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In The Cattle Markets

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A need for some spring optimism

For the past three weeks the cattle markets have shown that they are not immune from concerns over trade disputes and the general volatility that has taken over in the equity markets. Cattle markets moved down sharply but possibly have turned a short-term corner higher.

It is unlikely that trade issues are responsible for the dramatic market softening in March. Rather, many of the underlying fundamentals are different between this year and this time in 2017. And different such that lower prices are to be expected. Most notable are the substantial higher cattle on feed over 120 days. It is well known that inventories of cattle are higher as are on feed numbers. But the number of long-fed cattle are substantially higher this year than last. Last year, the market entered April with a very clean showlist. Not this April. Consequently, while in seasonal decline, carcass weights are running ahead of last year. Both of these will limit upward potential for fed cattle. Weekly fed steer and heifer slaughter volumes remain strong compared to last year as do Saturday slaughter volumes. Packer margins are also stronger. So it is unlikely to continue to worsen. It will be important to watch Saturday volumes through the remainder of April. Strong volumes will indicate solid featuring at retail which for the most part of this year has been soft compared to last year. I am not optimistic that retail featuring will lead to much improved beef demand in the northern and central parts of the nation – with the cold spring solidly in place. Further, beef will clearly need to compete through the summer with larger volumes of chicken and pork. These also limit upward potential for cattle and calves.

Finally, while it is unlikely that current trade issues are driving the fundamentals impacting cattle markets, it is also unlikely that these trade issues will result in meat trade and prices favoring producers. A perspective to keep in mind.

So what do the technicals say? Live cattle and feeder cattle contracts have plowed through support planes during the declines through March. The selling pressure I mentioned last time was substantial and sustained. June Live Cattle broke supports at \$110 and \$104. I currently anticipate some level of correction higher but for all the contracts to continue to look for that lower price level than where the contracts started the year. All the live cattle and feeder cattle contracts posted a key-reversal bottom on April 4. I am doubtful this is a signal for a market bottom but rather higher prices with a correction in the short term. Further, \$97 becomes firm support for June Live Cattle. My target correction for June is short of \$110. But it's less important to watch live and feeder cattle futures prices over the remainder of April and into May than it will be to watch boxed beef values, fed slaughter volumes, and changes in long-fed inventories implied by this month's Cattle on Feed report. We are clearly set up for weaker cattle and beef prices this year compared to the market events of last year and we have fundamentals in place that limit upward potential.

The Markets

<i>Data Source: USDA-AMS Market News</i>		Week of 4/6/18	Week of 3/30/18	Week of 4/7/17
5-Area Fed Steer	all grades, live weight, \$/cwt	\$116.73	\$120.96	\$124.33
	all grades, dressed weight, \$/cwt	\$187.74	\$192.32	\$198.01
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$217.41	\$221.72	\$209.99
	Choice-Select Spread, \$/cwt	\$9.83	\$9.78	\$9.99
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$142.24	\$146.78	\$133.36
	Nebraska 7-market, \$/cwt	\$151.79	\$145.21	\$146.00
	Oklahoma 8-market, \$/cwt	\$143.25	\$140.68	\$135.61
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	--	\$183.31	\$169.31
	Nebraska 7-market, \$/cwt	\$183.23	\$183.38	\$177.30
	Oklahoma 8-market, \$/cwt	\$166.64	\$170.74	\$160.89
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.69	\$3.66	\$3.26
	DDGS, Nebraska, \$/ton	\$155.40	\$151.00	\$100.50