COW/CALF CORNER

The Newsletter

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In this Issue:

Oklahoma October rain = wheat pasture = stocker demand

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The formula is pretty simple. Winter wheat planting in Oklahoma this fall is ahead of normal pace and the best in several years. All that is lacking in many cases is a rain to get the wheat up or connect surface moisture with subsoil moisture and keep the wheat growing. Much of Oklahoma received rain the past few days, ranging from less than half an inch to more than 4 inches. Generally, the rain was just what was needed. In a few instances, the rain came very fast and hard and may result in a need to replant; but with moisture available that can be accomplished quickly. In any event, significant wheat pasture seems assured as a result. That, in turn, means that demand for a limited supply of stocker cattle will support calf prices at current levels or perhaps even higher.

The price for 450 pound, Medium and Large, number 1 steers last week in Oklahoma was $301.73/cwt. or $1358/head. For steers that are one hundred pounds heavier (550 pounds), the price was $273.60/cwt. or $1505/head. These purchase prices are sobering for many producers and lenders. However, current price levels for feeder cattle suggest that an attractive gross margin or value of gain is offered in the current market. Using the current price of $253.24/cwt. ($1773/head) for 700 pounds steers, results in a gross margin of $415/head or $1.66/pound of gain on 250 pounds of gain beginning with the 450 pound steer. Against the 550 pound beginning weight, an 800 pound steer is currently priced at $240.66/cwt. ($1925/head) with a gross margin of $420/head or a value of gain on 250 pounds of gain of $1.68/pound of gain.

Starting with the 550 pound steer and using typical costs of production including death loss; feed cost of gain; labor; vet and medicine; interest; marketing and other expenses results in a breakeven in the range of $229-234/cwt for an 800 pound steer on March1, 2015. An even wider breakeven range is possible depending on the production and cost assumptions. Of course, producers should do personalized budgets using individual values and assumptions. A spreadsheet tool to aid producers with wheat stocker budgets can be downloaded at http://agecon.okstate.edu/extension/category.asp?category=software_tool.

The general budget and breakeven described above is quite sensitive to various assumptions in the budget. For example, a one percent increase (decrease) in death loss results in roughly a $1.90/cwt. increase (decrease) in the breakeven sale price at 800 pounds. Likewise, a $0.05/lb. increase (decrease) in wheat pasture cost on a gain basis will increase (decrease) the final breakeven sales price by roughly $1.60/cwt. for the 800 pound steer on March 1. Abundant wheat pasture may make it possible to price wheat pasture $0.05 - $0.10/lb. gain cheaper than earlier expected.

Where will the feeder market be next spring? March feeder futures have traded with volatility between $230 and $236/cwt. recently after increasing sharply through the month of September. Basis has been unpredictable recently but generally stronger than usual suggesting that spring prices will be at or above the levels indicated by futures. These suggest spring cash prices that cover the budget breakevens previously discussed even though basis uncertainty makes risk management more difficult.

Despite the current record price levels, there is no strong indication that feeder markets face any significant downside market risk for winter grazing. Nevertheless, for some producers, some sort of “disaster” protection may be advised. Risk protection in the form of minimum price tools such as of out-of-the-money put options may be preferable to fixed price alternatives. However, fixed price tools such as a short hedge or forward cash contract can be combined with a call option as a synthetic put and maintain some upside potential. Managing production risk, such as minimizing death loss impacts, is probably as big or bigger risk than market price risk. If you have something to sell next spring, it will sell well. The challenge is to make sure it stays alive; keeps growing; and doesn’t get stolen!

Prussic acid poisoning is a concern after a light frost

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It was discovered in the early 1900s that under certain conditions sorghums are capable of releasing hydrocyanic acid or commonly called prussic acid. Prussic acid when ingested by cattle, is quickly absorbed into the blood stream, and blocks the animal's cells from utilizing oxygen. Thus the animal dies from asphyxiation at the cellular level. Animals affected by prussic acid poisoning exhibit a characteristic bright red blood just prior to and during death. Lush young regrowth of sorghum-family plants are prone to accumulate prussic acid especially when the plants are stressed such as drought or freeze damage. **Light frosts,** that stress the plant but do not kill it, are often associated with prussic acid poisonings.

Producers should avoid grazing fields with sorghum type plants following a light frost. The risk of prussic acid poisoning will be reduced, if grazing is delayed until at least one week after a "killing freeze". As the plants die and the cell walls rupture, the hydrocyanic acid is released as a gas, and the amount is greatly reduced in the plants. One can never be absolutely certain that a field of forage sorghum is 100% safe to graze.

Cattle that must be grazed on forage sorghum pastures during this time of year should be fed another type of hay before turning in on the field, and should be watched closely for the first few hours after turn in. If signs of labored breathing, such as would be found in asphyxiation, are noted, cattle should be removed immediately. Call your local veterinarian for immediate help for those animals that are affected. Be certain to read OSU Fact Sheet PSS-2904 "Prussic Acid Poisoning" before turning cattle to potentially dangerous fields.