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In The Cattle Markets

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Second Chance at Forward Pricing

Commodity markets rarely give second chances but sometimes patience is rewarded. I believe that time is now. In May, I advocated that producers with anticipated fall marketings of calves purchase some price protection in the form of options. This article does the same. Let's get right to the technicals.

The October feeder cattle contract put in a key reversal top on May 4. This is an outside day – with a higher above the previous day's high and a low below the previous day's low – with a low or weak close. These are significant in that they communicate the day finishes at a rather different level than traded during. The market retreated from price levels set in early May – this establishes the high as a resistance plane – and then made another run at those highs in late May and early June. Resistance was pressured but largely held. On June 6, there is another close-to outside day and a very weak close. This resistance plane is attracting a lot of selling pressure. The market retreats again from the resistance plane and this becomes a solid sell signal. Were you listening?

Of course that was over two weeks ago so the pricing opportunities are this week not as good. But the technical picture remains the same. It looks to me like the spring top is in and we are likely in for price weakness the remainder of the year. The technical patterns for live cattle contracts are very similar just not in the detail. Highs established in early May were pressured in late May and early June, these resistance planes have held and sell signals were generated. Live cattle and feeder contracts are in agreement.

What do the fundamentals say? My main concern for the coming summer and early fall is from the fact that placements over the prior five months have been above or the same as last year. We have not seen larger volumes at heavier weights yet but they are inevitable. When this occurs there will be price weakness for fed animals and feeders. The weakness has not emerged because packer margins have been very strong. Boxed beef composite values have rallied to over \$250 per cwt – a level not seen in all of 2016 – and the Choice/Select spread is above \$30 – again something not observed in 2016. The calculated volume of cattle on feed over 120 days and over 90 days is the smallest that I can recall seeing relative to the numbers of animals on feed. Excellent beef movement and fed cattle marketings in combination with tight market-ready inventories is the story this spring. The short term fundamentals are much stronger than the long term. And these market situations have a propensity to change sometime between June and October.

Returning price protection, that October feeder cattle Put with a \$130 strike price was \$3.85/cwt on June 19. This is as opposed to \$2.35 on May 3. And of course, options which are further out-of-the-money are less expensive. Reasonable basis estimates suggest this is

close to a \$150/cwt price floor for 5-6 cwt calves. And I still the purchase of this price protection is a smart decision for many cow-calf producers with calves to market this fall.

The Markets

<i>Data Source: USDA-AMS Market News</i>		Week of 6/16/17	Week of 6/9/17	Week of 6/17/16
5-Area Fed Steer	all grades, live weight, \$/cwt	\$130.12	\$136.07	\$120.59
	all grades, dressed weight, \$/cwt	\$205.94	\$218.36	\$194.23
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$250.86	\$250.22	\$225.53
	Choice-Select Spread, \$/cwt	\$30.02	\$30.38	\$22.99
700-800 lb. Feeder Steer	Nebraska 7-market average, \$/cwt	\$156.28	\$163.13	\$144.92
	Oklahoma 8-market average, \$/cwt	\$152.47	\$160.06	\$143.05
500-600 lb. Feeder Steer	Nebraska 7-market average, \$/cwt	\$171.28	\$192.09	\$171.13
	Oklahoma 8-market average, \$/cwt	\$171.22	\$173.74	\$157.87
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.47	\$3.59	\$3.96
	DDGS Price, Nebraska, \$/ton	\$101.00	\$101.00	\$156.00