

In The Cattle Markets

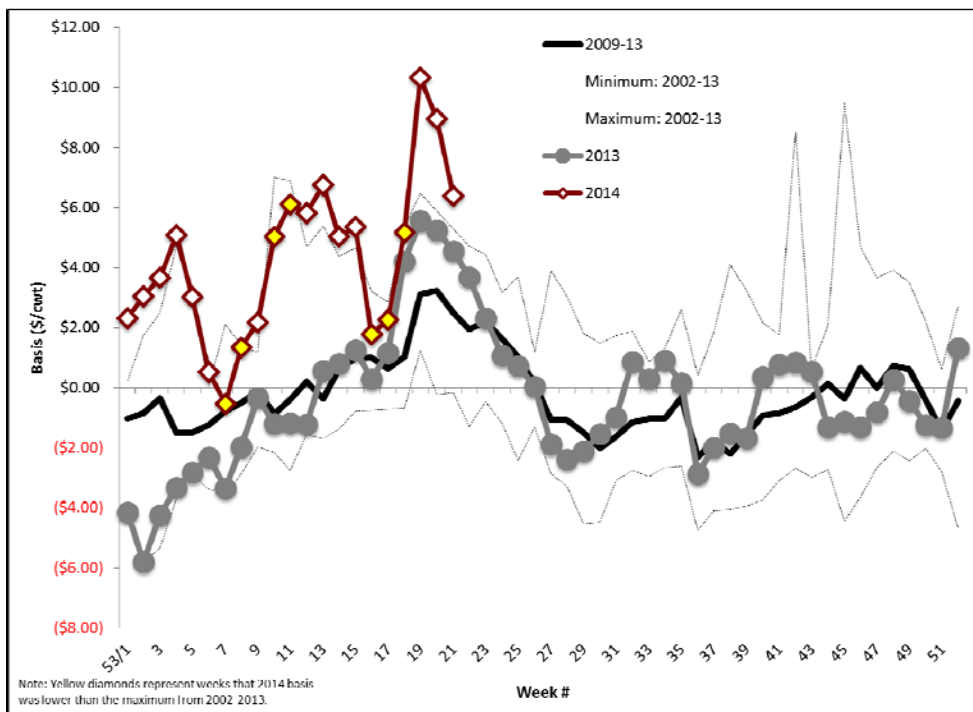
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Gearing Up for Summer Grazing

A quick look at prices in cattle and beef sectors reveals tremendous gains (the same can be written for hogs and pork). Just last week John Anderson highlighted the record setting pace of retail prices in this particular publication series. Many others, including me, have made note of record live and feeder cattle futures and cash prices over the past number of months. An item getting less attention is the rather strong premium in place for cash cattle versus futures that has been occurring fairly regularly since the first of the year.

Roughly one year ago I noted the erratic fed cattle basis in this space. At that time basis moved from “extremely” weak to “extremely” strong in a short amount of time. As 2013 progressed fed basis continued to bounce around, but maintained its seasonal pattern. A different event is occurring in 2014, with the weekly weighted average five-area fed cattle cash price for both steers and heifers having dipped into negative territory versus the nearby live cattle futures contract only once. The same result holds for weekly average cash markets in Texas/Oklahoma and Kansas, whereas Nebraska weekly average prices have been higher than futures the entire time. Furthermore, of the 21 weeks ended this past Friday, only seven (one-third) have been lower than the highest mark set since 2002. The accompanying figure illustrates 2014’s strong cash prices relative to futures.



Five-Area Weighted Average Cash Price Minus Nearby Live Cattle Futures Price

This reveals a few things. First, given the known tight supplies, the market is making an attempt to maintain currentness by bidding up cash prices. Second, thinking back to hedging fundamentals, a stronger than anticipated basis is a good thing for short hedgers and therefore in this instance could very well be adding a bit of a cushion to hedged feeders. Third, and in my opinion most important, it shows the reluctance of the futures market to whole-heartedly “buy-in” to the record setting prices. In the current environment the market is essentially working outside of its observed set of data and therefore is largely in uncharted waters. The result appears to be a higher instance of hesitation in Chicago as compared to the cash markets in the Plains.

The Markets

Fed cattle were \$1.97 and \$1.59 per hundredweight lower for live and dressed, respectively. On the bright side, both Choice and Select prices reversed course and moved higher. Feeders were higher in the plains. Feedstuff prices were mostly even when compared to the previous week.

<i>Data Source: USDA-AMS Market News</i>		Week of 5/23/14	Week of 5/16/14	Week of 5/24/13
5-Area Fed Steer	all grades, live weight, \$/cwt	\$144.46	\$146.43	\$124.74
	all grades, dressed weight, \$/cwt	\$232.32	\$233.91	\$199.39
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$230.48	\$225.34	\$210.47
	Choice-Select Spread, \$/cwt	\$10.73	\$10.18	\$18.36
700-800 lb. Feeder Steer Price	Montana 3-market average, \$/cwt	--	--	--
	Nebraska 7-market average, \$/cwt	\$209.04	\$189.92	\$147.71
	Oklahoma 8-market average, \$/cwt	\$193.36	\$190.36	\$132.21
500-600 lb. Feeder Steer Price	Montana 3-market average, \$/cwt	--	--	\$158.00
	Nebraska 7-market average, \$/cwt	\$246.30	\$248.62	\$164.81
	Oklahoma 8-market average, \$/cwt	\$222.68	\$218.62	\$148.70
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$4.72	\$4.71	\$7.30
	DDGS Price, Nebraska, \$/ton	\$204.80	\$214.00	\$223.20
	MWDGS Price, Nebraska, \$/ton	\$95.60	\$98.40	\$126.00