

In The Cattle Markets

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Feeder Cattle Adjust to Limited Fed Cattle Opportunities and Higher Feeding Costs

Futures price for most the live cattle and feeder cattle contract have shown substantial weakness through much of April 2021. Optimism from late in the winter and early in the spring is being replaced by realism that it is going to take another 2-3 months to work through the large front-loaded fed animal inventories, that fed animal slaughter is at capacity, and that costs of gain are now substantially higher than the past several years. Futures prices now reflect more the conditions that the underlying cash market has been showing since the beginning of the year. The cash market has been much less optimistic than the futures market – although the futures have changed over the prior month.

Fed cattle slaughter has been persistently high for much of the year and Saturday slaughter has been routinely over 60 thousand head. Combined fed steer and heifer slaughter has been just short of 525 thousand head per week. And it is likely that this is a reasonable maximum that the packing industry can process. Packer margins are strong but there is little incentive to pay more for fed cattle when plants are operating six days per week. There is little to no possibility to process more cattle regardless of the incentive to do so. There are a lot of historical relationships that are irrelevant when the packing industry is essentially at capacity. Market-ready inventories need to be reduced. This appears to be happening in that the last Cattle on Feed report communicated drops in both cattle on feed over 120 and 150 days. But supplies will likely be abundant into late summer.

The other market event complicating feeder cattle and calf market outlook is the substantial rally in feed prices. The corn futures market increased \$2 per bushel between August of last year and mid-January. The July contract held steady at about \$5.25 until the Prospective Planting report surprises. Since the end of March, the contract has increased an additional \$1.50. This market is clearly rationing old crop among users of corn. The formula cost of gain for cattle this summer is well above \$1 per pound. The feeding margin between OCT live, JUL corn, and MAY feeders is breakeven – the details depending on the basis. If live cattle have little upside and the corn market continues to ration old crop, then it is feeder cattle that have to adjust. While margin calls are uncomfortable, forward pricing in a rallying spring feeder cattle market again proves to be a smart perspective.

The Markets

What do the technicals say? Live cattle and feeder cattle futures broken uptrend that have been largely in place since May of 2020. The trends in live cattle were disrupted last October with concerns of additional pandemic related shutdowns and with the beginnings of grain

market rallies. But again, the internal trends are persistent for much of the past year. Feeder showed some weakness – likely due to grain prices – in January but optimism recovered by the end of the month. Live cattle have broken the uptrend but feeder cattle done so and followed through. Technicals might suggest waiting for a correction but the fundamentals do not. Both of these markets appear to have exhausted their spring rally and sell signals persist through April. An improved market will take changes in the current fundamentals.

<i>Data Source: USDA-AMS Market News</i>		Week of 4/30/21	Week of 4/23/21	Week of 5/1/20
5-Area Fed Steer	all grades, live weight, \$/cwt	\$118.89	\$121.36	\$98.53
	all grades, dressed weight, \$/cwt	\$190.44	\$192.11	\$154.36
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$291.79	\$280.19	\$349.01
	Choice-Select Spread, \$/cwt	\$12.65	\$8.73	\$15.64
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$140.73	\$147.84	\$134.83
	Nebraska 7-market, \$/cwt	\$143.08	\$150.32	\$134.64
	Oklahoma 8-market, \$/cwt	\$137.38	\$138.04	\$122.59
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$179.24	\$182.56	\$157.89
	Nebraska 7-market, \$/cwt	\$171.42	\$177.80	\$163.36
	Oklahoma 8-market, \$/cwt	\$162.58	\$168.12	\$146.58
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$6.68	\$6.51	\$2.97
	DDGS, Nebraska, \$/ton	\$232.50	\$212.50	\$191.50