

May 21, 2018

In The Cattle Markets

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Entering the Summer Doldrums

Memorial Day is soon to pass and the impact of the holiday on cattle and beef markets, if not already, is soon to be complete. The impact on prices was positive, especially the Choice-Select spread, but the fundamentals going forward look to be a very mixed bag. There is bullish information, there is bearish information, but there will likely be a lot of beef and other protein production through the remainder of the summer. This is and will continue to weigh on cattle markets.

The bullish news is as follows: the packer margin is strong, as are net exports of beef, Saturday and total slaughter volumes have been strong, slaughter weights continue their seasonal decline and boxed beef composite values have been relatively high. The Choice-Select spread, as mentioned, is also very strong indicating excellent demand going into summer. All of these indicate strong beef movement and good demand in the face of high production. But the bearish news is equally present: seasonal declines in slaughter weights is soon to stop and reverse, the byproduct markets are very weak, the volume of market-ready cattle is very high no matter how the measure is constructed, and retail beef prices are high enough to potentially limit movement.

This market could easily enter to the normal summer doldrums: heavy production and soft prices. What are the key factors to watch? Strong margins incentivize the packer to buy aggressive and continue to move large volumes of beef. We need to see continued heavy marketings, slaughter, and a pull-down the number of market-ready cattle. Aggressive marketings will also limit the seasonal growth in slaughter weights. And then it sure would not hurt to see continued strong exports and some softening of retail beef prices. But the market has very limited upside potential based on fundamental supply and demand. A lot has to happen to see a market similar to that of 2017. One or two things going wrong have the potential to seriously weaken fed and feeder cattle prices. Almost everything lined up so that 2017 had very good marketing opportunities. Last year is not and will not play out this year.

What do the technical say? The technical are betting on weakness. All futures contracts for live and feeder cattle fell sharply during March. Support was established in early April – April 4 to be exact. The markets then corrected through April and the first half of May. Last week showed the correction to be complete – at the rather skinny 38% level which is not good news – and the market for all contracts have retreated to support levels this past week. Support is technically a good place to buy but not without very strong Memorial Day market performance. It will take specific and repeated good news to push cattle and beef markets higher. It will take very strong marketings and a bullish USDA Cattle On Feed report this week. The absence of good news will push these markets lower into August. The summer doldrums look to be here.

The Markets

<i>Data Source: USDA-AMS Market News</i>		Week of 5/18/18	Week of 5/11/18	Week of 5/19/17
5-Area Fed Steer	all grades, live weight, \$/cwt	\$114.73	\$121.65	\$134.26
	all grades, dressed weight, \$/cwt	\$184.02	\$191.99	\$212.62
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$231.94	\$230.61	\$248.36
	Choice-Select Spread, \$/cwt	\$23.17	\$21.03	\$25.38
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$148.49	--	\$150.25
	Nebraska 7-market, \$/cwt	\$150.17	\$152.43	\$161.84
	Oklahoma 8-market, \$/cwt	\$138.07	\$143.29	\$145.32
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$180.01	--	\$178.97
	Nebraska 7-market, \$/cwt	\$180.68	\$182.85	\$187.39
	Oklahoma 8-market, \$/cwt	\$165.01	\$170.57	\$162.71
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.72	\$3.78	\$3.40
	DDGS, Nebraska, \$/ton	\$165.00	\$167.00	\$104.00