



May 17, 2021

In The Cattle Markets
Brenda Boetel, Professor
Department of Agricultural Economics, University of Wisconsin-River Falls

Do changes in cattle crush provide any opportunities for profitability?

Where are live cattle prices going? How about feeder cattle prices? Or corn prices? Now ask another, more detailed question and ask if the forecast is a short-term forecast, or a longer-term forecast. Will nearby corn prices remain higher than deferred contracts? How long before feeder cattle prices increase to the level expected given that the cattle inventory is low? Whether you are bearish or bullish on this coming week's forecasts, volatility in cattle prices and feed prices will remain high. Discussions on profitability and how to increase profitability will become even more important.

Every cattle producer wants to sell their cattle at the highest price, but profitability is dependent on more than just the output price. Profitability for any cattle producer is dependent on good cattle marketing and price risk management skills, and when prices are volatile those skills will be put to the test. Cattle marketing decisions include asking what type of cattle to produce, how to best market those cattle, when to market the cattle and where, and when to price the cattle.

With decreased forages available, feeder cattle may need to enter feedlots earlier, depressing the feeder cattle prices and possibly having a seasonal low mid-summer as opposed to early fall. With continued labor shortages and high levels of cattle on feed, there is limited bullish news for fat cattle prices. Corn prices will remain volatile and will move with any weather news. Even with all this news, profitability potential for December fat cattle increased slightly last week compared to mid to late April. The potential shows up in the gross feeding margins and the idea that corn price has decreased more than the increase in feeder cattle prices.

Pay attention to basis levels, especially with feed purchases. Producers may also want to consider using the futures and options markets more effectively and explore hedging strategies to protect any profit potential. Finally, reconsider your marketing plan, including your marketing strategies and price risk management strategies. Purchasing and selling decisions need to be made in a timely manner and without emotion. Volatility in the cattle/feed markets is not likely to decrease; however, given good cattle marketing and some price risk management, there are still opportunities for profitability.

The Markets

There has been some recent reprieve from the drought situation recently. Weekly pasture and range conditions for the week ending May 16, 2021 showed 43% of pasture rated as very poor or poor, a 1% decrease from the week prior, but a 27% increase from 2020.

Last week also brought a glimpse of the ending hay stock situation. May 2021 US hay stocks totaled 18,006 thousand tons, down 11.8% from 2020. The five states with hay stocks of 1 million tons or greater are all down compared to 2020. South Dakota, with 2.2 million tons, is currently down 6.4% from 2020. Texas has the 2nd largest hay stocks with 1.2 million tons, which are down 38% from 2020. The three remaining states with 1 million ton or greater are Oklahoma (down 14.8%) Missouri (down 29.1%), and Nebraska (down 27.5%).

Corn basis levels saw increased variability with the Mississippi River backlog, which occurred due to a bridge failure. Although river traffic has resumed, it may take a couple days before markets return to normal.

Live cattle prices are facing continued downward pressure. Packers face continued labor shortages and the limited shackle space does not provide incentive for packers to bid up prices.

<i>Data Source: USDA-AMS Market News</i>		Week of 5/14/21	Week of 5/7/21	Week of 5/15/20
5-Area Fed Steer	all grades, live weight, \$/cwt	\$119.73	\$118.36	\$112.31
	all grades, dressed weight, \$/cwt	\$190.49	\$188.53	\$179.65
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$314.06	\$303.51	\$459.04
	Choice-Select Spread, \$/cwt	\$18.78	\$16.81	\$19.51
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$139.03	\$135.00	\$135.40
	Nebraska 7-market, \$/cwt	\$143.03	\$139.74	\$140.08
	Oklahoma 8-market, \$/cwt	\$138.71	\$135.25	\$131.96
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$185.03	\$162.64	\$169.38
	Nebraska 7-market, \$/cwt	\$172.59	\$173.36	\$167.90
	Oklahoma 8-market, \$/cwt	\$163.44	\$162.50	\$150.96
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$7.09	\$7.45	\$2.99
	DDGS, Nebraska, \$/ton	\$255.00	\$250.00	\$160.50