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## **In The Cattle Markets**

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### **Feedlot Profitability Turns Negative**

Current and expected fed cattle prices have declined by approximately \$10/cwt over the past five weeks. This decline has eroded the projected profitability for feedlots through the rest of 2017. According to K-State's Kansas Feedlot Net Return series, the projected net return for steers in Kansas feedyards was \$136 per head for July closeouts. In fact, each month in 2017 has seen positive returns with some months in the late Spring showing more than \$300 per head returns. The projections for the next nine months, however, are negative. August closeouts show projected losses of \$31 per head while the projected loss for November is \$169 per head.

Feedlot returns are volatile as they rely on both feeder and fed market prices, feed cost of gain, and a relatively long production lag. The K-State report provides historical and projected return information and was last released on August 14<sup>th</sup>. The K-State series reflects a cash market situation without price risk management strategies being implemented. Many feedlots do engage in some type of price risk management. However, few can fully offset price risks and most feedlots at least partially exposed to price risks at placement.

The positive feedlot returns seen during the first half of 2017 helped encourage feedlots to bid aggressively to replace boosted marketings. The shift toward negative returns means feedlot operators will have to make tough decisions about replenishing inventory with cattle that are projected to lose money. The historically large losses of 2015-16 are certainly still fresh on operators and lenders minds. In any case, it is likely that feedlots will be forced to continue to bid less aggressively on feeder cattle than during the past few months as they closely monitor the profitability of their operations.

### **The Markets**

The Choice boxed beef cutout value slipped below \$200 per cwt for the first time since February. The continuing decrease in the cutout value is leading to market adjustments throughout the beef supply chain. Fed cattle prices were down five percent last week on average for live and dressed steers. Fed prices are now about six percent lower than the same week in 2016 as we approach the Fall.

<i>Data Source: USDA-AMS Market News</i>		<b>Week of 8/18/17</b>	<b>Week of 8/11/17</b>	<b>Week of 8/19/16</b>
<b>5-Area Fed Steer</b>	all grades, live weight, \$/cwt	\$109.68	\$115.17	\$117.51
	all grades, dressed weight, \$/cwt	\$175.25	\$183.87	\$186.03
<b>Boxed Beef</b>	Choice Price, 600-900 lb., \$/cwt	\$197.06	\$201.37	\$201.24
	Choice-Select Spread, \$/cwt	\$2.25	\$4.82	\$7.70
<b>700-800 lb. Feeder Steer</b>	Montana 3-market, \$/cwt	\$150.96	\$146.50	\$152.28
	Nebraska 7-market, \$/cwt	\$159.61	\$155.11	\$155.51
	Oklahoma 8-market, \$/cwt	\$144.87	\$146.46	\$149.88
<b>500-600 lb. Feeder Steer</b>	Montana 3-market, \$/cwt	--	\$160.00	\$156.00
	Nebraska 7-market, \$/cwt	\$164.04	\$181.90	\$177.00
	Oklahoma 8-market, \$/cwt	\$155.74	\$161.99	\$159.26
<b>Feed Grains</b>	Corn, Omaha, NE, \$/bu (Thursday)	\$3.20	\$3.23	\$3.09
	DDGS, Nebraska, \$/ton	\$108.00	\$110.00	\$121.00