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In The Cattle Markets

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Cattle on Feed Report

The USDA Cattle on Feed Report released last Friday contained some surprises and is notably lacking news that the price trend established through the last half of 2015 would be reversed. Cattle and calf prices may firm up some in early 2016 but it will be because the market has overreacted to the downside and not that there specific good news in the report. The fed cattle and beef markets have shown some improvement to that fact but calves have not.

The January 2016 report with information as of December 2015 states that the inventory of cattle on feed – at the end of December and the beginning on January – was 99.5% of the prior year. Placements were lighter than, 99.2% of, the prior year while marketings were heavier than, 101.1% of the prior year. However, these numbers are modestly bearish relative to pre-report expectations. Lighter placements and heavier marketings were not light enough and not heavy enough to change market fundamentals. The survey conducted by Urner Barry and discussed in the Daily Livestock Report suggests that placements held the biggest surprise. Of the 10 analysts surveyed, the average expected placements was 94.9% with a range of 91.1%-97.5%. Actual placements are well outside of that range to the upside. Marketings were more in line with expectations. The survey average was 101.9% with a range of 100.9%-103.4%. Actual marketings are just below the average. Finally, the cattle on feed inventory average was 98.8% with a range of 98.3%-100.5%. The actual is just above average.

The report is modestly bearish and no aspect of it suggests fundamentals that could change the downward direction of price. So, slight bad news and no specific good news for producers. The stronger placement numbers are not too surprising to me. Placements in that report have been year-over-year lighter since the August. With a bigger cowherd and higher calve numbers then placements are bound to tick up sometime over this fall and winter. The increase suggests possibly that the delayed marketings that many producers have talked about this fall in the face of the calf price decline have picked back up. Some producers that I have talked to last fall and this winter have held and fed calves and cull cows in hopes of some price improvement. Perhaps not into the next calendar year.

The most troubling news in the report is the sluggish marketings. This is one of the main fundamental factors that has driven fed animal prices lower through the last half of 2015 and it continued through December. Calculations by the LMIC of cattle on feed over 90 days and over 120 days show continued abundant showlist volumes. The over 90 day inventory grew modestly when it usually begins a strong seasonal increase but the over 120 day remains a persistent issue. I believe the next two months will tell what type of seasonal rally we may see with cattle prices in the spring. Long-fed inventories need to be reduced for this to occur and it may be that the feeding industry is close to cleaning these up.

Cash fed cattle and also boxed beef values have shown some strength over the past several weeks. Albeit, movements up off of very low prices. The 5-area fed animal price rallied to \$133.25 from \$116.60 three weeks prior. Likewise, Choice boxed beef rallied to \$234.67 from \$193.83 just two weeks prior. It is just plain difficult to explain those low prices based on market fundamentals. Thus, they are most likely the overreaction to the downside. Retail margins are strong and featuring of beef and pork appears to be moving product. Pork in cold storage has moderated, whereas, the volume of beef has not. While the lower prices are painful for sellers, especially the sellers that had become a bit accustomed to record high prices, those prices appear to be doing their job. The overreaction to the downside creates buying opportunities, will move product volume, and offset imbalances seen with the by-historical-standards tight supplies. But in the meantime, the abundant showlist inventories and market-ready volumes remain the front and center issue.

The Markets

Feeder cattle prices last week generally declined from prior week levels. Oklahoma yearlings traded lower at \$160.67/cwt. Corn prices were down slightly for the week trading at \$3.40/bu in Omaha.

		Week of	Week of	Week of
		1/15/16	1/8/16	1/16/15
<i>Data Source: USDA-AMS Market News</i>				
5-Area Fed Steer	all grades, live weight, \$/cwt	\$133.25	\$132.26	\$163.17
	all grades, dressed weight, \$/cwt	\$209.56	\$209.75	\$263.16
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$234.67	\$226.24	\$261.51
	Choice-Select Spread, \$/cwt	\$6.20	\$6.40	\$9.38
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$152.89	\$158.79	\$214.37
	Nebraska 7-market, \$/cwt	\$160.68	\$167.93	\$224.35
	Oklahoma 8-market, \$/cwt	\$160.67	\$166.90	\$226.19
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$192.93	\$189.87	\$286.68
	Nebraska 7-market, \$/cwt	\$198.13	\$201.88	\$299.76
	Oklahoma 8-market, \$/cwt	\$190.53	\$193.78	\$277.42
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.40	\$3.46	\$3.61
	DDGS, Nebraska, \$/ton	\$135.30	\$134.60	\$174.60