

In The Cattle Markets

Glynn T. Tonsor, Associate Professor

Department of Agricultural Economics, Kansas State University

Interesting Start to 2016 ...

Last week Dr. Brooks provided a series of thoughts on how 2016 may shake out for the cattle industry. Given developments in multiple financial markets it is useful to pause and appreciate the broader situation underpinning the start of 2016 “outside” of the cattle markets to further assess possible upcoming changes within the cattle complex.

The Dow Jones Industrial average and broader Standard & Poor’s 500 index were both down 6% in the year’s first full week of trading setting records for the worst start to a calendar year. Market pundits point to a host of candidate reasons for the stock market reductions led principally by concerns around China’s economic growth and corresponding anxiety around broader global growth in 2016.

What is critical for beef industry stakeholders to appreciate is how ongoing concerns around global economic growth impact prospects for beef demand. A simple yet critical concept to grasp is more adverse economic conditions correspond to weaker global demand for beef. Quickly looking at the sizeable drop in futures market cattle prices last week, when little changed regarding supply fundamentals, clearly illustrates this point. Moreover, one of the key reasons for reductions in cattle prices in 2015 was the strengthening US dollar and adverse global economic growth developments that led to limited beef exports.

While of course no individual producer can change the course of beef demand strength, everyone can do their due diligence in understanding key aspects of what demand is and what influences it. This improved understanding along with focused management of things one can control “in house” (such as critical production cost and product quality control) will position any decision maker to make the most out of any situation. In fact, one can benefit by “making lemons out of lemonade” only if you recognize the customer base for said lemonade. That is, being effective at producing something is only valuable if you have access to a properly identified customer who exists and is willingly and able to purchase your product. Likewise in the beef cattle industry, if one does not fully appreciate demand the prospects for prosperity are certainly restricted.

The Markets

The 5-area live fed cattle price for the week was down at \$132.26. Feeder cattle price reporting has returned to normal after a two week holiday break in many areas. Nebraska yearlings traded lower at \$167.93. Corn prices were down slightly for the week trading at \$3.46 in Omaha.

| <i>Data Source: USDA-AMS Market News</i> | | Week of 1/8/16 | Week of 1/1/16 | Week of 1/9/15 |
|--|------------------------------------|---------------------------|---------------------------|---------------------------|
| 5-Area Fed Steer | all grades, live weight, \$/cwt | \$132.26 | \$133.95 | \$169.67 |
| | all grades, dressed weight, \$/cwt | \$209.75 | \$211.52 | \$270.26 |
| Boxed Beef | Choice Price, 600-900 lb., \$/cwt | \$226.24 | \$207.16 | \$252.76 |
| | Choice-Select Spread, \$/cwt | \$6.40 | \$7.76 | \$9.53 |
| 700-800 lb. Feeder Steer | Montana 3-market, \$/cwt | \$158.79 | -- | \$221.85 |
| | Nebraska 7-market, \$/cwt | \$167.93 | \$172.28 | \$239.12 |
| | Oklahoma 8-market, \$/cwt | \$166.90 | -- | \$232.30 |
| 500-600 lb. Feeder Steer | Montana 3-market, \$/cwt | \$189.87 | -- | \$285.96 |
| | Nebraska 7-market, \$/cwt | \$201.88 | \$192.26 | \$308.66 |
| | Oklahoma 8-market, \$/cwt | \$193.78 | -- | \$284.50 |
| Feed Grains | Corn, Omaha, NE, \$/bu (Thursday) | \$3.46 | \$3.49 | \$3.74 |
| | DDGS, Nebraska, \$/ton | \$134.60 | \$134.63 | \$180.00 |