

September 5, 2017

In The Cattle Markets

Stephen R. Koontz

Department of Agricultural & Resource Economics – Colorado State University

Summer Doldrums Continue As Expected

It looks likely that the cattle and beef markets will show typical seasonal weakness through much of the fall. There is some good news but much of what we observe have the potential to hold prices down. The Cattle on Feed report – as Katelyn reported – was rather bullish. Placements and on-feed numbers were surprisingly low relative to expectations and futures prices rallied the following trading day. But the underlying fundamentals that this report has revealed all spring and most of the summer clearly suggests increases in the supplies of beef through the fall. This is, in part, seen within the last report by the increases within the calculated volume on feed over 120 days. The volume was lower than last year but up sharply (+9%) when the seasonal tendency is to moderate. Fed animal liveweights were also up sharply (+5%) and matched by persistent increases in steer and heifer dressed weights. Dressed weights are up 5-6% from spring lows. The seasonal increase in meat per carcass is right on track and the expected increase in animal numbers are as well. Weekly slaughter through last month was strong but the volume of animals this market has to source from is very large. Weekly cattle slaughter is running 3-10% above last year through July and early August. There remains lots of pressure to hold prices down.

Strong packer margins and Saturday kills show no problems as of yet but what plays out over the months of September and October will be important for fed and feeder cattle prices well into next year. Packer margins were solid and cattle feeding margins remain in the black. This bodes well for maintaining fed cattle marketings at current prices and current feeder cattle prices. When downstream participants make money then they usually pay well. Weekly fed slaughter and monthly fed cattle marketing will need to be watched closely. The slowing of either will lead cattle prices lower. Another recent concern is the lack of abundant news about beef featuring at retail. And this is comparing what was heard around Memorial Day relative to Labor Day. Late summer featuring is present but not as strong and that of early summer. Retail prices sharply rebounded upward through May and June after months of softening last fall. This summer's retail prices are similar to last year and the retailer margin strengthen a lot last month. Strong consumer demand will be needed in the fall and it is not clear is that's likely.

While domestic demand is not clear, trade in beef products continue to show and have forecasts that show solid strength. Beef exports have steadily increase through the spring and summer while other exports – most notably pork – have shown weakness.

What do the technicals say?: sell and maintain sold positions. The fall contracts show substantial resistance that will prevent prices from moving higher. Selling pressure emerges at price levels where the market was turned lower before. Resistance in live and feeder cattle contracts was formed in early-May, mid-June, mid- and late-July. Each plane for feeder cattle is at progressively lower prices. Live cattle showed one strong resistance-breaking rally in

mid-June. I am not worried about exit strategies for forward priced positions. I think we have continued weakness in cattle and beef prices through October.

The Markets

<i>Data Source: USDA-AMS Market News</i>		Week of 9/1/17	Week of 8/25/17	Week of 9/2/16
5-Area Fed Steer	all grades, live weight, \$/cwt	\$104.66	\$106.78	\$109.68
	all grades, dressed weight, \$/cwt	\$165.71	\$169.70	\$173.94
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$191.65	\$192.30	\$195.67
	Choice-Select Spread, \$/cwt	\$1.15	\$2.52	\$5.92
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$155.46	\$148.26	\$135.34
	Nebraska 7-market, \$/cwt	\$154.75	\$155.01	\$147.49
	Oklahoma 8-market, \$/cwt	\$148.86	\$143.46	\$136.93
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$163.85	\$155.00	\$145.50
	Nebraska 7-market, \$/cwt	\$174.53	\$166.86	\$158.35
	Oklahoma 8-market, \$/cwt	\$160.74	\$155.04	\$150.65
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.19	\$3.17	\$2.89
	DDGS, Nebraska, \$/ton	\$106.00	\$107.80	\$116.50