

January 7, 2019

In The Cattle Markets

Stephen R. Koontz

Department of Agricultural and Resource Economics, Colorado State University

Continued Supply Concerns into 2019

We start the New Year with the federal government 17 days into the shutdown. So far, not much appears to be missed in terms of publicly available market information. My regular consumption of AMS reports has not much changed. (Of course, Colorado continues to report no fed cattle prices because of confidentiality requirements.) Then again, many commodity markets are inactive over the past two weeks. But that will not be the case as we proceed through week three and for certain into week four of the shutdown. I will miss the monthly WASDE next week, the monthly Cattle on Feed report the week after that, the accumulated weekly livestock slaughter data, and the trade data from Commerce. To date, the substantial volatility that has been seen in the equity markets has not spilled-over into commodity markets in general and livestock markets specifically. But let's give it a couple more weeks.

I do appreciate essential status of USDA AMS personal – and therefore information – and the degree of automation in reporting. But is the quality the same without a functioning NASS, WOAB, and ERS? And let's remember all the good things that come from competitive markets assume a substantial amount of readily and commonly available formation. Markets need information to work. The next few weeks might illustrate an interesting lesson. But of course, there are bigger fish being fried.

Last week's ITCM set up the start of this year well. The prior year saw increased production, increased trade, good demand, and solid cattle prices. And as I have been saying in my attempts at the ITCM, a lot has gone very right and very little has gone wrong for cattle markets in 2017 or 2018. Retail and wholesale margins have been strong, and the movement of the increased beef production has been excellent. There have been no slaughter-weight or inventory problems. Further, trade with Korean and Japan have been outstanding. But forecasts for 2019 suggest a further 1.8% increase in beef production, a further 2.4% increase in pork production, a 1.3% increase in broiler production, and 0.5% increase in milk production. There will be plenty of protein and fats. While the stock market has been volatile (but not too volatile for Robb to retired albeit transitionally), the underlying indicators of the macroeconomy have largely remained strong. That is not the case for the rest-of-the-world macroeconomy. There are clear weaknesses in the world economy. There is plenty of protein. And there appears to be plenty of downside price risk.

The Markets

What do the technical say? February through August live cattle futures show strong upward trends with resistance planes repeatedly broken and the trend holding when tested. More

deferred contracts do not have enough history to make these statements. This is a strong bullish market. But watch for trends and support planes to break. These would be sell signals. The spring batch of feeder cattle contracts do not show similar strength. These contracts weakened through October and have shown \$4-5 swings in December. I anticipate that support for feeder cattle prices will break when the live cattle contracts do the same. But overall a reasonable situation for cattle markets to start the year.

<i>Data Source: USDA-AMS Market News</i>		Week of 1/4/19	Week of 12/28/18	Week of 1/5/18
5-Area Fed Steer	all grades, live weight, \$/cwt	\$122.55	\$122.52	\$121.61
	all grades, dressed weight, \$/cwt	\$194.64	\$194.25	\$193.83
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$215.75	\$215.13	\$207.98
	Choice-Select Spread, \$/cwt	\$6.09	\$7.69	\$8.26
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	--	--	--
	Nebraska 7-market, \$/cwt	\$153.91	--	\$161.23
	Oklahoma 8-market, \$/cwt	--	--	\$152.96
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	--	--	--
	Nebraska 7-market, \$/cwt	\$181.75	--	\$190.92
	Oklahoma 8-market, \$/cwt	--	--	\$171.72
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.63	\$3.55	\$3.29
	DDGS, Nebraska, \$/ton	--	\$165.00	\$156.00