

In The Cattle Markets

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Corn and Feeder Cattle Prices

Corn prices have been on a sharp downtrend since late May due primarily to a combination of trade uncertainty and a strong start to the growing season. Both nearby and new crop corn futures prices have tumbled by over 40 cents or approximately ten percent. The December 2018 corn futures contract price hit \$4.26 on May 23rd – its highest level since July 2017. Just 18 trading days later, it closed Monday at a contract low of \$3.77.

Corn price is assumed to have an inverse relationship with feeder cattle prices. In other words, as the price of corn decreases, the price of feeder cattle increases. This relationship assumes that all other factors that affect price remain constant such as other feeding costs and live cattle price. The inverse relationship exists because corn (feed) and feeder cattle are the two major inputs into the production of fed cattle. As the price of corn (i.e. cost of gain) declines, the price of the other input (i.e. feeder cattle) can increase without increasing the total cost to produce a fed animal.

A 2017 study by Tonsor and Mollohan at Kansas State University (available [here](#)) highlights this relationship and estimates the impact that a change in corn price has on feeder cattle prices. Using monthly data, they found that a one percent increase in corn price reduces feeder cattle prices by about 0.18 percent. Further, they found that feeder prices have become more responsive to corn prices since 2008.

To put their findings into a current context, what might a ten percent decline in corn prices imply for feeder cattle prices? It would suggest a 1.8 percent increase in feeder cattle prices. So a decline from \$4.00/bushel corn to \$3.60/bushel would suggest a feeder price increase from \$150/cwt to \$152.70/cwt.

It is impossible to disentangle the relative impacts of factors affecting real-time price changes. While feeder prices have been on an uptrend over the past month, it can't be simply attributed to lower corn prices alone. However, we know that cattle prices are certainly paying attention to the corn market and research suggests that any continued corn price weakness can help to provide support for feeder cattle prices.

The Markets

The cutout value was lower again last week as cattle slaughter was large again at 654,000 head. The Choice-Select spread shrank by about \$2 last week as it likely begins its usual seasonal decline.

<i>Data Source: USDA-AMS Market News</i>		Week of 6/15/18	Week of 6/8/18	Week of 6/16/17
5-Area Fed Steer	all grades, live weight, \$/cwt	\$111.28	\$114.66	\$130.12
	all grades, dressed weight, \$/cwt	\$177.55	\$182.75	\$205.94
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$223.52	\$226.95	\$250.86
	Choice-Select Spread, \$/cwt	\$20.89	\$22.48	\$30.02
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$151.14	\$155.00	--
	Nebraska 7-market, \$/cwt	\$157.26	\$158.88	\$156.28
	Oklahoma 8-market, \$/cwt	\$144.36	\$145.17	\$152.47
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$178.25	\$183.00	--
	Nebraska 7-market, \$/cwt	\$174.03	\$185.76	\$171.28
	Oklahoma 8-market, \$/cwt	\$164.12	\$164.44	\$171.22
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.46	\$3.58	\$3.47
	DDGS, Nebraska, \$/ton	\$144.00	\$150.00	\$101.00