

## In The Cattle Markets

Matthew A. Diersen, Professor

Department of Economics, South Dakota State University

### Feed Supply and Demand

In recent weeks people in different livestock sectors have been wondering about the relative price impacts of corn and other feeds. Other people have asked about the longer-run price outlook for feed and for cattle. Having expectations for corn and hay in this setting is necessary as they ultimately feed into the prices for different classes of cattle. For crops using a balance sheet allows for both supply and demand adjustments.

Starting with the current marketing year and balance sheet for corn, the large supply has dominated the news. Livestock herds cannot be expanded nor can ethanol or other industrial uses (expect exports) increase as fast as corn will be added this year. All of this is factored into the current WASDE price projection of \$3.55-\$4.25 per bushel for corn. However, if one is looking at retaining heifers or valuing future calf crops, then the 2015/16 marketing year is of interest. One way to determine a 2015/16 corn price is to extend the balance sheet forward. Levels from the USDA baseline are kept constant except for the different beginning stocks. Doing so implies further growth in the ending stocks level for 2015/16, which in turn gives a lower price. The baseline price was \$3.30 per bushel on corn for 2015/16. Modeling the corn price against the ending stocks to use ratio gives an even lower projected price (\$3.21 per bushel) than the USDA baseline would suggest. Looking at the futures market one sees different story – carry or higher prices out to December of 2017.

The situation for hay is a little more immediate. The August *Crop Production* report suggests a sharply higher hay production level than expected based on trend yields. The price impacts have been mixed since then. Alfalfa prices are being supported in drought-affected areas and are declining in other areas (e.g., South Dakota). At the national level hay supplies have effectively been rationed in recent years. Disappearance or use based on the number of livestock has been quite low by historical standards. Now, during the hay production year, the supply of hay has effectively increased while livestock numbers have continued to decline. The net result is that use can increase and the price can also fall. An expanded cattle inventory would need additional hay acres in future years if normal yields and prices are to follow.

Lower corn and hay prices both factor into higher feeder cattle and calf prices for both 2014 and 2015. Fundamental forecasts for cattle prices typically have fed cattle in the \$155 per cwt area for 2015. In contrast, futures prices for much of 2015 have been \$10 per cwt less. Feeder cattle follow a similar pattern. The bottom line is that with corn futures trading above the fundamental price level for next year, cattle futures prices remain below the fundamental price levels. Cattle feeders cannot lock in corn cheap enough to bid higher for feeders or calves. If this logic holds, the implication for prices in 2015 would be a set of surprises of lower corn and higher feeder cattle that is difficult to exploit. It would also imply higher calf prices in 2015 than the futures market will allow to be exploited also.

## The Markets

Cattle were lower across classes last week. Fed cattle were lower although the choice-select spread improved. Higher feed prices also had an impact on feeder and calf prices. Various NASS reports last week confirmed some trade expectations. The *Cattle on Feed* report showed record low placements and marketings for July. Nebraska stood out a little in terms of having more cattle on feed. There was no obvious pattern in the weights placed. Cattle supplies across classes are tight in both the U.S. and Canada. Neither country has any statistics indicating expansion is occurring in the cattle sector. Thus, this fall would be the first time for potential expansion, where heifers are held back at large enough numbers to further impact feeder supplies. The slaughter statistics showed a shift in July to where the weights of steers and heifers were increased for the month and to a level likely to bring up the year-to-date average weight. Put another way, weights are finally exceeding year-ago weights at a substantial level.

| <i>Data Source: USDA-AMS Market News</i> |                                    | <b>Week of<br/>8/22/14</b> | <b>Week of<br/>8/15/14</b> | <b>Week of<br/>8/23/13</b> |
|--|------------------------------------|----------------------------|----------------------------|----------------------------|
| <b>5-Area Fed Steer</b>                  | all grades, live weight, \$/cwt    | \$153.14                   | \$154.92                   | \$124.54                   |
|  | all grades, dressed weight, \$/cwt | \$241.86                   | \$243.65                   | \$197.25                   |
| <b>Boxed Beef</b>                        | Choice Price, 600-900 lb., \$/cwt  | \$251.96                   | \$257.35                   | \$195.66                   |
|  | Choice-Select Spread, \$/cwt       | \$9.15                     | \$7.10                     | \$10.71                    |
| <b>700-800 lb. Feeder Steer</b>          | Nebraska 7-market average, \$/cwt  | \$230.27                   | \$237.91                   | \$163.33                   |
|  | Oklahoma 8-market average, \$/cwt  | \$219.73                   | \$219.97                   | \$157.39                   |
| <b>500-600 lb. Feeder Steer</b>          | Nebraska 7-market average, \$/cwt  | \$258.61                   | \$276.35                   | \$195.19                   |
|  | Oklahoma 8-market average, \$/cwt  | \$256.08                   | \$254.78                   | \$173.26                   |
| <b>Feed Grains</b>                       | Corn, Omaha, NE, \$/bu (Thursday)  | \$3.59                     | \$3.54                     | \$6.22                     |
|  | DDGS Price, Nebraska, \$/ton       | \$97.15                    | \$95.80                    | \$219.50                   |