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In The Cattle Markets

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Time to Act

The fed cattle and feeder cattle markets have continued their impressive rallies that took off last week. Live cattle futures increased \$15/cwt and better than \$30/cwt since the beginning of April. Feeder cattle futures \$20/cwt and \$30/cwt since April 1. Do these rallies have legs or, in other words, are there underlying fundamentals that support these prices?

The fundamentals are there but are short term and will not likely persist through the summer. I do not believe these opportunities will continue until cow-calf enterprises have the chance to market the current calf crop on video auctions. My recommendation is to establish price floor protection now or as soon as the rally slows. If you didn't learn how to trade options over the last two years then there's no time like the present.

What's the fundamentals behind the rally? In short, Memorial Day. The grilling season is upon retailers and aggressive meat as well as beef purchases have been seen over the last two weeks. Fed cattle marketings have been very strong and needed to happen with very short showlist inventories. The opposite side of the same coin that drove prices so low and lower in fall of 2015 is now driving them high and higher in spring of 2017. Marketings have been strong, market-ready inventories low, and slaughter weights continue to drop – more animals are needed to secure the tonnage.

All this will likely not persist into August. Slaughter weights show a normal seasonal increase beginning in May and continuing through October. Cattle on feed placements were heavy in March and are expected to be so again in April. And packer margins have been very tough in 2017. As soon as beef supplies in the marketing pipeline are replenished the market will likely soften and become focused on larger summer supplies.

Late summer and early fall live cattle and feeder cattle futures contracts are trading at a respectable discount to the nearby contracts but all are a good \$15-\$20/cwt better than two weeks ago. I believe it's time to get some price floor insurance purchased on fall calves in particular. October feeder cattle options are very pricy at-the-money after all it's a long time until October. But a Put with a \$130 strike price is trading around \$2.35/cwt. That's \$1,175 without commissions to buy a floor at \$130. More liquid options are at higher strike prices and have higher premiums.

What do the technicals say? It's hard to draw a believable trend line with the speed of this rally so selling at resistance is the reasonable alternative. Live cattle show firm long-term resistance at slightly better than \$140. There are little fundamentals to support that high of a fed cattle price. Feeder cattle show similar resistance at \$165 and the August contract is close to that now. Again, I believe it is time to act. A price floor at \$130 plus a reasonable Colorado basis on a 5-6 cwt steer calf of \$20/cwt is a cash price floor of \$150/cwt. Compared with last fall, that's a number that hard to argue with.

The Markets

<i>Data Source: USDA-AMS Market News</i>		Week of 4/28/17	Week of 4/21/17	Week of 4/29/16
5-Area Fed Steer	all grades, live weight, \$/cwt	\$136.22	\$131.60	\$123.79
	all grades, dressed weight, \$/cwt	\$216.45	\$209.23	\$194.16
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$219.56	\$215.63	\$215.51
	Choice-Select Spread, \$/cwt	\$13.43	\$13.15	\$9.20
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$149.78	\$146.26	\$146.78
	Nebraska 7-market, \$/cwt	\$157.62	\$151.50	\$149.88
	Oklahoma 8-market, \$/cwt	\$144.48	\$142.44	\$144.39
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$185.13	\$177.29	\$176.03
	Nebraska 7-market, \$/cwt	\$190.47	\$177.64	\$183.25
	Oklahoma 8-market, \$/cwt	\$167.13	\$167.99	\$169.72
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.41	\$3.28	\$3.64
	DDGS, Nebraska, \$/ton	\$103.25	\$105.00	\$128.00