



## Managing price risk on the ranch – Part II

By James Sedman and John Hewlett

The Z-F Ranch in Fremont County had considered several strategies to address recent, increasing market risk.

Owners Bob and Betsy Zomer looked at several alternatives to manage price risk for selling 100 head of 500-pound heifer calves and 150 head of 900-pound yearling steers. The goal was to find a way to take advantage of high cattle prices at a low cost. The Zomers considered using forward sales or contracts as well as futures marketing.

They considered both inadequate because their upside potential (the ability to take advantage of rising cash prices) was limited as well as the possibility of margin calls (additional, broker-held deposits) under the futures alternative and the high cost associated with both futures and options.

The Zomers also investigated using a Livestock Risk Protection (LRP) policy. They declined; they believed the costs were too high, and they were certain the high prices would hold into the fall.

As discussed in the previous article, the high price of corn, along with a steep decline in the general overall economy, forced overall cattle

prices down from spring highs. We now take a more in-depth look at how the LRP alternative might have protected the Zomers.

### LRP Information

LRP is designed to protect against declines in price for a wide range of livestock, including feeder cattle. Prices for coverage are determined by a Chicago Mercantile Exchange (CME) index, and indemnities are paid if the ending value drops below the insured value (determined by the coverage price at the time the policy was taken out). Contracts are available from 13, 17, 21, 26, 30, 34, 39, 43, 47, or 52 weeks; they vary from 70 to 100 percent of the coverage price.

The LRP policy the Zomers might have used was a 21-week policy for both their heifer calves and their yearling steers. Using the cost estimator under Quick Links on the RMA website [www.rma.usda.gov](http://www.rma.usda.gov), the 21-week policy had an expected ending value of \$136.77 for the steers and heifers. Assuming an 83-percent coverage level, the coverage price was \$113.88.

The Zomers would have received an indemnity only if the ending value of the contract was lower than this value. It is important to remember the



### For more information

Livestock Risk Protection Insurance (LRP) could be a fit in your livestock operation to help insure against loss due to price declines. For more information on LRP, consult your crop insurance agent or visit the Western Risk Management Library online at [agecon.uwyo.edu/riskmgt](http://agecon.uwyo.edu/riskmgt).

### Feeder Cattle Price Levels Compared with Potential LRP Indemnity Payments

Actual Cash Price (\$/cwt)	Coverage Price (\$/cwt)	Actual Ending Value (\$/cwt)	Indemnity Payment	(minus) Premium Cost	Net Indemnity Payment
\$120.00	\$113.88	\$222,000.00	\$0.00	\$1,968.42	(\$1,968.42)
\$110.00	\$113.88	\$203,500.00	\$7,178.00	\$1,968.42	\$5,209.58
\$100.00	\$113.88	\$185,000.00	\$25,678.00	\$1,968.42	\$23,709.58
<b>\$95.00</b>	<b>\$113.88</b>	<b>\$175,750.00</b>	<b>\$34,928.00</b>	<b>\$1,968.42</b>	<b>\$32,959.58</b>
\$90.00	\$113.88	\$166,500.00	\$44,178.00	\$1,968.42	\$42,209.58

actual cash price received for the cattle does not factor into the LRP ending value; ending value is determined by an index of CME prices. The Zomers' premium would have been \$1.223 per cwt insured.

### Calculating Premium

Assuming they would have insured 1,850 total cwt, premium costs would have totaled \$2,262.55. After subtracting the 13-percent premium subsidy (\$294.13), the total premium would have been \$1,968.42.

The chart shows the various feeder cattle price levels and values of the potential indemnities had the Zomers purchased LRP protection.

We assume actual cash prices declined to \$95.00 per cwt. With LRP coverage in place, the situation could have resulted in an indemnity payment of nearly \$33,000 after their premium costs. The premium that may have seemed overly expensive at a time of high cash prices now appears a bargain.

In the next article, we will compare the LRP option with forward pricing and a futures/option contract.

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## New rules for managing trichomoniasis in Wyoming cattle herds

By Hudson Hill

Wyoming producers should be aware that, last October, the Wyoming Livestock Board (WLB) made changes to the state's trichomoniasis (trich) regulations.

For good reasons, the WLB is trying to create regulations that help Wyoming cattle producers manage the disease. Trichomoniasis is a devastating venereal disease that can cause infertility and abortions in cows. Caused by a flagellated protozoan that infects the reproductive tract of the animal, the disease is only spread from one animal to another through sexual contact.

Trich is an all-too-common infectious disease in Wyoming. There has been a positive case in at least 14 Wyoming counties in the last three years.

### Includes Females in Quarantine, Who Pays for Tests

Trich regulations in the past have focused on requiring producers to quarantine bulls that test positive for the disease. The new regulation includes females in the quarantine process. Trich regulations regarding an owner's ability to have trespass cattle tested for the disease have also changed. These two rules can be found in sections 10 and 12 of Trichinosis Chapter 15. The modifications to the rules are:

### Section 10. Bovine that Breach a Fence and Commingle.

"Any Bovine, male or female, that breaches a fence commingling with another producer's Bovine shall be tested once with either the culture or the PCR test if that producer requests an official Trichomoniasis Test. The requirement to test is subject of the discretion of the State Veterinarian. The owner of the offending Bovine shall bear all costs for the requested Official Trichomoniasis Test."

### Section 12. Female Bovine Subject to Quarantine.

"Any sexually intact non-virgin female Bovine in an Infected Herd Unit shall be held under Quarantine."

For more of the trich regulations, producers can find Chapter 15 rules under <http://wlsb.state.wy.us/rules.htm>.

There are a few things every cattle producer interested in managing the disease should know.

- Infected animals show no consistent visible symptoms
- There is no therapeutic treatment for trich
- The protozoan that causes the disease lives in the skin folds of the reproductive tract
- Trich can only enter your herd



through contact with a positively infected animal

- The disease can reduce a ranch's calf crop up to 50 percent
- Semen quality and sexual behavior does not change in an infected animal
- Bulls are considered infected with trich for life
- Cows may overcome the disease in two to six months

### Managing the Disease

Producers manage the disease two ways: keeping the disease out

of a non-infected herd or managing the disease within an infected herd. In both situations, the strategies may seem simple – they are. Don't let a bull that is positive breed with a cow that is susceptible to being infected, and don't let positive cows breed with bulls that are susceptible. In both situations, proper managing is essential.

The following is a list of strategies to use.

- Purchase virgin-tested bulls and heifers from reputable sources
- Sell all open cows to slaughter
- Test all bulls
- Keep your bull battery as young as possible
- Use artificial insemination where possible
- Employ a defined breeding season (trich may go unnoticed in continuous systems)
- Use one bull for smaller breeding group
- Minimize comingling/co-grazing
- Avoid buying open or short-bred cows
- Vaccinate
- Identify herd sires
- Good fences make good neighbors

These management techniques will combat the disease in every

situation; however, they are not uniformly successful across all ranching regimes. Trichomoniasis is a disease that is very hard to diagnose within a herd, and there are several qualities about the disease that make trich a very sneaky disease.

Most cows will overcome the disease when allowed time; however, there is talk a chronically infected cow will carry a calf to full term while trich positive. The disease seems to have the ability to hide in a herd for some time and then return. Testing bulls is like buying insurance for one of your most valuable resources – your cows

Although none of these strategies are a silver bullet to eliminate the disease from a herd, through good management cattle producers can limit the risk of their herds contracting the disease and then manage to get rid of the disease. In every management situation and ranching operation, trich is a health consideration.

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