



In The Cattle Markets

Stephen R. Koontz

Department of Agricultural and Resource Economics, Colorado State University

Fed Cattle and Feeder Cattle Divergence

The current outlook communications for the cattle and beef markets in 2021 are commonly optimistic –bullish. The underlying market fundamentals support this position. On feed number are currently high and will moderate through the remainder of the year with smaller placements and smaller calf numbers. Further, the currently very large carcass weights will shrink into the spring as winter weather has its impact. Similar optimism is often offered for feeder cattle and calves but I believe this is a tenuous perspective. Rather, I believe cow-calf producers should look hard at Livestock Revenue Protection (LRP) insurance. My outlook communications discussed to potential for returning to normal seasonal patterns and opportunities this year. For cow-calf producers that involves diversifying and making some sales in the spring and early summer with fed cattle and beef price rallies. I am concerned that this year may payout more like last year. In 2020, selling opportunities evaporated through March. If the current changes to feed costs persists then we may be in for a repeat.

The February WASDE report will be released this week and the first look at USDA grain acreage forecasts will be offered at the Agricultural Outlook Forum at the end of next week. This information will update us on the tightness of corn and soybean stocks and possible acreage relief with this crop year. Regardless, stocks are considerably tighter than what was anticipated as of last fall. And even with the substantial increases in corn and soybean futures prices for nearby contracts the current corn basis across the central and southern plains remains strong – the cash activity and price levels have followed the futures rally. In this setting, these increases are not temporary but rather permanent. And permanent for cattle feeding cost-of-gains. Even crude oil is participating with the March contract – the contract that was negative in 2020 – rallying from the low-\$40s to the mid-\$50s.

Bullish moves for fed cattle are in the works but those for feeder cattle and calves are far more limited. What do the technicals say? I believe the technicals will reveal first to market watchers any slowing or stopping of the changes to feed costs. And I see none currently.

Grains first: corn and soybean contracts all show multiple and strong uptrends in place. Soybeans showed a 5-day retreat to the steepest trend line in January. That trend holds and holds across the contract spectrum. It holds for contracts of the current crop year and holds for contracts of the next harvest. The picture is the same for corn with the exception that the retreat to the trend line – which held – was 7 days. New crop beans are \$11.60 and new crop corn is \$4.50. This feed cost perspective and the cattle supply picture is very different from the prior three years. And these grain markets are offering no sell signals.

The Markets

How about cattle? After the October sell off, reflecting economic concerns related to the pandemic, the live cattle market has followed an up trend and has broken late summer 2020 resistance planes and is now at resistance levels from January 2020. This taken 13 months to get back to where we were the beginning of 2020 for the April contract – summer contracts don't have the trading history and are into new highs. The live market looks bullish. The same cannot be said for feeder cattle. All of the spring feeder cattle contracts have stalled at resistance levels. It will be important to follow all of these markets in the spring. What is the strength of the live market? When do grains slow their rally? Feeder cattle improvements will be limited until costs of gain for this calf crop are more well known. And we need to see what is in the WASDE and forum outlooks. Whereas pricing opportunities for calves was in the late spring and early summer, this year like last the opportunity may be moved up to earlier in the year.

<i>Data Source: USDA-AMS Market News</i>		Week of 2/5/21	Week of 1/29/21	Week of 2/7/20
5-Area Fed Steer	all grades, live weight, \$/cwt	\$113.63	\$112.44	\$121.05
	all grades, dressed weight, \$/cwt	\$179.26	\$177.56	\$193.18
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$235.31	\$230.28	\$210.85
	Choice-Select Spread, \$/cwt	\$12.26	\$11.06	\$4.31
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	--	\$138.87	\$144.85
	Nebraska 7-market, \$/cwt	\$143.16	\$143.88	\$147.79
	Oklahoma 8-market, \$/cwt	\$134.86	\$134.04	\$138.18
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	--	\$173.08	\$173.28
	Nebraska 7-market, \$/cwt	\$173.39	\$172.18	\$177.38
	Oklahoma 8-market, \$/cwt	\$164.43	\$164.41	\$166.53
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$5.29	\$5.15	\$3.79
	DDGS, Nebraska, \$/ton	\$222.00	\$226.00	\$146.50