the commission your broker charges, which you should ask about when obtaining a broker. A disadvantage would be that you might have to make margin calls, which is paying a certain percentage on the

contract through your broker, if the market went against you. You also must be a large enough of a producer to fill one contract. However, the most important disadvantage is that you do not have any upside potential left if the market price continues to rise and you marketed 100%.

A put option contract is just like purchasing a floor on a price through the futures market, so the size of one contract is the same as a futures contract. The price you decide to be your floor is called the strike price and the amount you pay for this is called the premium. The premium depends on how close the strike price and the futures market are along with the amount of time before the contract expires. An option contract for feeder cattle expires the 2<sup>nd</sup> week of each month just like a futures contract for feeder cattle. For example to set your strike price at \$1.08/cwt, it might cost you. You must pay the premium when you purchase the contract along with the

Continued on Page 2

Hello everyone, the moisture we have received this summer has definitely been reassuring. I am in Colorado this summer with my internship that I discussed on Page 3 of the newsletter. I hope you find some insight in this newsletter. If you have any questions about the newsletter, or have some special request for other information, feel free to give me a call anytime at (316)323-4874.

Sincerely,

Dustin Rippe

## What is new at Rippe Gelbvieh?

This spring we flushed our first cows; we attempted to flush two, but were only successful receiving embryos from one of them. On the right, Dr. Tom Rea is shown placing an embryo into a recipient female. Nineteen embryos were placed in recipient females total, and the calves born from these embryos will be full siblings to Rough and Ready, the bull we displayed at our sale. Our hope is to continue to flush our top cows in order to receive multiple calves from elite females, which will allow us to produce more high quality females and bulls to offer our customers. It will also allow our customers to purchase full siblings to use in their program, which will allow for a more consistent, high quality product.



## What has not changed at Rippe Gelbvieh?

We continue to artificially inseminate (AI) every cow possible. My dad artificially inseminated over 120 cows this spring. This technology allows us to utilize the top bulls in the nation at a minimal cost compared to purchasing this caliber of bull. The use of AI is not something I see changing in the near future for our program. In 2005, only 24% of the calves registered in the Gelbvieh breed were AI sired. At Rippe Gelbvieh, in 2005, we only sold 1 bull and kept back 1 registered replacement female from our entire herd that was not AI sired. Artificial Insemination has allowed us to quickly become an elite breeder in the Gelbvieh breed and offer a high quality product to our customers.

Continued from Page 1

commission to your broker. When you sell your calves, if the futures price is lower than your strike price you will receive the difference, which would make your price above market. The main advantage of an option contract is that it does not put a ceiling on your price like a futures contract does, and it also allows you to have the flexibility to roll or lift your position at any time. The main disadvantage is that you have to pay a premium. Another disadvantage is you must be a large enough of a producer to fill one contract.

The livestock risk protection insurance program is a new federally reinsured livestock insurance plan. It is insurance in its simplest form and works similar to an option contract. This insurance can be purchased continuously throughout the year from approved livestock insurance agents on any number of head up to 1,000 of feeder cattle that are expected to weight up to 900 pounds. Premium rates, coverage prices and actual ending values are posted daily and they are based on the prices the day before. You can select coverage prices ranging from 70 to 95 percent of the expected ending value of your feeder calves and the length of the insurance is from 13 to 52 weeks. You can choose from two weight ranges: Under 600 and 600-900 pounds. The main advantage I see to this program is that it works great for smaller cattle producers who cannot fill a futures contract and is simpler than an option contract. It does not put a ceiling on your price. The main disadvantage is that you do not have the flexibility to get in and out of the market when you choose like option or futures contracts. You have to pay a premium like an option contract and it typically costs more.

The last method to discuss is forward contracting with a feedlot. I feel this is the simplest form of hedging your price because all you have to do is simply agree price, weight, delivery and date. This requires picking up a telephone and possibly a herd visit from a cattle buyer. If your calves are over or under the agreed weight the feedlot will simply apply a basic slide, or adjustment, to the agreed price. The advantage of this form is that it has the least risk as your price might as well be set in stone, possibly in a written contract. There are several disadvantages; including you have no control left because you no longer own the calves. I have also talked with three different feedlot operations and they all said they would not write any contracts at this time for the current future price and they have not heard of anyone doing this at this time. They might consider writing a contract if you reduced your price some from the futures price. Additionally, they would be more willing to go into this deal if you retained part ownership in the calves.

I do not know if hedging your calves is the best option at this time, and if you think it is a good idea, recognize that each alternative described has its pros and cons. In addition to this, I feel that each alternative has differing advantages for each individual operation and the personality of its management. If you have any more questions about this article or you are in need of specialized information on any of the alternatives presented, feel free to give one of us a call at Rippe Gelbvieh.

## Good Luck Juniors!!

Rippe Gelbvieh would like to wish all the exhibitors at the National Junior Gelbvieh Show good luck with their animals and in their contests. Take time to thank whoever is responsible for allowing you to participate in this event. I learned a tremendous amount going to the different classics. I urge all of you juniors to participate in every contest possible because this experience will pay big dividends in the long run whether you win or lose. I would also like to wish all the young cattlemen and women good luck with their projects at the county fairs this year.

## Guaranteed

We develop our bulls at Rippe Gelbvieh so that they will have tremendous longevity and hold up during the summer. Thus, we guarantee them for the first breeding season. Call for more details.



## What I am doing this summer.

This summer I was fortunate enough to receive an internship with Five Rivers Cattle Feeding. It is a brand new company that was formed last spring when ContiBeef and Smithfield merged together and became the largest cattle feeding company in the world with a capacity of over 800,000 head. I am spending the majority of my time at the Kuner feedlot, which is East of Greeley about 15 miles and has a capacity of around 90,000 head. Above is an arial view of the feedlot from on top of the mill. I switch departments at the feedlot every couple of weeks. The departments that I have or will be working in include: Yard/Shop, Mill, Cattle, Feeding, and Office. This should allow me to gain a basic understanding on how each department functions and a broad overview of the feeding segment of our industry; I have only been there one month so far and have learned a tremendous amount already. On a side note, there are some things we look back in our life and regret. Well, not paying attention in Spanish 1 or 2 in high school is something that I will

forever regret. I am proud to say that my Spanish is improving this summer. However, I still speak a mix of Spanish and English just like most everybody else at the feedyard, making communication can be difficult at times. A couple days ago I helped re-implant and vaccinate about 200 steers in less than 30 minutes. They told me my only job was to keep the tub and alleyway full. At the start I was thinking to myself, that can't be so hard, what will I do the rest of the time? However, it was not very long into it and was busting my rear end just trying to keep up. At one point I was even questioning to myself if they were even catching them in the chute. That evening I called dad and joked with him that he might have to upgrade facilities if he wanted help working cattle again. I would like to thank Five Rivers Cattle Feeding for giving me this opportunity.

## He's at it again!!!

Apparently Eric Schlosser was not satisfied with his first book "Fast Food Nation," which attacked the United States food industry specifically the fast food restaurants. He has now released a new book entitled, "Chew on This," that is aimed at children and teenagers, which are a more susceptible age group to misinformation. He is

also making a movie that is coming out this fall based on "Fast Food Nation," in which he attacks packing plants, animal handling, and farming practices. Eric Schlosser's books frighten me because of the negative impact his books could have. I plan on reading both of his books so I know what's in them and what impact to expect on the beef industry. I wanted you all to be aware of the negative press we could potentially receive in the near future on the U.S. food industry. My hope is that his inaccurate, misleading, and incomplete information is not believed by our consumers. If you would like more information on this topic go to [bestfoodnation.com](http://bestfoodnation.com). This is a website designed to bring out the truth of our industry. Sir Winston Churchill one said, "A lie gets halfway around the world before the truth has a chance to get its pants on." Be prepared to inform consumers of these lies before they do spread.

## Free Lunch Anyone?

No, we are not offering a free lunch this summer, and I am not talking about heterosis again. However, getting your calves source and age verified could be just like getting a free lunch but with more economic benefit. Nobody knows exactly how much premium will be paid for these calves this fall at the sale barn. The price the feeder receives is typically around the 10 to 20 dollar range. Thus, I would predict that you could receive at least a \$5.00 per head premium selling your source and age verified calves at the sale barn. Would it be enough to buy a new truck? NO! However, if you already have the data you simply have to put it on paper and advertise this when you sell your calves. The opportunity is there for you to take. If you have any questions feel free to give one of us a call.

Cowboys are often inattentive to instructions, inefficient in their methods of travel, and seldom ruled by schedules, but they possess a dogged narrow-mindedness

when in pursuit of a good time.

w Baxter Black

Cactus Tracks and Cowboy Philosophy (1997)

# Rippe Gelbvieh

*WE ARE ON THE WEB AT*  
[RIPPEGELBVIEH.COM](http://RIPPEGELBVIEH.COM)



## **Mission Statement:**

**"To produce superior Gelbvieh and Balancer seedstock based on economically important traits, which provide more profitability for our customers, and ensure the consumer a very satisfying eating experience."**

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**"Yet he has not left himself without testimony: He has shown kindness by giving you rain from heaven and crops in their seasons; he provides you with plenty of food and fills your hearts with joy." Acts 14:17**

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**For more information about our program call Duane Rippe, (home) 402-324-4176, (cell) 402-200-0096 or Dustin Rippe, 316-323-4874 or online at [rippegelbvieh.com](http://rippegelbvieh.com)**

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