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In The Cattle Markets

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Lots of Down-Side Risk Ahead

Labor Day is upon us, at least from the perspective of retailers needing to secure beef volume for sales and featuring. The beef complex look ready to drift lower as, after this holiday, the seasonality in demand will wain and the seasonality in production will continue to escalate. Slaughter weights have continued their increases during the summer and will likely continue into the fall until the peak around October. The volume of cattle on feed over 90 and over 120 days continue to the high compared to last year and prior years. Fed cattle marketing were strong through June as revealed by the last month's Cattle on Feed report and appear to be strong through July – especially heifers – as revealed by July's weekly Livestock Slaughter reports. There does not appear to be an emerging problem with supplies but the steady seasonal increase in beef volume will continue. We have also seen strong volumes of beef cow slaughter through this summer in response to the drought in the southern plains. As a consequence, hamburger prices were very weak through the summer. Perhaps this slaughter will moderate during the fall calf run. But improvements in hamburger prices are unlikely with the prospective increases in beef trimming volumes.

Events in substitute meat markets and trade demand also appear unlikely to provide substantial relief for beef prices. Pork production will be up a solid 5% this coming fourth quarter with consumption up a likely 2.5%. Poultry production and consumption are forecasted to be up moderately but the main word to focus on is, "up" from the prior year. Beef exports have been solid through the summer and if they continue through the fall then this could result in about an additional 40 million pounds per month removed from the domestic markets this year compared to last. This is a little less than 2% of typical monthly production during fourth quarter months. Forecasts of beef production during the fourth quarter are to be up better than 3%.

In the end, there appears to be a lot of sources of downside risk and little potential for improved prices.

The Markets

The bullish signals from last month are at an end. Aggressive sales are warranted with multiple sell signals in all feeder cattle contracts. All of the fall feeder cattle contracts rallied through much of the summer and have run into resistance established last February. Further, any trend line established through the summer rally is now broken. Thus, resistance held and any up-trend was broken: sell and sell. On top of that, OCT and NOV show textbook head and shoulders top patterns. Live cattle do not reveal as decisive signals. OCT and DEC have rallied the last two months off of lows established in May. \$112 looks like hard resistance for

OCT and \$116 for DEC. Volatility this past summer doesn't allow for a clean textbook up-trend but, if there is one, it's not broken yet. The next week or two will tell.

<i>Data Source: USDA-AMS Market News</i>		Week of 8/10/18	Week of 8/3/18	Week of 8/11/17
5-Area Fed Steer	all grades, live weight, \$/cwt	\$110.98	\$112.98	\$115.17
	all grades, dressed weight, \$/cwt	\$175.73	\$177.96	\$183.87
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$205.91	\$204.26	\$201.37
	Choice-Select Spread, \$/cwt	\$7.60	\$6.63	\$4.82
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	--	--	\$146.50
	Nebraska 7-market, \$/cwt	\$164.58	\$155.53	\$155.11
	Oklahoma 8-market, \$/cwt	\$152.62	\$151.96	\$146.46
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	--	--	\$160.00
	Nebraska 7-market, \$/cwt	\$180.76	\$167.00	\$181.90
	Oklahoma 8-market, \$/cwt	\$169.00	\$164.23	\$161.99
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.44	\$3.46	\$3.23
	DDGS, Nebraska, \$/ton	\$118.50	\$110.00	\$110.00