

In The Cattle Markets

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October 2018 Cattle on Feed Report

The USDA NASS released the October Cattle on Feed Report last Friday. Marketings and placements were below the prior year while the end of the month inventory was larger. Marketings during the month of September were 1,719 thousand head and this is 3.6% below the prior year. Placements during September were 2,051 thousand head and this is 4.6% below the prior year. These flow measures result in the October 1 Cattle on Feed inventory being estimated at 11,400 thousand head in greater than 1,000 head capacity feedlots. This is 5.4% above the prior year.

From an expectations perspective, the report is long-term bullish but short-term bearish. Pre-report estimates were very close for on-feed numbers. But placements could be classified a surprise. Pre-report expectations suggested placements similar to last year and, as reported above, placements are close to 5% lower than the prior year. Marketings are not as big of a surprise but the argument could be made. Pre-report expectations suggested a drop in marketings but the drop was on the end of the range and not as large most analysts expected.

The report is reasonably troubling. The drop off in marketings, regardless of placements, suggests the need for strong slaughter volumes the next two months. Cattle on feed numbers are nothing short of enormous. And placements in July and August were close to 7% above the prior year. The availability of market-ready cattle come the end of this year and the first of next will be substantial. However, the marketplace has handled the large volume of beef so far this year, and much of last, perfectly. Saturday slaughter volumes have been strong, packer and retailer margins have been excellent, slaughter weight increases are typical for the season but not excessive, and domestic demand is appearing to favor beef while exports have been excellent.

A lot has gone right for fed cattle, and calf, prices to remain strong and even improve. But, in the end, there remains considerable potential downside risk.

The Markets

What do the technical say? The live cattle futures markets opened strong after the report. And while, DEC sits just below resistance levels established in the spring and early summer, the deferred contracts all have up trends in place and have repeatedly moved into new highs for each contract. This suggests short term bearish and long term bullish. However, with the strength of the technical up-moves there is a lot of room for the live cattle contracts to retreat before sell signals are generated. Caution is warranted.

<i>Data Source: USDA-AMS Market News</i>		Week of 10/19/18	Week of 10/12/18	Week of 10/20/17
5-Area Fed Steer	all grades, live weight, \$/cwt	\$110.05	\$110.52	\$110.87
	all grades, dressed weight, \$/cwt	\$173.84	\$173.52	\$174.92
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$205.74	\$202.68	\$198.63
	Choice-Select Spread, \$/cwt	\$13.30	\$10.46	\$8.35
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$155.86	\$156.56	\$159.46
	Nebraska 7-market, \$/cwt	\$161.76	\$164.57	\$168.96
	Oklahoma 8-market, \$/cwt	\$156.91	\$155.57	\$155.15
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$172.58	\$175.05	\$172.39
	Nebraska 7-market, \$/cwt	\$179.96	\$187.29	\$183.58
	Oklahoma 8-market, \$/cwt	\$162.97	\$161.09	\$160.76
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.31	\$3.27	\$3.12
	DDGS, Nebraska, \$/ton	\$141.50	\$141.50	\$117.50