

## In The Cattle Markets

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### Direct Reports

A few weeks have passed with the newest direct fed cattle reports from USDA-AMS. The reports cover base prices used in formal-priced transactions and the final net prices received across purchase types. The base prices show up thrice daily in morning, afternoon, and summary reports. Those prices are then aggregated into a weekly report. Here are some observations on the weekly reports available so far.

In looking at the new reports, I was reminded of several conversations held years ago with a local cattle feeder. He was not a fan of formula pricing. He sought premiums for the cattle he was finishing that he thought deserved a premium price, either for the way he finished them or for their inherent or underlying quality when placed. He thought that selling above-average cattle using formulas (or price adjustments of any kind) with an unknown base price or with a base price tied to a plant- or regional-average price, meant that he would be giving away much of the premium he sought. Seeing net prices, say for formula cattle, still only told part of the story. The more transparent base prices and more complete net prices seem to fill in more of the gap between the average value of average quality cattle and fair values for higher quality cattle being traded today.

The weekly formulated base, called LM\_CT251 and numbered 3502 shows the formula base price across gender, general quality level, and delivery type. For example, there is now a head count and price range for the base price for formula priced steers, delivered dressed, grading 65-80% Choice. The average net price is there too, thus any major skew in the data would be easier to infer than in the past. The main averages are also broken out by state or region. It is all informative and overwhelming. However, knowing the base you are dealing with as a buyer and as a seller should mean better signals about the value of quality.

The weekly price distribution, numbered 3492, shows the volume of head across delivery types and purchase arrangements. The average net prices have been available previously. That series was mostly useful to monitor forward net prices over time to the negotiated and formula prices. If many cattle were forward contracted during a period of higher expected prices, and prices subsequently fell, then the forward net would be much higher than the negotiated. The opposite could also happen. Now the volumes are available in \$2 increments from the average levels. The report displays histograms of volume of cattle by live and dressed bases. Many cattle in recent weeks have traded in a narrow range of live prices and a wider range of dressed prices. In general, the formula prices span a wider range than the negotiated prices. Over time, one would expect the forward prices may reflect the timing of the contracting and following a large move may also be reflected in the final distributions.

## The Markets

The markets finished mixed for the week. In the cash trade, fed cattle were higher as were boxed beef prices. Feeder cattle prices were mixed as heavier steers traded higher and lighter steers traded lower. Live cattle futures prices were lower following recent sharp increases. Feeder cattle futures have shown a similar pattern. The implied volatility in the live cattle declines quickly for the more deferred months. For the nearby contracts the implied volatility also increases quickly for the lower strike prices. The cash corn price was sharply higher for the week.

		<b>Week of 8/27/21</b>	<b>Week of 8/20/21</b>	<b>Week of 8/28/20</b>
<i>Data Source: USDA-AMS Market News</i>				
<b>5-Area Fed Steer</b>	all grades, live weight, \$/cwt	\$125.74	\$125.47	\$105.09
	all grades, dressed weight, \$/cwt	\$204.45	\$201.15	\$166.53
<b>Boxed Beef</b>	Choice Price, 600-900 lb., \$/cwt	\$347.02	\$338.93	\$229.91
	Choice-Select Spread, \$/cwt	\$29.60	\$27.91	\$16.56
<b>700-800 lb. Feeder Steer</b>	Montana 3-market, \$/cwt	\$169.41	\$164.49	\$146.25
	Nebraska 7-market, \$/cwt	\$167.61	\$163.40	\$153.59
	Oklahoma 8-market, \$/cwt	\$157.52	\$156.96	\$140.62
<b>500-600 lb. Feeder Steer</b>	Montana 3-market, \$/cwt	--	--	--
	Nebraska 7-market, \$/cwt	\$183.72	\$189.61	\$169.81
	Oklahoma 8-market, \$/cwt	\$167.17	\$170.44	\$152.96
<b>Feed Grains</b>	Corn, Omaha, NE, \$/bu (Thursday)	\$6.28	\$6.15	\$3.32
	DDGS, Nebraska, \$/ton	\$212.50	\$209.00	\$142.50