

Feast or Famine

The winter feed outlook varies by region.

by Barb Baylor Anderson

While Angus producers in most parts of the country saw decent 2003 growing conditions for forages and feed grains, not all producers will find easy access to feed supplies this winter. Hot summer temperatures and a lack of moisture in the West took a toll on feed and forage production, while cool, wet conditions wreaked some havoc east of the Mississippi River. Consequently, location may dictate choice, price and availability of feedstuffs.

"Estimates for grain production in the Plains dropped this summer. Cattle producers in the Plains could run out of feedstock early," predicts Bill Tierney, Kansas State University (K-State) Extension ag economist. "This is the third year in a row that the Plains have had poor row crops. That drives the basis higher and will make finishing cattle later in the year more costly as corn has to be shipped in.

"Pastures are in bad shape," he continues, "and the cost of transporting hay is high per

pound of gain versus corn. Winter wheat pastures are questionable, and alfalfa cuttings were also slim at the end of the season."

Forage findings

The U.S. Department of Agriculture (USDA) concurs that forage supplies are tight. The farm price of grass hay has been well above levels from the previous year, the agency reports, as the result of drought in the West and rain in the East.

"Unusually wet conditions resulted in poor hay-making conditions in the East," the USDA confirms. "Hay stocks will need to be rebuilt in most areas, but cool, wet weather in much of the eastern half of the U.S. may sharply reduce harvest quality and quantity, particularly for grass hay. Western stands have weakened due to prolonged or intermittent drought since 1998."

Perhaps most affected, says Rodney Jones, K-State Extension livestock specialist, may be

cattle producers in Kansas, Oklahoma, Nebraska and Texas.

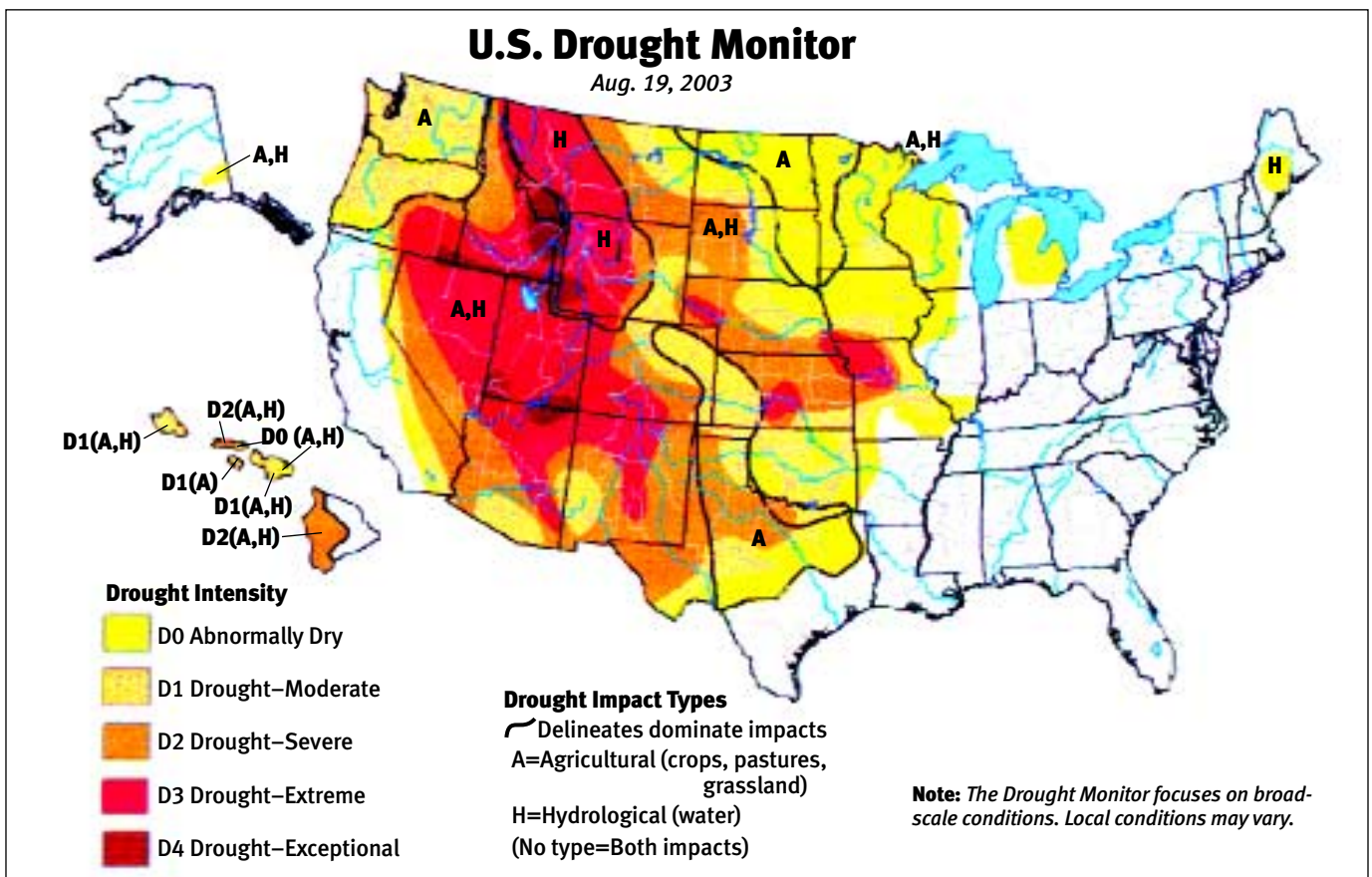
"Low cash feedgrains and forage prices in other parts of the country are not occurring in the Plains," he says. "Feed users here may want to push a sharp pencil now and buy feed needs ahead, if necessary. Alfalfa hay prices are not skyrocketing yet, but we may see some shortages."

Corn concerns

Tierney adds similar sentiments for corn. "While we may see a further decline in corn futures this fall, the basis here will continue to firm," he says. "If you can get decent forward basis contracts, you might want to price corn. Winter wheat planting is not looking as favorable, either, and that could drive wheat prices higher."

For cattle producers in other regions, new-crop cash corn bids have been near or below loan rate levels. "The 2003 corn crop is still

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expected to be large, but speculation of a corn crop over 10.5 billion bushels has faded," says Darrel Good, University of Illinois (UI) Extension grain marketing specialist. "[Illinois] corn prices for harvest delivery remain below the loan rate in many areas."

University of Tennessee (UT) ag economist Delton Gerloff says cash prices at harvest in Tennessee were below \$2 much of the time from the late 1990s until last year but, he says, that could change.

"The market is banking on a huge crop. If it is as large as projected, prices will likely drop lower," he says. "If domestic demand remains strong, including demand from the ethanol industry, prices could improve after harvest. Lower foreign corn stocks have placed uncertainty in the market that is not usually there. It is a tricky market and could increase price volatility."

Mike Zuzolo, Risk Management Commodities Inc., Lafayette, Ind., agrees corn prices could firm if the U.S. average yield comes in lower than the 145-147 bushels (bu.) per acre forecast by the trade. "That yield is too high statistically and historically. In order to get a record yield of 8 or more bushels over the five-year average, good and excellent crop condition categories would have needed to be over 80% in the U.S. in July."

Zuzolo anticipates December and March corn futures will steadily rise into February 2004 with a projected average cash price for the United States for the year at \$2.10, reflecting a futures price of about \$2.35 per bushel.

"If the corn yield for this year ultimately ends up being closer to 141 bushels per acre,



PHOTO COURTESY OF JOHN DEERE

► Conditions during the 2003 growing season have ranged from severe drought in the West to flooding in the Ohio River Valley. Corn prices and availability have been driven by these factors.

then the upside in those futures contracts increases to \$2.55-\$2.60 per bushel. We recommend livestock feeders lock in cash needs for six months if December corn futures move to \$2.00-\$2.05."

Zuzolo says producers won't want to substitute much wheat feeding for corn, even if corn prices go higher. The December wheat-corn price spread has been running with a \$1.45 premium to wheat, and the U.S. average wheat price is expected to be close to 1997's \$3.38 per bushel.

"We anticipate cash corn prices have made their low, just as wheat made its low three months before wheat harvest," he says. "We expect a similar pattern for corn, and do not think wheat feeding will pencil out."

Tennessee's Gerloff adds, "The world

wheat stocks scenario is similar to that for corn. That places an element of risk, of uncertainty in the wheat market. If price relationships remain as they are currently, corn will be a more favorable feeding option than wheat."

Other options

If uncertain feed prices or availability are a major source of stress, Jones tells producers to go ahead and sell some calves this fall rather than retain ownership. "There are dollars to be made in calf sales if feed is a problem," he says.

Chris Hurt, Purdue University Extension marketing specialist, agrees. He expects feeder-cattle and calf prices to be boosted by strong finished cattle prices, low interest rates and declining feed prices this fall.

Wayne Purcell, Virginia Tech Extension livestock marketing specialist, adds that live-cattle and feeder-cattle prices going into the fall were both on a sustained thrust to the upside. "We may see rallies to levels that create very acceptable profits before we see a sell signal (on feeder-cattle futures), so it is always okay to hedge and take those types of profits," he says.

The other option is to reduce herd size. "Many cow-calf producers, in the West especially, are liquidating, and that is still a viable option for producers in the Plains to consider under these droughty conditions," Jones says.

USDA confirms beef cow slaughter in 2003 has been the largest since 1998 due to continued drought in the West.



Don't discount DDGs

For cattle producers near dry mill ethanol facilities, obtaining and feeding distillers dried grains (DDGs) as a protein supplement is becoming a popular option — and may be a sound strategy for areas where corn supplies are tight.

DDGs are considered by animal nutritionists to be an economical substitute for some corn in cattle rations.

"Cattle producers need to be aware that new ethanol plants are coming online, and there may be opportunities to purchase a cheaper protein supplement," says Rodney Jones, Kansas State University (K-State) Extension livestock specialist.

The ethanol industry is currently one of the most rapidly growing ag industries, and recent passage of Senate energy legislation could eventually drive greater demand, says Bill Tierney, K-State Extension ag economist. According to the University of Minnesota (UM) DDGs

Web site, dry mill ethanol plants now produce more than 3.8 million metric tons of DDGs annually. Industry experts predict that volume will increase to more than 5.5 million metric tons by the year 2005.



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Because of the growing interest in ethanol and DDGs, researchers across the country are working with the protein supplement to evaluate nutritional value and use in rations. Considerable variation exists in DDGs quality, nutrient composition and nutrient digestibility. For example, research conducted at UM has shown that corn DDGs produced by modern, dry mill ethanol plants in Minnesota and South Dakota are of much higher quality and nutritional value than DDGs produced by older, more traditional ethanol plants.

For more information about DDGs feeding options, nutrition and research across the country, visit the UM Web site at www.ddgs.umn.edu.

