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## In The Cattle Markets

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### Rumors Roil Some Cattle Markets

I expect enough analysts have discussed USDA's Cattle Inventory report this week so I'm going to tackle another issue. Over the last two weeks, a **rumor** has come up in several Western cattle auctions and even in the futures market about an impending dairy cow buyout. This **rumor** was used as the explanation for lower prices. Most remember (either you were around then, or you have heard the stories from your elders) the government dairy herd buyout in the 1980s to deal with ruinous levels of production, stocks, and prices. That was also a time period where farm programs used a number of tools to limit production (high acreage reduction programs and payment-in-kind). More recent herd retirement programs run by private industry remain embroiled in lawsuits. There is no appetite or serious talk for any herd buyouts, either in the federal government or private industry efforts.

But, this rumor provides a good chance to examine current events in the dairy market. Large worldwide milk production has led to lower milk prices. Some very interesting trends in milk demand have enabled the industry to use up growing supplies in recent years. Exports have been a growth area. But, growing milk supplies around the world have pressured our export sales. In the U.S., growing butter consumption, the shift to greek and other yogurts, the use of milk in a variety of new drinks, and continued growth in cheese consumption supported expanding milk production. It appears that the market has reached the point where demand growth is not enough to offset supply growth at profitable prices.

The announced Class III price was \$14 per cwt, last month, and Class III futures are mired in the mid-\$13s for the next few months. Milk prices have declined enough to finally force a little more cow culling and slowing milk production. Some cow culling has come from farms exiting production. Production growth in some regions of the U.S. has hit the limit of processors to use the milk. The end result has been some producers losing their milk market.

Dairy cow slaughter picked up early in 2018, up year-over-year about 3.6 percent in January. For the year 2017, dairy cow slaughter was up 3.7 percent over 2016. When combined with increased beef cow culling, cow slaughter was up over 6 percent last year. Cull cow prices in the Southern Plains have started out the year at about \$55 per cwt about \$5 below the same time a year ago. It's likely that dairy cow slaughter will pick up some more with lower milk prices. The larger beef cow herd will result in more culling, also. More cow beef will keep cull prices below 2017's well into 2018.

## The Markets

Fed cattle prices finished the week at about \$126, down a \$1 from the week before. The Choice beef cutout continues to hold about \$209 with a spread of about \$5 above Select. Calf markets reported generally higher prices than the week before. Drought conditions are persisting in the Plains.

<i>Data Source: USDA-AMS Market News</i>		<b>Week of 2/2/18</b>	<b>Week of 1/26/18</b>	<b>Week of 2/3/17</b>
<b>5-Area Fed Steer</b>	all grades, live weight, \$/cwt	\$125.91	\$126.46	\$118.76
	all grades, dressed weight, \$/cwt	\$199.90	\$199.74	\$189.78
<b>Boxed Beef</b>	Choice Price, 600-900 lb., \$/cwt	\$209.51	\$206.70	\$192.88
	Choice-Select Spread, \$/cwt	\$5.35	\$5.97	\$3.02
<b>700-800 lb. Feeder Steer</b>	Montana 3-market, \$/cwt	\$152.68	\$156.28	\$129.64
	Nebraska 7-market, \$/cwt	\$157.19	\$158.90	\$132.78
	Oklahoma 8-market, \$/cwt	\$147.96	\$150.58	\$127.29
<b>500-600 lb. Feeder Steer</b>	Montana 3-market, \$/cwt	\$185.05	\$185.76	\$149.36
	Nebraska 7-market, \$/cwt	\$198.83	\$195.76	\$161.53
	Oklahoma 8-market, \$/cwt	\$176.54	\$173.54	\$151.65
<b>Feed Grains</b>	Corn, Omaha, NE, \$/bu (Thursday)	\$3.44	\$3.37	\$3.44
	DDGS, Nebraska, \$/ton	\$150.00	\$149.50	\$106.50