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In The Cattle Markets

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Feeder Cattle Price Volatility on the Increase

The cattle markets have been on rampage over the last few weeks, with October Feeder Cattle futures nearly hitting \$160 during intraday trading at one point. That is way up from late March when prices were hovering around the \$130 mark. But with the run-up in prices, we have also seen volatility increase substantially. There have been several days where trading was limit up or limit down over the last couple of weeks, which can put cattle producers at the edge of their seats. Demand has been very strong as supermarkets fill their shelves in preparation for Memorial Day weekend, but some concern still exists as to whether the higher-priced beef can keep pace with cheaper pork and poultry products. This tug-of-war, combined with profit-taking activities from those who are long in the markets is the main driver of the increased volatility.

It is also not surprising to see market volatility increase as prices increase. Increased risk is, after all, usually associated with increased reward. As shown in the figure below, for most of this year volatilities for the nearby feeder cattle futures contract have been hovering in the 10-20% range, which is actually low compared to volatilities over the last few years. In 2016, volatilities dipped below 15% for only a couple of weeks in the spring and was above 20% for much of the second half of the year. As 2015 came to a close, volatility topped 30%. At 28%, today's volatility is now at its highest level since the close of 2015 and the first week of 2016. What does this mean for the rest of the year?

In the grand scheme of things, there really isn't anything too alarming about the increase in volatility over the last couple of weeks. Volatility is higher when compared to the last several months, but is still reasonable when compared to historical levels. The recent increase in volatility will lead to higher premiums for puts and calls on the options market, but those premiums will go back down once the market stabilizes again.

The Markets

The five-area fed steer price ended the week averaging \$144.60 for live sales, and \$229.80 for dressed; respectively, up \$8.38 and \$13.35. Nebraska feeder cattle were mixed on the week with 500-600 pound steers down \$7.39 averaging \$183.08 and 700-800 pound steers up \$2.90 averaging \$160.52. Corn was down \$0.40 on the week trading at \$3.38/bu in Omaha on Thursday.

<i>Data Source: USDA-AMS Market News</i>		Week of 5/5/17	Week of 4/28/17	Week of 5/6/16
5-Area Fed Steer	all grades, live weight, \$/cwt	\$144.60	\$136.22	\$126.59
	all grades, dressed weight, \$/cwt	\$229.80	\$216.45	\$198.66
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$232.55	\$219.56	\$205.72
	Choice-Select Spread, \$/cwt	\$17.75	\$13.43	\$9.23
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$162.58	\$149.78	\$144.84
	Nebraska 7-market, \$/cwt	\$160.52	\$157.62	\$150.46
	Oklahoma 8-market, \$/cwt	\$150.68	\$144.48	\$144.99
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$199.49	\$185.13	\$180.00
	Nebraska 7-market, \$/cwt	\$183.08	\$190.47	\$174.79
	Oklahoma 8-market, \$/cwt	\$170.80	\$167.13	\$173.06
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.38	\$3.41	\$3.47
	DDGS, Nebraska, \$/ton	\$104.25	\$103.25	\$128.50

