

## In The Cattle Markets

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### Forward Contracting Calves

Seasonally, this is a time of year when the cash price for calves finishes its increasing pattern. The summer sales volume tends to be low and prices tend to be more volatile. In recent weeks the price level has risen back to near \$300 per cwt, just shy of last fall's record price level. What will the fall bring in terms of prices? For that, one can look at the forward contract market or at the futures market. With an idea about the expected value, cow-calf producers and feedlots can evaluate the current market offerings and decide among contracting, hedging or waiting in the cash market to sell or buy calves.

The AMS report number SJ\_LS850, "National Feeder & Stocker Cattle Summary", includes direct sales in North and South Dakota and video auction results with forward delivery dates. To date, there have not been many forward contracts reported for the region in 2015. This is not unusual, as it is early in the season and there was some uncertainty about the quantity of grass that would be available for summer grazing. In late May, there were direct price quotes for 600# steers that traded for \$251 per cwt. and 550# heifers that traded for \$241 per cwt., both for October delivery. Since those sales, both cash and futures prices have been steady or higher. This coming week there are some auction listings with fall delivery dates, so the expectations are for a similar trend in forward prices.

With fall feeder cattle futures contracts trading around \$220 per cwt, basis is needed to find an implied calf price or value. In October of 2014, the basis on 5-600# steers in South Dakota was \$60 per cwt. If that basis repeats in 2015, calves for fall delivery would be valued at \$280 per cwt., or lower than the current value and lower than the value observed last October. Specific to calves one could also look to the deferred months. The feeder futures are inverted, thus the nearby contract months trade at higher prices than the deferred months. The March 2016 contract, for example, is trading around \$209 per cwt. The deferred months would be indicative of the ultimate value of a calf today that may weigh 7-800# in early 2016.

Continue with the deferred futures example of \$209 per cwt. If that represents the implied value of a 750# steer that has been fed, it is possible to back out the feed cost and come up with a breakeven calf price for late fall of 2015. The feeder would be valued at \$1,567.50 per head. The LMIC projects hay at \$139 per ton for 2015/16 and corn at \$3.70 per bushel for 2015/16. Assuming a calf consumes 1 ton of hay and 15 bushels of corn in a backgrounding program, the feed cost would be \$194.50 per head. Subtracting that from the feeder value and dividing by 5.5 (cwt. of calf) gives a price of \$250 per cwt. South Dakota feed prices are expected to be lower than the national level, so the upper bound on the calf price would be a little higher locally, perhaps approaching \$260 per cwt. That implies a basis against fall futures around \$40 per cwt versus the \$60 per cwt in 2014. What can a seller do? If the forward bids are at or better than \$260 per cwt., then consider forward contracting. If the

forward bids are at or worse than \$260 per cwt, then consider hedging with futures or options. If a seller expects the price to rise and can manage the risk, then waiting is the best choice for now.

## The Markets

The cattle markets were mostly lower for the week. On the futures side, prices were steady. Cash cattle prices finished the week lower for slaughter cattle. Prices for feeder cattle were mixed depending on weight level and location. Feed prices were mixed, as corn was higher and DDGS was lower.

<i>Data Source: USDA-AMS Market News</i>		<b>Week of 6/5/15</b>	<b>Week of 5/29/15</b>	<b>Week of 6/6/14</b>
<b>5-Area Fed Steer</b>	all grades, live weight, \$/cwt	\$155.59	\$159.42	\$145.78
	all grades, dressed weight, \$/cwt	\$245.53	\$251.71	\$231.93
<b>Boxed Beef</b>	Choice Price, 600-900 lb., \$/cwt	\$249.66	\$259.10	\$231.81
	Choice-Select Spread, \$/cwt	\$8.89	\$11.69	\$9.43
<b>700-800 lb. Feeder Steer</b>	Montana 3-market average, \$/cwt	\$238.84	\$235.57	--
	Nebraska 7-market average, \$/cwt	\$239.80	\$247.75	\$209.38
	Oklahoma 8-market average, \$/cwt	\$229.21	\$227.84	\$196.10
<b>500-600 lb. Feeder Steer</b>	Montana 3-market average, \$/cwt	\$279.61	\$274.14	--
	Nebraska 7-market average, \$/cwt	\$294.20	\$251.19	\$240.47
	Oklahoma 8-market average, \$/cwt	\$280.61	\$282.22	\$228.03
<b>Feed Grains</b>	Corn, Omaha, NE, \$/bu (Thursday)	\$3.65	\$3.51	\$4.48
	DDGS Price, Nebraska, \$/ton	\$153.40	\$160.00	\$191.80