

## In The Cattle Markets

Stephen R. Koontz

Department of Agricultural and Resource Economics – Colorado State University

### Disruption in Fed Beef Slaughter

Tyson's Finney County, Kansas, facility suffered a fire late Friday, August 9. The good news is that there were no reports of injuries, a testament to the planning and operation of the facility and emergency responders. The bad news – for cattle markets – is that this plant will remain closed indefinitely. The fire is reported to have started in the box shop but major damage – as in a collapsed portion of the roof – was also reported. The Finney County facility is west of Holcomb and Garden City, Kansas, and is a major fed cattle slaughter and boxed beef fabrication plant. The plant slaughters approximately 6,000 head per day and between 27,000 and 30,000 head per week. The is 4.5-5% of the national fed cattle slaughter. The impact of this event on fed cattle markets will be substantial. The market is in the middle of the third quarter: supplies are heaviest, slaughter weights are ramping up, and competing meat supplies will begin their fall increase. This is the quarter with the highest volume of beef supplies and forecasts are for sustained supplies into the fourth quarter. The week of August 12 will begin with 50,000-to-60,000 animals in the southern plains needing to go to a different plant than which they were originally scheduled. And that's just the cash market trades. The number of formula cattle is substantially larger. Disruption in the southern plains will spillover nationally. I anticipate that there will be more than a modest degree of panic as the largest annual supplies are moved around temporally and spatially. The rest of this month will be difficult and there is the potential for the disruption and accompanying volatility to continue into much of the fall. The inventory of cattle are rather clear but the impact of this disruption on planning and orderly marketing is not.

The countering pressures are that packer returns are excellent: farm-to-wholesale margins are very strong. This disruption will maintain incentives for a packer to run as many hours as possible. Market-ready inventories of cattle are strong but are being depleted through the summer and this will persist into the fall. Further, prices for fed cattle have been reasonable through the summer – after early summer collapses – and feeding costs have been declining. Also, margins for retailers have been very strong and some of the strongest in recent years. There are clear economic factors countering market disruptions. But cattle markets will likely see continued volatility through the fall and possibly the remainder of the year. What do the technicals say? This disruption will create new technical signals. Live cattle and feeder cattle contracts have fallen sharply since breaking up-trends in late April. Markets found support in late May and early June. This support was tested and held in late June. Throughout the month of August, markets have again been moving lower and approaching support levels. By them self, this behavior would suggest a buy signal and it would have been reasonable for cattle producers to lift some price protection established in the spring. But after the recent news, it is not likely this firm support at around \$108 for DEC live cattle and

\$132 for NOV Feeder Cattle will hold. It may take several days for support to be broken and sell signals clearly generated. But I believe this to be likely. After that, the live and feeder markets will be into new territory – new lows – and charts of the open contracts will be of little use. We will have to look at weekly charts for price levels where the market will likely stop. In short, aggressive downside price protection for cattle producers will be very much needed the rest of the year.

## The Markets

<i>Data Source: USDA-AMS Market News</i>		<b>Week of 8/9/19</b>	<b>Week of 8/2/19</b>	<b>Week of 8/10/18</b>
<b>5-Area Fed Steer</b>	all grades, live weight, \$/cwt	\$112.37	\$113.82	\$110.98
	all grades, dressed weight, \$/cwt	\$182.23	\$184.30	\$175.73
<b>Boxed Beef</b>	Choice Price, 600-900 lb., \$/cwt	\$216.04	\$213.96	\$205.91
	Choice-Select Spread, \$/cwt	\$23.40	\$23.85	\$7.60
<b>700-800 lb. Feeder Steer</b>	Montana 3-market, \$/cwt	\$144.50	\$148.00	--
	Nebraska 7-market, \$/cwt	\$156.45	\$153.87	\$164.58
	Oklahoma 8-market, \$/cwt	\$142.92	\$144.08	\$152.62
<b>500-600 lb. Feeder Steer</b>	Montana 3-market, \$/cwt	--	--	--
	Nebraska 7-market, \$/cwt	\$171.11	\$170.92	\$180.76
	Oklahoma 8-market, \$/cwt	\$157.77	\$157.12	\$169.00
<b>Feed Grains</b>	Corn, Omaha, NE, \$/bu (Thursday)	\$4.09	\$3.98	\$3.44
	DDGS, Nebraska, \$/ton	\$136.50	\$143.50	\$118.50