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In The Cattle Markets

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Some technical improvement but fundamental caution

Cattle futures markets have provided some cautious optimism over the past several weeks. The volatility has persisted but lower beef prices are doing what they are supposed to do: increase product moment and consumption.

So what do the technicals say? Down trends were established with the market turn last summer and into the fall. It's the first time we've had down trends on cattle charts in a number of years and trends were in place for contracts in the live cattle and feeder cattle markets. Those trends have been broken so further sustained pushes downward are unlikely until the seasonally larger slaughter shows up later this summer. Prior to the down trends being broken, support has been established in all the spring and early summer contracts, then tested twice and have held. Live cattle attract a lot of buying interest at \$114-118 and feeder cattle at \$145-150. While the down trends have been broken and support established, suggesting a firming up of market prices, resistance is also in place to limit up moves. Live cattle attract a lot of selling interest at \$128-130 and feeder cattle at \$160-165. And that's where we are. I think we'll have reasons to trade higher in that range – with greening spring grass – and reasons to trade lower in that range – with demand issues and seasonal increases in supply come summer – and we'll trade that range until the underlying fundamentals change.

So what about those fundamentals? In the short term, the cash-market-only red ink associated with cattle feeding has begun to moderate. We have retreated from the record large losses that are a hair's breadth from \$500 per head to a modest loss of \$270 per head. These figures are historically \$50-100 per head and do not account for hedging. Feedlots have marketed their way through the most expensive feeder cattle and this improved cash position will strengthen current feeder markets. Showlists also appear to be somewhat cleaned up. It's hard to tell from the data as the number of cattle on feed over 120 days display historically large seasonal increases in February and March. The increases are there but it is not as large as last year or the typical seasonal increase. Thus, there is continued news that the number of long-fed cattle are being whittled down. But marketings refuse to show strength. This cattle market wreck was managed in the fashion that can happen, with the industry placing its way out of excess market-ready cattle. Of course that takes months. And winter weather has brought slaughter weights down sharply. All in time for spring.

But I am not counting on a strong seasonal spring rally. The beef demand index, updated with fourth quarter consumption data, showed its first softening in six years. Domestic consumers appear tired of record high retail beef prices. Beef demand has shown strong growth over the past several years, especially in the fourth quarter of 2014 and first quarter of 2015. This demand kick added strength to already high prices reflecting tight supplies and herd building.

Domestic demand will be worth watching through 2016, as will be the beef trade numbers. Beef exports rebounded and imports were reduced in the fourth quarter. This appears to be in response to lower wholesale beef prices. But there is no reason for the US dollar to remain anything but strong. It appears to me that demand news has a higher chance of being bad news through 2016. Again, caution.

So it appears the cattle market wreck is over. But, unlike our immediate prior years, that does not suggest higher prices are imminent. Slaughter weights remain heavy and fed cattle marketings remain sluggish. Many market analysts have forecasted higher beef production commensurate with herd expansion through the remainder of the year. We have not seen that in terms of placement yet. The fundamentals continue to suggest caution while technicals provide some limited optimism.

The Markets

The live 5-area fed cattle price for the week was down just \$.26 per cwt. Oklahoma yearlings traded up slightly at \$159.99/cwt while Nebraska yearlings traded lower at \$155.59 per cwt. Corn prices were up slightly for the week trading at \$3.51 per bushel in Omaha

		Week of	Week of	Week of
		3/4/16	2/26/16	3/6/15
<i>Data Source: USDA-AMS Market News</i>				
5-Area Fed Steer	all grades, live weight, \$/cwt	\$135.76	\$136.02	\$161.07
	all grades, dressed weight, \$/cwt	\$213.91	\$213.21	\$257.17
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$219.22	\$216.51	\$248.91
	Choice-Select Spread, \$/cwt	\$6.94	\$4.16	\$3.12
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$155.59	\$158.41	\$209.03
	Nebraska 7-market, \$/cwt	\$165.72	\$165.21	\$222.59
	Oklahoma 8-market, \$/cwt	\$159.99	\$158.99	\$208.79
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$194.04	\$198.25	\$257.48
	Nebraska 7-market, \$/cwt	\$206.00	\$204.12	\$285.29
	Oklahoma 8-market, \$/cwt	\$193.26	\$188.68	\$255.88
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.51	\$3.43	\$3.84
	DDGS, Nebraska, \$/ton	\$132.30	\$131.50	\$175.50