

## In The Cattle Markets

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### Cattle Basis Levels

Here are some observations from putting together year-end cattle prices and basis levels. The cash markets below refer to South Dakota, but many patterns would hold for neighboring states. Monthly live cattle prices are available from the Sioux Falls Regional Livestock market. Prices for Choice 2 to 3 steers weighing 1300-1500# match up well with the delivery specifications on the live cattle futures contract. In 2014, as cattle were fed to heavier weights, it was necessary to use the Choice 2 to 4 price series for several months. Regardless, the basis was above the 5-year average for 10 of the 12 months. From a hedger's perspective, the basis was favorable in those months if using the board (e.g., futures or options) to manage risk. If a hedger had forward contracted, they likely were disappointed as the basis ended up greater than expected. At the national level, the 5-Area price series in 2014 had high Choice steers as the volume leader instead of the lower Choice category. What about 2015? Assuming the seasonal patterns continue in prices and basis, the 5-year average basis will be a good starting point. That means for most months live cattle basis will be \$2 to \$3 under the nearby. The exceptions would be a \$0 basis in April and June and a basis of \$4 above the nearby in May.

Feeder cattle prices and basis were incredibly variable in 2014. Using auction prices for 700-800# steers in South Dakota, the basis relative to the nearby futures price was above expected levels throughout 2014, and especially so in July, August, September and December. In absolute terms these are record high basis levels. However, in percentage terms or percent of the futures price, similar levels were observed during 2005. A more subtle comparison to the CME Feeder Cattle Index shows that South Dakota feeder cattle traded at a large premium compared to feeder cattle from other states except during November. What about 2015? With the feeder futures still showing an inverted pattern, basis will be tricky. The 5-year average would give a starting point. Then adjust basis (add to it) for any inversion, especially in non-contract months.

The basis on stocker cattle was also very high and at record absolute levels for 2014. Using the auction price for 500-600# steers in South Dakota, the basis relative to the nearby futures price was typically \$50 throughout the year. The observed basis was about twice the expected or recent average for basis. Unlike the feeder cattle basis, the basis on calves or stockers reflects the other inputs (mainly corn and hay) needed to grow the cattle. Thus, the seasonal pattern and absolute levels are less likely to follow any average, unless those other prices are at normal or average levels. What about 2015? High absolute feeder cattle futures prices will keep the stocker basis high or large compared to recent years. The current 2015 projections are for slightly lower hay prices and slightly higher corn prices in South Dakota compared to 2014. These cancel out the effect and suggest that basis in 2015, especially for fall, will likely be around \$50. Should feeder futures prices drop, then the basis will narrow or become smaller too.

## The Markets

The cattle markets were sharply lower for the week. Live cattle futures traded lower and feeder cattle were sharply lower. The nearby January Feeder Cattle contract starts its settlement period soon and remains well below the current Index level. Convergence will happen in this cash-settled contract – a point to remember if hedged. The broader cash markets fell for the week too. The lighter steers were not down as much on slightly lower corn prices. Cattle prices continue to be sharply higher than a year ago. The talk in the region has been mainly about DDGS prices, which are lower than a year ago while still seen as expensive relative to corn.

		Week of	Week of	Week of
		1/16/2015	1/9/2015	1/17/2014
<i>Data Source: USDA-AMS Market News</i>				
<b>5-Area Fed Steer</b>	all grades, live weight, \$/cwt	\$163.17	\$169.67	\$142.50
	all grades, dressed weight, \$/cwt	\$263.16	\$270.26	\$227.28
<b>Boxed Beef</b>	Choice Price, 600-900 lb., \$/cwt	\$261.51	\$252.76	\$224.62
	Choice-Select Spread, \$/cwt	\$9.38	\$9.53	\$2.45
<b>700-800 lb. Feeder Steer Price</b>	Montana 3-market average, \$/cwt	\$214.37	\$221.85	\$172.09
	Nebraska 7-market average, \$/cwt	\$224.35	\$239.12	\$174.46
	Oklahoma 8-market average, \$/cwt	\$226.19	\$232.30	\$169.64
<b>500-600 lb. Feeder Steer Price</b>	Montana 3-market average, \$/cwt	\$286.68	\$285.96	\$207.18
	Nebraska 7-market average, \$/cwt	\$299.76	\$308.66	\$221.63
	Oklahoma 8-market average, \$/cwt	\$277.42	\$284.50	\$201.74
<b>Feed Grains</b>	Corn, Omaha, NE, \$/bu (Thursday)	\$3.61	\$3.74	\$4.18
	DDGS Price, Nebraska, \$/ton	\$174.60	\$180.00	\$191.20