

In The Cattle Markets

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Forward Contracting Activity

Seasonally, mid-summer is a relatively quiet time at most feeder cattle auctions. An exception are video and satellite sales, which often include feeder cattle for later delivery. In recent years sales volumes during July and August have been similar across fixed and video auction sites. For perspective, annual volume in 2018 was 10.7 million head at regular auctions and 2.0 million head at video auctions. An examination of recent prices of forward sales may give an indication of eventual cash prices and basis levels. Note that forward sales would be excluded from the CME Feeder Cattle Index.

Consider the recent sale at Northern Livestock Video Auction from July 22-24, 2019, which included a large volume of cattle from Northcentral states. There was just over 1,000 head of steers for current delivery. The rest of the volume was for delivery from August through January. Sales with November delivery dates are predominantly of calves and thus the expected weights are lower than the standard feeder cattle contract weight span, which is 700-899 pounds. There were 2,244 head averaging 531 pounds that sold for \$171.75 per cwt and 1,327 head averaging 571 pounds that sold for \$160.88 per cwt.

Rounding the difference suggests 500-599 pound calves may sell for \$166 per cwt in November. Because November feeder futures traded around \$142 per cwt during the auction period, the implied basis or price difference is \$24 per cwt. A year earlier, the same auction had sales of 500-599 pound steers with an average price of \$186 per cwt and an implied basis versus November of \$32 per cwt. The basis calculation disguises the fact that the implied spread between calf and feeder values is currently wider per head compared to 2018, likely reflecting higher expected corn prices and stable hay prices. August auctions could be monitored to see if the patterns of lower prices and narrower basis levels hold.

Forward contract volumes for fed cattle are less seasonal, but the total volume fluctuates through time. July is seasonally a low period for forward contract cattle being delivered. The longer trend for total volume contracted has been relatively low for much of the past year, but has started to shift higher. Currently there are 1,523,309 head of fed cattle contracted through November of 2020. The volume is higher than a year ago at this time with most of the increase in the front six months. However, there was very little volume in front months last week. In other words, feedlots and packers have priced more cattle for delivery by year-end than they had at this point last year. Basis levels vary by month. Basis for December delivery averaged -\$4.32 last week, while a year ago it averaged -\$5.35. Without knowing the source locations, the basis should be used a rough indicator of price trends. The basis distribution bears this out, the contracts for January 2020 delivery signed last week ranged from -\$20.00 to \$3.50, with most of the volume trading at -\$0.50 basis the February contract.

The Markets

The markets finished mixed for the week. In the cash trade, fed cattle were up slightly from a week earlier, while feeder cattle prices were mixed depending on location. The futures prices were lower for the week. Feed prices were lower for the week.

<i>Data Source: USDA-AMS Market News</i>		Week of 8/2/19	Week of 7/26/19	Week of 8/3/18
5-Area Fed Steer	all grades, live weight, \$/cwt	\$113.82	\$113.68	\$112.98
	all grades, dressed weight, \$/cwt	\$184.30	\$183.37	\$177.96
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$213.96	\$213.09	\$204.26
	Choice-Select Spread, \$/cwt	\$23.85	\$23.84	\$6.63
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$148.00	--	--
	Nebraska 7-market, \$/cwt	\$153.87	\$162.28	\$155.53
	Oklahoma 8-market, \$/cwt	\$144.08	\$142.04	\$151.96
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	--	--	--
	Nebraska 7-market, \$/cwt	\$170.92	\$188.12	\$167.00
	Oklahoma 8-market, \$/cwt	\$157.12	\$158.03	\$164.23
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.98	\$4.28	\$3.46
	DDGS, Nebraska, \$/ton	\$143.50	\$149.50	\$110.00