

## In The Cattle Markets

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### Feedlot Profit Situation

Given the multitude of adjustments underway in the cattle markets it is useful to assess most recent estimates of closeout returns offered in K-State's Kansas Feedlot Net Return series to extend understanding of the current situation faced by feedlots.<sup>1</sup> This most recent report, which provides both historical and projected return information, indicates expected returns have eroded notably since last month.

Over the past four weeks, expected fed cattle prices have declined at least \$10/cwt leading to projected losses of at least \$150/steer for closeouts throughout the remainder of 2016 (Table 1; Figure 1). It is critical to recall the K-State series mimics a cash market situation without price risk management strategies being implemented. Those operations regularly implementing price risk mitigation tools likely have experienced more moderated returns and may have been partially protected against recent fed cattle market declines. While many feedlots indeed engage in price risk management, few can fully offset price risks as it is rare that attractive margins can be "locked in" at placement.

The best month currently projected is March 2017 steer closeouts (loss of \$14/hd) where feeder cattle purchases (averaging 849 lbs) on October 7<sup>th</sup> are estimated at \$125/cwt which is substantially lower than the \$145/cwt estimated for August 10<sup>th</sup> placements (averaging 851 lbs) scheduled for January 2017 closeouts. These adjustments reflect the ongoing effort of markets, and hence downward pressure on feeder cattle prices, to move expected feedlot profits toward levels more consistent with longer-run patterns than the recent and ongoing, historically adverse state of affairs.

The main implication of this situation is that feedlot operators and lenders would be well-served to remain extra diligent in monitoring profitability. This concern is also increasingly wide spread throughout many parts of production agriculture as multiple commodity prices have decline squeezing expected profit margins for many sectors within and outside the cattle complex. In all cases, proactive discussion and engagement between operators and lenders is encouraged. In the feedlot industry, the particular details behind long-term concerns with excess capacity (too much feedlot bunk space relative to available calf crop) and the implications of slowing (perhaps ceasing) breeding herd expansion early than many anticipated just 18 months ago warrants serious assessment by both operators and lenders. The ability to accurately assess and act upon any operation's true comparative advantage will increasingly be highlighted by those who survive, and perhaps thrive, in this challenging environment.

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<sup>1</sup> These monthly reports are available on the recently updated AgManager.info website at: <http://www.agmanager.info/livestock-meat/cattle-finishing-historical-and-projected-returns>.

## The Markets

Cattle prices last week generally declined from prior week levels. The 5-area live fed cattle price for the week was down at \$105.02/cwt while Nebraska yearlings traded lower at \$139.65. Corn prices were up for the week trading at \$3.05/bu in Omaha.

| <i>Data Source: USDA-AMS Market News</i> |                                    | <b>Week of<br/>9/9/16</b> | <b>Week of<br/>9/2/16</b> | <b>Week of<br/>9/11/15</b> |
|--|------------------------------------|---------------------------|---------------------------|----------------------------|
| <b>5-Area Fed Steer</b>                  | all grades, live weight, \$/cwt    | \$105.02                  | \$109.68                  | \$139.18                   |
|  | all grades, dressed weight, \$/cwt | \$166.25                  | \$173.94                  | \$219.12                   |
| <b>Boxed Beef</b>                        | Choice Price, 600-900 lb., \$/cwt  | \$189.49                  | \$195.67                  | \$238.44                   |
|  | Choice-Select Spread, \$/cwt       | \$5.72                    | \$5.92                    | \$10.40                    |
| <b>700-800 lb. Feeder Steer</b>          | Montana 3-market, \$/cwt           | \$131.69                  | \$135.34                  | \$224.90                   |
|  | Nebraska 7-market, \$/cwt          | \$139.65                  | \$147.49                  | \$214.76                   |
|  | Oklahoma 8-market, \$/cwt          | \$133.30                  | \$136.93                  | \$209.22                   |
| <b>500-600 lb. Feeder Steer</b>          | Montana 3-market, \$/cwt           | \$132.32                  | \$145.50                  | \$238.08                   |
|  | Nebraska 7-market, \$/cwt          | \$152.75                  | \$158.35                  | \$240.23                   |
|  | Oklahoma 8-market, \$/cwt          | \$141.44                  | \$150.65                  | \$227.20                   |
| <b>Feed Grains</b>                       | Corn, Omaha, NE, \$/bu (Thursday)  | \$3.05                    | \$2.89                    | \$3.54                     |
|  | DDGS, Nebraska, \$/ton             | \$115.00                  | \$116.50                  | \$137.50                   |

**Table 1. Projected Values for Finishing Steers in Kansas Feedyards\***

| Closeout Mo-Yr | Net Return | FCOG** | Fed Price | Feeder Price | Breakeven FCOG** | Breakeven Fed Price | Breakeven Feeder Price |
|----------------|------------|--------|-----------|--------------|------------------|---------------------|------------------------|
| Aug-16         | -97.79     | 77.63  | 116.50    | 151.60       | 61.14            | 123.23              | 140.23                 |
| Sep-16         | -237.89    | 76.50  | 105.24    | 148.36       | 36.11            | 121.40              | 121.42                 |
| Oct-16         | -185.98    | 77.14  | 105.26    | 145.14       | 47.93            | 117.77              | 123.26                 |
| Nov-16         | -169.79    | 78.50  | 105.86    | 142.83       | 51.37            | 117.32              | 122.99                 |
| Dec-16         | -164.98    | 79.32  | 106.07    | 140.14       | 51.46            | 117.29              | 121.35                 |
| Jan-17         | -176.21    | 80.21  | 107.68    | 144.52       | 50.92            | 119.75              | 124.00                 |
| Feb-17         | -88.04     | 79.40  | 105.60    | 132.50       | 65.01            | 111.68              | 121.97                 |
| Mar-17         | -14.30     | 79.10  | 107.22    | 125.07       | 76.63            | 108.21              | 123.43                 |
| Apr-17         | -92.03     | 78.64  | 100.38    | 124.29       | 62.77            | 106.95              | 113.11                 |
| May-17         | -16.33     | 77.81  | 104.83    | 123.09       | 74.99            | 105.99              | 121.12                 |

**Figure 1. Historical & Projected Average Net Returns for Finishing Steers in Kansas Feedyards**

