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In The Cattle Markets

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Latest USDA Supply and Demand Estimates Lower U.S. Beef Production

The USDA released its monthly World Agricultural Supply and Demand Estimates (WASDE) on Tuesday morning, which should prove to be neutral to slightly bullish. U.S. beef production for 2017 was lowered by 140 million pounds from 26.699 billion pounds to 26.559 billion pounds while 2018 production was lowered by 85 million pounds to 27.275 billion pounds. There are likely a few things driving this reduction in beef production. One driver is lower than expected fed cattle marketing as reflected in the last Cattle on Feed Report, although we know those cattle are still out there and will end up coming to market at some point in the future. For many of those cattle it is more of a matter of when they go to market rather than if they will go to market. Probably the biggest driver is reduced slaughter weights. Total slaughter numbers have been trending at or above last year's numbers most of the year, however slaughter weights have been trending well below year-ago levels. When those two are put together, the lower slaughter weights outweigh the increase in the number of head, leading to lower production numbers.

On the demand side, minimal changes were made. Exports remained the same as last month, as did ending stocks. However, per capita use for 2017 was lowered from 57.9 pounds per person to 57.6 pounds per person. Lower production with no changes in exports means that there is less beef per person available.

What impact will the WASDE have on the markets? So far, not much. While both feeder cattle and fed cattle futures are down on the day, there was little movement in the intraday prices around the time the report came out. In other words, traders were not surprised by what they saw in the report and outside factors are more important in driving the market at this point in time. Looking forward into the fall and winter, as feedlot profitability turns negative we may see an uptick in the slaughter weights relative to where we have been trending most of the year, which could boost production numbers again in future reports. A big part of the reason for the decline in slaughter weights over the last year was that positive feeding returns provided an incentive for feedlots to fill their pens and run more total cattle through while feeder for a shorter period of time. Now that profits are turning negative, that incentive is gone and instead feedlots will likely shift toward trying to squeeze as much gain out of each animal as possible. If that does indeed happen, look for the uptick in slaughter weights to shift total beef production higher in the coming months.

The Markets

The five-area fed steer price ended the week averaging \$104.92 for live sales, and \$166.13 for dressed; respectively, up \$0.26 and \$0.42. Oklahoma feeder cattle were mixed on the week with 500-600 pound steers down \$3.06 averaging \$157.69 and 700-800 pound steers up \$0.57 averaging \$149.42. Corn was up \$0.01 on the week trading at \$3.20/bu in Omaha on Thursday.

<i>Data Source: USDA-AMS Market News</i>		Week of 9/8/17	Week of 9/1/17	Week of 9/9/16
5-Area Fed Steer	all grades, live weight, \$/cwt	\$104.92	\$104.66	\$105.02
	all grades, dressed weight, \$/cwt	\$166.13	\$165.71	\$166.25
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$192.35	\$191.65	\$189.49
	Choice-Select Spread, \$/cwt	\$2.03	\$1.15	\$5.72
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$158.00	\$155.46	\$131.69
	Nebraska 7-market, \$/cwt	\$161.24	\$154.75	\$139.65
	Oklahoma 8-market, \$/cwt	\$149.42	\$148.86	\$133.30
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$159.62	\$163.85	\$132.32
	Nebraska 7-market, \$/cwt	\$167.43	\$174.53	\$152.75
	Oklahoma 8-market, \$/cwt	\$157.69	\$160.74	\$141.44
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.20	\$3.19	\$3.05
	DDGS, Nebraska, \$/ton	\$108.00	\$106.00	\$115.00