

Welcome

Input costs, consumer spending impact cattle marketing



Sarah Nelson

Deferred cattle contracts for October '08 through June '09, have been buffeted by corn market volatility. A feed cost premium is linked to those live cattle contracts, because of increased input costs.

Other price factors include growing uncertainty about the U.S. corn crop condition.

Based on weather worries, I expect corn markets to remain volatile most of the summer, and that volatility will likely extend into the cattle market.

I have some concerns for the near term—the August futures, as of May 29, were trading about \$5 above June futures. And, October futures were trading about \$5 above August. If it plays out that way, beef prices in supermarkets will have to rise.

But, with a higher percentage of consumer income used to pay gasoline bills, there are fewer food dollars available. So, I think we'll meet some consumer resistance.

The supply and demand factor on the live cattle side will have to contend with a consumer price resistance factor for beef.

Call me to receive the latest marketing advice and how to maximize your profitability during what promises to be an interesting summer

Producer Profile

Iowa's Lincoln's focus on record-keeping, marketing

Jeff and Coleen Lincoln have spent nearly 30 years raising Holstein steers, and they've learned a thing or two in the process.

"The easy part is growing the cattle. The hard part is marketing. I've found that to be true for some time," says Jeff Lincoln, Nexus producer in Colesburg, Iowa.

They stopped dairying in 2004, to focus on growing the Holstein side of their operation. The couple buys them at between 400 and 500 pounds, and then finishes them.

Coleen doubles as an accountant/bookkeeper for a local locker, as well as keeping detailed records for the couple's 900 head business.

And, it's those records that provide the foundation for understanding their cost of gains, as well as meeting contract specifications.

"We run projections before we buy cattle, so

we know where to lock them in. We do that with every load," Jeff says.

The Iowan's have used the Nexus Freedom

Hedge, which they like because the program frees them from tying up hedging capital that can instead be used for working capital. Because Nexus coordinates the hedge, the Lincoln's don't have to deal with

brokers or lenders, or fund margin calls.

But lately, they've taken greater advantage of Nexus forward contracts. "Some times of the year hedges work better, but I found I did better using

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Nexus (Noun): A means of connection; a link between things persons or events; a connected group.

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Nexus

Speculators in markets and the Goldman roll effect

The Goldman Roll. Sounds like a gutsy move you'd make at the casino, doesn't it? But most producers aren't spending much time at the casino, because agriculture stacks up to be enough of a gamble right now.

Some of you may have priced cattle according to the Goldman Roll in the past. Although it seems the Goldman Roll has had less of an effect on the Live Cattle futures in the last year or so—the roll still occurs and it's important to be aware how it can effect the dollars destined for your pocket.

In the commodity futures market, the Goldman Sachs Commodity Index (GSCI) is a widely used instrument. It is a weighted index used for commodity products, such as cattle and oil. It's livestock investment allocation approximates 6 percent, and live cattle represents nearly 3 percent of that total.

Specifically, the roll refers to a 5 business-day sector in the month preceding the expiration month, when the index is rolled forward in 20 percent increments into the next futures month.

The next roll will occur in July. July 8-14 will be the five business day sector we're referring to. At that time, GSCI will exit their August positions and move, or roll into the October futures. During that roll period, August contracts will likely lose value while October gains in value.

The Goldman Roll can bring about extremes in market prices. Once the roll is complete, the market typically returns to more normal ground.

In years past, the roll's trend could be easily seen. But today's speculator-driven market means the

Goldman Rolls' effect on contract futures is much less noticeable, because of overall increased market volatility.

The exaggerated 5-day roll price period results in erratic cattle market prices. But today, those prices are not necessarily much different from the final five days at the end of the month, for instance.

The bottom line is that major market volatility masks what used to be a more pronounced market effect.

In the commodity futures market, the Goldman Sachs Commodity Index (GSCI) is a widely used instrument.

Some commodity advisers believe today's institutional investor and their index fund managers have turned markets upside down. Government pension funds, university endowments and corporate

funds among others, now outnumber actual commodity investors.

Demand for futures contracts can only come from two sources, consumers of physical commodities and speculators. The speculators are divided up into the technical folks who have always been there, and the index fund speculators. Index fund managers have lately been investing employee pension and 401k retirement accounts in commodity futures.

Back in 1936 when the Commodity Exchange Act was created, it was crafted so that speculators would not be allowed to dominate futures markets. But, that is precisely what is occurring in 2008.

The Commodity Futures Trading Commission (CFTC) has announced it will scrutinize ag commodities trading activity and index fund manager investment in the coming months.

WORRY LESS.
PROFIT MORE.



EXUS MARKETING

Delivering comprehensive ag solutions

Lincoln's appreciate Nexus risk management programs, advisors

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contracts," Lincoln says.

The veteran Holstein producers have a 240 foot monoslope building with self feeders, allowing 500 animals to be in confinement at any one time.

They have followed U.S. Feeds Linebacker program of whole corn and pellets for several years, and Jeff does his own vaccinations.

One of their four children makes the trek home from college to help with implants, or they hire high school kids. The couple have three seniors in college, along with a freshman.

Jeff has worked with Sarah Nelson, Nexus Livestock Marketing Risk Management advisor, for about two years.

"I can talk to her and say I've got three loads coming what should we do here," Lincoln emphasizes. He runs projections on his software, and has Nelson do the

same, and then they check each others results.

"(We) see if it's a good time to buy cattle or not, talk over what prices to lock cattle in or hedge, what kind of contract and who has a better one for that time of year," Lincoln says.

"They know the markets and trends. With volatile markets, they can follow them better, and it takes something off your shoulders."

Lincoln uses Nexus Advisor Pat Lampert for help in buying feeders. "They usually know people, who know people who have cattle. And they know what the market is when you buy cattle, too."

Although he prefers to contract through Nexus the majority of the time, he also uses Nexus cash marketing services.

"With Jeff Rose on the cash markets, they've got more pull on the cash prices...I think the companies will give them a little better price."



Coleen and Jeff Lincoln in front of their confinement facility in Colesburg, Iowa.



Rockin Recipes

1 boneless beef top sirloin steak
cut 2 inches thick (about 2 to 2-1/2 pounds)
1 tablespoon prepared spicy brown mustard
1 clove garlic, minced
1/4 teaspoon pepper
1/2 cup soft whole wheat bread crumbs
2 tablespoons chopped fresh parsley

Roasted Garlic Potatoes:
2 large russet potatoes, each cut
lengthwise into 8 wedges
(about 1-1/2 pounds)
1 tablespoon olive oil
2 cloves garlic, minced
1/2 teaspoon salt
1/4 teaspoon pepper

Bourbon Sauce:
1/2 cup ready-to-serve beef broth
2 tablespoons bourbon
1/4 cup half-and-half
Pepper

Instructions: Heat oven to 425°F, combine mustard, garlic and 1/4 teaspoon pepper in same small bowl; spread evenly onto beef steak. Combine bread crumbs and parsley and pat evenly over mustard mixture. To prepare Roasted Garlic Potatoes, place potato wedges in 15 x 10-inch metal baking pan. Drizzle with oil, garlic, salt and pepper. Roast until meat thermometer registers 135 degrees for medium-rare, 150 degrees for well done. (See complete recipe at nexusag.org.)

Crumb-Crusted Beef and Garlic Potatoes

Makes 6 servings in just 1 1/4 hours

Understanding dark cutters and their effect on producer prices

The National Beef Quality Audit estimates that dark cutters cost the beef industry \$5.00 for every fed animal slaughtered. And that means it's costing you too.

Between one and two percent of beef carcasses are classified as dark cutters. The normal bright cherry-red color we're accustomed to seeing, is instead nearly purple in dark cutter beef. It's moisture content is drier, adversely affecting tenderness, shelf life and ultimately, consumer appeal.

Dark cutting beef is most likely to occur during the very coldest of winter months, especially when combined with precipitation. The incidence is also high in hot weather, or during large temperature fluctuations over short periods of time.

What causes dark cutters?

After slaughter, glycogen is converted to lactic acid, determining the pH level of the meat. Low glycogen means a higher PH value, and a dark

cutter results.

In comparison, normal glycogen equals a low PH level, resulting in bright cherry red meat color.

Glycogen loss is triggered by increased adrenaline released in stressful situations, or by strenuous muscle activity.

What can be done to reduce dark cutters?

- Δ Animals should be sorted and loaded as close to slaughter time as possible. Stress 24-48 hours prior to slaughter can increase dark cutter occurrence.
- Δ Crowding increases the incidence of dark cutters.
- Δ Temperament appears to be inherited. Producers are encouraged to add disposition as a selection criteria.

Sources to learn more about dark cutters:

- <http://beef.osu.edu/%7Eobqa/meetchallenge.htm>
- <http://grandin.com/meat/cattle/cattle.meat.html>
- <http://savell-j.tamu.edu/faqs.html>