

In The Cattle Markets

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Seasonal Tipping Point

A couple of weeks ago the average price for 5-600# steers (stockers) in South Dakota topped \$260 per cwt. That is by far the highest price in our records, and it caps about a 12-month run of price increases. How long will the run last? That seems to be on the minds of both buyers and sellers. Seasonally, June is the peak month for stocker prices in South Dakota. The average price tends to be 5% higher during June than in the surrounding months. January and November tend to have seasonal lows. From a historical perspective, one would expect stocker prices to fall at any time.

Seasonally the price for feeder cattle peaks in September. Futures price currently reflect that pattern, suggesting the trade expects the seasonal break also. The latest fundamentals from the Economic Research Service have projected prices for the fourth quarter of 2014 below third quarter levels. Thus, for buyers there is perhaps some relief in sight for prices. However, what could be done if the pattern does not hold? That is a tough call for buyers, as locking in calf or feeder prices today while not also locking in feed costs leaves buyers open to feeding margins changing. If they wanted to protect against a counter-seasonal move, then buying call options would be a way to approach it.

For sellers methods are more straightforward. One may be tempted to sell or price calves now before the seasonal decline happens. The potential cost of doing so is capping any further gains. Protection strategies are right at the sweet-spot where seasonally prices are high and volatility remains low. Remember, if you will be buying protection and volatility increases with corn price uncertainty, then options become more expensive. In mid-June the implied volatility in the November feeder cattle futures was at 11.5 percent. That is a little higher than in June of 2013, but well below the 17 and 18 percent seen in other recent years. Buying put options provides downside coverage while leaving the upside open to further gains.

Sellers of stockers and calves have another alternative this time of year – Livestock Risk Protection (LRP) insurance. While it functions like buying put options, the price adjustment factor for calves is an attractive feature. With the high prices seen the past year the volume covered by LRP has reached a record high. Nationally, the volume with a week to go in fiscal year 2014 is over 296,000 head. In South Dakota producers have covered a record 80,000 head. In addition, more than 30,000 head have been covered by producers in Kansas, Missouri and Oklahoma. The same low volatility that makes put options attractive also applies to LRP. Currently, LRP coverage can be purchased with end dates, when calves will likely be sold, from September through January. The highest coverage prices available, after premiums, are about \$220 per cwt for 5-600# steers. While \$220 is not \$260, it would still be well above any fall price for stockers in our records.

The Markets

Late last week the *Cattle On Feed* report came out in line with trade expectations. At 10.6 million head, the on-feed total is at 98 percent of last year. There continued to be more placements in the lightest weight category. Fed cattle traded unchanged from the prior week. Feeder cattle traded higher for the week, while stockers were mixed depending on the location of sales. Feed grains were fairly steady.

		Week of	Week of	Week of
<i>Data Source: USDA-AMS Market News</i>		6/20/14	6/13/14	6/21/13
5-Area Fed Steer	all grades, live weight, \$/cwt	\$149.10	\$149.48	\$120.93
	all grades, dressed weight, \$/cwt	\$236.91	\$236.32	\$193.50
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$238.39	\$231.80	\$199.82
	Choice-Select Spread, \$/cwt	\$7.61	\$8.94	\$14.78
700-800 lb. Feeder Steer	Nebraska 7-market average, \$/cwt	\$215.77	\$214.60	\$141.20
	Oklahoma 8-market average, \$/cwt	\$208.24	\$203.04	\$138.57
500-600 lb. Feeder Steer	Nebraska 7-market average, \$/cwt	\$251.59	\$264.55	\$172.46
	Oklahoma 8-market average, \$/cwt	\$245.19	\$233.24	\$156.54
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$4.50	\$4.46	\$7.33
	DDGS Price, Nebraska, \$/ton	\$145.30	\$169.80	\$225.10