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In The Cattle Markets

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Technical Improvement and Western Moisture Conditions

I've waited many months to be able to write this technical analysis summary. The charts finally show some signals that the market route – which began at the very end of 2014 – is ending. The charts I am considering are the nearby continuous contract for feeder and also live cattle. Cattle contracts are reasonably liquid for one year prior to expiration at most and routinely less for feeder cattle. Thus, multiyear patterns require the use of continuous contracts. Live cattle and feeder cattle markets have been in clear down trends for the last two years. Both markets broke hard the final quarter of 2014. There were corrective rallies in early 2015 and then again a sharp break during the last half of 2015. These price movements form a long-term down trend that currently remains in place. The sharp movements down through the last half of 2015, modest corrections in 2016, and then further moves down through the end of 2016 form a steeper short term trend. This trend was solidly broken with the \$20 recovery in feeder cattle prices since mid-October. The long term down trend remains but the shorter term down trend is no longer in place. Further, the feeder cattle market appears to have recovered to above the strong support plane at \$130. These are both strong technical buy signals – the down trend breaking and support holding – or at least suggest aggressive short positions should be lightened. Good news for producers no matter your interpretation. Herd expansion and soft demand will continue to be the fundamentals that push cattle and beef prices lower but the hard adjustments down may have ended.

Other recent news that will impact cattle markets is the recovery of moisture conditions in the western U.S. Storms over the prior month or more have brought substantial snow fall to the Rocky Mountains. Snow pack and the resulting summer runoff will likely be excellent from Idaho through Nevada and even into the Southern half of California. Three months ago over half of the western U.S. was in one of the five drought categories used. Currently, 31% is in one of these categories. Less than 1% is in one of the two worst categories and three months again this was almost 10%. Western Colorado and Wyoming have had repeated storms and cumulative snowfall in the high country. Winter is not when the precipitation is needed but it is when we get it and enough of the right kind lasts through the summer. Weather patterns appear to have substantially changed, there is good recovery of moisture in the southern mountains, and starting the year optimistically for mountain-west cattle (and ski) country. Drought remains in the southeast, and has emerged through eastern Oklahoma and neighboring state. But even these regions have seen some good recent winter moisture.

Forage prices in the west have softened through much of the past year but held firm through this snowy cold winter. And market conditions and calf prices through the fall reduced discussions of rebuilding heard from cow-calf producers at winter meetings. Moisture conditions in the west will do much to reduce cow costs in this market environment.

The Markets

<i>Data Source: USDA-AMS Market News</i>		Week of 1/20/17	Week of 1/13/17	Week of 1/22/16
5-Area Fed Steer	all grades, live weight, \$/cwt	\$121.89	\$118.82	\$133.72
	all grades, dressed weight, \$/cwt	\$194.80	\$189.75	\$207.64
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$191.65	\$192.00	\$228.73
	Choice-Select Spread, \$/cwt	\$4.27	\$3.41	\$5.42
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$133.02	\$130.01	\$156.64
	Nebraska 7-market, \$/cwt	\$140.29	\$137.63	\$160.69
	Oklahoma 8-market, \$/cwt	\$133.64	\$131.98	\$153.67
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$156.53	\$157.56	\$187.86
	Nebraska 7-market, \$/cwt	\$164.03	\$164.83	\$197.76
	Oklahoma 8-market, \$/cwt	\$151.63	\$149.70	\$182.25
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.45	\$3.34	\$3.58
	DDGS, Nebraska, \$/ton	\$107.50	\$108.60	\$134.00