

In The Cattle Markets

Matthew A. Diersen, Professor

Department of Economics, South Dakota State University

Hay Facilitating Expansion

A common metric that indicates expansion or contraction in the cattle herd is the availability of forage. Pasture conditions are one indicator of the short-run amount of grass, while measures of current and expected stockpiled forage indicate the level of feed available to mitigate short-run changes. A look at the U.S. all-hay balance sheet gives a few insights into the amount of forage available to facilitate expansion. Ending hay stocks had been low or tight for several years as U.S. hay acres gave way to other crops. In May of 2015, the U.S. stocks level was 24.5 million tons. The stocks increase was caused by a relatively high hay yield in 2014 and only a modest increase in consumption. The large stocks should encourage cattle expansion across a broad area as both South Dakota and Texas had large ending stocks.

Not all the indicators are positive. The June *Acreage* report shows that farmers in the U.S. in 2015 expect to harvest fewer acres of hay than in 2014. In addition, the acres are lower than in the *Prospective Plantings* report. Regionally the changes do not show a clear pattern. The acres are down compared to the *Prospective Plantings* in Missouri and South Dakota, but are up in North Dakota and Oklahoma. In addition to fewer acres, the monthly prices from NASS have been trending higher to finish out the marketing year. The increase was especially strong for alfalfa compared to other hay. The preliminary 2014/15 marketing year price is \$180 per ton, up slightly from the \$176 per ton a year earlier.

There are several implications for the 2015/16 marketing year. The large beginning stocks suggest increased feed use could be accommodated. The expected supply, however, is little changed from last year. The lower acreage figure, coupled with an average yield, would about offset the larger beginning stocks. When hay trade totals are factored out of the disappearance levels, there has been a slight trend upward in the domestic use on a per Roughage Consuming Animal Unit (RCAU) basis. When hay supply is adequate, it is typical to see the use above 2.0 tons per RCAU. The figure was at 1.78 tons in the 2012/13 marketing year and it reached 1.93 tons in the 2014/15 marketing year. Factoring in a slightly higher RCAU total suggests that a use of 2.0 tons in 2015/16 would still leave 18.0 million tons of ending stocks (in May of 2016). The RCAU tally is heavily weighted by beef cattle not on feed. Independent of the hay changes, other commodity prices are lower, which carries over to lower hay prices. The bottom line is that hay use can increase this year and take stocks down slightly, but with a lower price level than a year ago. Using these assumptions suggests a U.S. all-hay price of \$160 per ton in 2015/16 compared to the \$180 per ton in 2014/15.

Hay yield is the largest factor that can change in the short run and move hay prices. Over the past decade the hay yield is positively correlated with mid-July range and pasture conditions. Thus, a quick model was built using a conditions index to predict hay yield. Entering in the current pasture conditions gives the highest index value observed in the past ten years,

suggesting the highest hay yield in the past ten years. A much higher hay yield would facilitate much higher use or it would greatly pressure hay prices until domestic or international demand responded. There is little indication, nationally, to discourage cattle expansion and use of the larger forage supply.

The Markets

The cattle markets were mostly lower for the week. On the futures side, live cattle futures moved lower. That move, coupled with higher corn futures, lead to lower feeder cattle futures. On the cash side, feed prices were higher for both corn and distillers.

<i>Data Source: USDA-AMS Market News</i>		Week of	Week of	Week of
		7/10/15	7/3/15	7/11/14
5-Area Fed Steer Price	all grades, live weight, \$/cwt	\$151.00	\$151.35	\$155.89
	all grades, dressed weight, \$/cwt	\$240.22	\$240.09	\$247.13
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$242.21	\$252.09	\$250.54
	Choice-Select Spread, \$/cwt	\$3.25	\$3.26	\$7.64
700-800 lb. Feeder Steer	Nebraska 7-market average, \$/cwt	\$238.73	\$247.25	\$238.85
	Oklahoma 8-market average, \$/cwt	--	\$230.25	\$221.24
500-600 lb. Feeder Steer	Nebraska 7-market average, \$/cwt	\$283.88	\$305.00	\$282.75
	Oklahoma 8-market average, \$/cwt	--	\$262.89	\$250.39
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$4.06	\$4.03	\$3.74
	DDGS Price, Nebraska, \$/ton	\$127.15	\$122.63	\$135.50