

In The Cattle Markets

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To Price or Protect

Mid-summer just passed by. This time of year is a good time to take stock of what the forward market is shaping up for cattle. It is also a good time to assess whether pricing or protecting cattle is warranted. Locally, the South and North Dakota Direct Feeder Cattle report http://www.ams.usda.gov/mnreports/sf_ls160.txt showed a fairly typical amount of forward activity in late June. Reports of 850# and 950# steers were traded with August and September delivery dates with prices in the \$190 area. While not the most-liquid market, it does provide a regional look at trade expectations. The September feeder cattle futures were generally trading in the low \$200s during that span, but the forward weights are higher than the futures reflect.

For a broader view, Superior Video http://www.ams.usda.gov/mnreports/am_ls753.txt generally has a larger volume of cattle with forward delivery dates. A quick look at the Northcentral states shows that in recent weeks 500-595# steers with a November delivery date (no value added or split loads) traded in a range from \$235-299 and at a weighted-average price of \$262.29. That gives an implied basis over November feeder cattle futures of about \$50. Last November in South Dakota, 5-600# steers averaged \$189.11. For the curious, heifers for this November traded at a weighted-average price of \$242.21. My point is these are unprecedented price levels and spreads being confirmed in the forward market. With that information, the challenge is does one just observe the situation, price cattle or get some protection in place.

The latest price projections from the Economic Research Service (ERS) have feeders at \$180-190 for the remainder of 2014. The fundamental-based projections increase to \$182-196 for the first half of 2015. In contrast, the nearby futures are about \$210 and the deferred futures are about \$205. Hence, based on fundamentals, the market is signaling to price feeders at this time. The upside is limited for further price moves. Pricing strategies could include selling futures or selling in the forward market. Pricing is probably easier said than done. A strategy for the wary would be to price and also cover the sale by buying an out-of-the-money call. I discussed a fence strategy a few weeks back with a producer and it may also have a place. Usually wide fences make more sense than really narrow ones that just mimic a futures position.

For fed cattle the situation is different. The recent futures prices are about in the middle of the fundamental price range in the WASDE report and latest ERS outlook. Thus, there is some upside potential in fed cattle and market is signaling to protect fed prices. Selling put options is probably the easiest way to accomplish protecting prices. Inputs like corn and feeder cattle are also as likely to ruin margins as falling fed prices. One could look at call option protection

on deferred input needs. Locking in cash prices may be trickier given the reluctance of corn growers to sell much at these levels.

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Fed cattle were steady compared to last week. Feeders in the south were lower for the week. Feeders in South Dakota were called mostly steady to higher. The volume of lighter calves is usually very thin in the Dakotas this time of year. Thus, any spot prices should be looked at critically. The biggest news, not reflected in the Omaha price, is the continued decline in cash bids for corn. In many locations across northern South Dakota in recent weeks the spot price and new crop bids for corn fell below \$3 a bushel. That has fueled optimism among cow-calf operators looking to sell high-priced calves this fall. Local feedlots expect to be competitive given the local outlook for feed prices.

		Week of	Week of	Week of
<i>Data Source: USDA-AMS Market News</i>		7/18/14	7/11/14	7/19/13
5-Area Fed Steer	all grades, live weight, \$/cwt	\$156.05	\$155.89	\$119.87
	all grades, dressed weight, \$/cwt	\$246.57	\$247.13	\$192.52
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$250.15	\$250.54	\$189.83
	Choice-Select Spread, \$/cwt	\$6.62	\$7.64	\$5.83
700-800 lb. Feeder Steer	Nebraska 7-market average, \$/cwt	\$231.32	\$238.85	\$155.12
	Oklahoma 8-market average, \$/cwt	\$214.83	\$221.24	\$148.17
500-600 lb. Feeder Steer	Nebraska 7-market average, \$/cwt	--	\$282.75	\$178.88
	Oklahoma 8-market average, \$/cwt	\$244.31	\$250.39	\$163.96
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.65	\$3.74	\$6.97
	DDGS Price, Nebraska, \$/ton	\$120.25	\$135.50	\$226.25