



## **In The Cattle Markets**

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### **COVID Disruptions are Passing and Drought Impacts are Emerging**

The COVID impacts on cattle and beef markets are not all behind us but the majority of the disruptions appear to have passed. The exceptions are, and that will remain for some time, the cattle on feed inventories, the number of long-fed cattle, and fed animal slaughter weights. Details on the cattle on feedstocks and flows for last month will have to wait until two weeks. Beef cut prices have returned to normal levels with tenderloins being rather weak. Fed steer and heifer slaughter volumes have returned to strong levels and the Saturday kill is very comparable to last year's high values. Packer margins remain rather strong, but are well off of record highs, and are being realized as plants are back to operating at or close to full capacity.

Of course, the fed cattle complex remains in a bind. Fed cattle prices are below \$100 per cwt. Fed animal slaughter weights were roughly 50 pounds above last year's seasonal low. But last year's weights will increase through November and the current year is holding steady just below last year's peak. The supply scenario is usually difficult this time of year with gradual declines in numbers but higher animal weights. And that difficult scenario is usually on the tail of market opportunities in the spring. The disruptions this year eliminated the most persistent opportunity and could not have been worse timed. I, and the futures market, think it will take us through December or into next year for the market outlook to clearly improve. The deferred contract prices improve on the current out until April 2021.

And then there is the emerging drought picture in the western U.S. Southern Colorado, northern New Mexico, portions of the Texas panhandle, and central Oklahoma are in extreme drought. Moderate and severe drought conditions persist in large portions of the U.S. west of Kansas City. Beef cow slaughter has jumped sharply in the last three weeks, but it is as of yet not very high. We are not yet seeing cow liquidation but we are seeing summer beef cow feeding in the west. We have seen modest increases in forage prices out west but what is also being reported as modest demand. And there is August yet to go this summer. I expect to see beef cow liquidation be more substantial in the fall and I expect to see stronger western forage prices through the rest of the year. The extent to both depending on the weather. Forecasts are for high and dry through the remainder of this year with the potential for more normal weather during next year and starting next winter.

### **The Markets**

What do the technicals say? For live cattle, the technical situation is excellent. There is an uptrend in place and the market is at resistance. The trend is a bit steep for deferred contracts

so starting the trend lines at a date after lows from early April are reasonable. Breaking resistance will be a buy signal and confirm the trend. The current market is some distance from the trend line so I do not see much potential for it to break – at least soon – and generate a sell signal. So, I have a long bias. But mainly this technical picture excellent because it has to generate a signal. If the resistance is broken then that is a buy signal and if the trend is broken then that is a sell signal. The technical situation is exactly the same for feeder cattle: the market is close to resistance with an uptrend in place. I think we can see some short term down pressure on price but the bias is for improvement. This suggests limiting risk management positions going into the fall. And continuing to worry about COVID and drought market impacts.

<i>Data Source: USDA-AMS Market News</i>		<b>Week of 7/10/20</b>	<b>Week of 7/3/20</b>	<b>Week of 7/12/19</b>
<b>5-Area Fed Steer</b>	all grades, live weight, \$/cwt	\$95.98	\$94.87	\$113.37
	all grades, dressed weight, \$/cwt	\$157.66	\$153.84	\$182.87
<b>Boxed Beef</b>	Choice Price, 600-900 lb., \$/cwt	\$204.54	\$206.54	\$214.64
	Choice-Select Spread, \$/cwt	\$8.85	\$7.09	\$23.08
<b>700-800 lb. Feeder Steer</b>	Montana 3-market, \$/cwt	--	--	\$147.81
	Nebraska 7-market, \$/cwt	\$147.85	\$142.73	\$161.19
	Oklahoma 8-market, \$/cwt	\$136.67	\$134.61	\$143.36
<b>500-600 lb. Feeder Steer</b>	Montana 3-market, \$/cwt	--	--	--
	Nebraska 7-market, \$/cwt	\$173.55	\$167.87	\$190.99
	Oklahoma 8-market, \$/cwt	\$150.84	\$147.08	\$155.96
<b>Feed Grains</b>	Corn, Omaha, NE, \$/bu (Thursday)	\$3.31	\$3.27	\$4.52
	DDGS, Nebraska, \$/ton	\$118.50	\$121.25	\$145.50