

In The Cattle Markets

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Weekly Mandatory Price Reporting

Back when there was a little more snow on the ground, I came across a notice that the Mandatory Price Reporting Act of 2010 has a sunset clause in it dated September 30, 2015. That inspired me to reexamine the content of the various reports for cattle, lest anything be taken for granted. The focus here is mainly on the weekly reports at the national level. Recall that mandatory reporting is covered by the USDA's Agricultural Marketing Service (AMS) and it pertains to animals marketed directly to larger packers. The reports referenced below are available at: <http://www.ams.usda.gov>.

Cattle that have been set for marketing are documented in the *committed and delivered* report (LM_CT142 or just 142), which provides a breakdown of volumes by pricing mechanism (negotiated, negotiated grid, formula and forward contract), weight determination (live or dressed) and pen make-up (e.g., steers, heifers or mixed). From there, the reports tend to capture behavior at the time of purchase or of slaughter. For example, a feedlot may forward contract months in advance of the animal being ready for market (purchase point). After the animal is delivered to a plant the final characteristics and value are fully known (slaughter point). The *negotiated purchases* report (154) is a weekly summary of the cattle bought the prior week. Most the volume in this report is for negotiated cash purchases, providing prices most closely related to auction prices. Also included are negotiated grids, where only the base level is given. The final grid price is determined after slaughter and given in the *formula and forward* report (151) with final formula and forward prices. The various net prices across mechanisms show the variability from realized versus expected quality.

Missing from the price summaries are the *packer owned* cattle (153). Carcass characteristics and volume can be monitored to see if packers own cattle that differ from average cattle. That report also summarizes the forward contract volume and different basis metrics. Differences among the various prices can be partially explained by considering the *premiums and discounts* (155). A separate report, *cows and bulls* (168), is helpful for gaining regional insights into what is being sold. Only a couple reports are aggregated further, the monthly *committed and delivered* report (143) and the *5-Area* series (annually in 170 and monthly in 180). Knowing the volume delivered on a monthly level seems to make more sense than on a weekly level, especially for regional breakdowns. The aggregations also distinguish between aberrations and trends.

Before mandatory reporting, there was looming concern that the shrinking percentage of spot market trades was leaving too much uncertainty in the market. Mandatory reporting gives clear insight into packer-owned and formula-purchased cattle that would be hard to replicate or imagine in a voluntary setting. The forward contract information is unique under mandatory reporting because it is comprehensive. Over time the various reports have added

more distribution information to the series, which also relies on the comprehensive nature of mandatory reporting.

The Markets

The cattle markets were sharply higher for the week. Live cattle futures were mostly steady while feeder cattle futures have increased for several weeks. Cash cattle prices finished the week higher across all classes – despite higher feed prices. The *Hogs and Pigs* report last week gave mixed news as the previous inventory level was revised higher while the current farrowing levels were below trade expectations. Locally a few cattle producers continue to explore pricing and protection strategies for this spring’s calf crop. They have been helped by higher futures prices. In addition, the implied volatility for both nearby and deferred contracts has fallen in recent weeks from around 18% to around 14%.

| <i>Data Source: USDA-AMS Market News</i> | | Week of | Week of | Week of |
|--|------------------------------------|----------------|----------------|----------------|
| | | 3/27/15 | 3/20/15 | 3/28/14 |
| 5-Area Fed Steer Price | all grades, live weight, \$/cwt | \$165.57 | \$163.55 | \$152.21 |
| | all grades, dressed weight, \$/cwt | \$262.15 | \$259.79 | \$243.53 |
| Boxed Beef | Choice Price, 600-900 lb., \$/cwt | \$248.92 | \$246.04 | \$239.57 |
| | Choice-Select Spread, \$/cwt | \$3.16 | \$1.57 | \$7.12 |
| 700-800 lb. Feeder Steer | Nebraska 7-market average, \$/cwt | \$230.88 | \$227.06 | \$185.18 |
| | Oklahoma 8-market average, \$/cwt | \$219.74 | \$217.46 | \$177.53 |
| 500-600 lb. Feeder Steer | Nebraska 7-market average, \$/cwt | \$289.97 | \$282.59 | \$229.69 |
| | Oklahoma 8-market average, \$/cwt | \$285.50 | \$281.22 | \$213.37 |
| Feed Grains | Corn, Omaha, NE, \$/bu (Thursday) | \$3.89 | \$3.70 | \$4.71 |
| | DDGS Price, Nebraska, \$/ton | \$174.25 | \$171.00 | \$235.00 |