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In The Cattle Markets

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Retaining Ownership in the Midst of Declining Prices

Under normal market conditions, it can be profitable for cow-calf producers to wean and background their calves in the fall. Historically, feeder cattle prices dip in early fall when many producers choose to market their calves before bouncing back to higher levels in the late fall and early winter months. Producers who wean and background their calves during this time frame are often able to ride out the seasonal price slump and take advantage of this cycle in normal years. Is that still the best strategy if the market is in the midst of a price decline that is not expected to fully recover? Some larger producers may be able to use the futures markets to hedge and “lock in” a profitable price with only basis risk, but many smaller producers are not easily afforded this luxury.

So what happens upon closer examination of a few price scenarios? First of all, assume that a producer will want to wean now and will continue to grow the calves for 90 days. In other words, the calves will be weaned now and backgrounded until November. Further, assume that the calves weigh approximately 500 pounds today and that they will gain two pounds per day. That results in a selling weight of around 680 pounds in November. These are all reasonable assumptions that could apply to many spring-calving cow-calf producers across the U.S. Using the most recent reported Oklahoma City feeder prices, a calf weighing 500 pounds will sell for around \$238.41/cwt while a 680 pound calf will sell for around \$214.41/cwt. That equates to approximately \$1,192 for a 500 pound calf and \$1,458 for a 680 pound animal, a \$266.94/head difference. If prices remain constant for the next 90 days and a producer can grow a calf for 90 days for cheaper than \$266.94/head, he/she could turn a profit. But, we all know that prices will likely change between now and November. Since mid-July, Oklahoma City prices for 650 to 700 pound steers have dropped by more than \$20/cwt. Friday’s November feeder cattle futures contract is trading for nearly \$7.00/cwt less than the September futures, indicating that traders believe cash prices will be lower in November than they are now. If a producer were to hedge and assuming that there is no change in basis between now and November, the difference in revenue between selling now and backgrounding until November narrows from \$266.94/head to \$215.55/head. While some producers could hedge and ensure themselves a gross return of \$215.55, one would need at least 73 steers to be able to hedge without assuming at least some additional risk through speculation. If 650 to 700 pound steer prices drop even more to \$200/cwt or even \$195/cwt, then difference narrows to roughly \$168/head and \$134/head, respectively. As the revenue differences shrink, it becomes much more difficult to cover costs, and the door starts to open for potential losses instead of profits.

There is a great deal of uncertainty surrounding today’s cattle markets. The bears have been running the show recently, and it looks like the trend might continue in the near future. The possibility always exists that markets could turn the other way as well, particularly given such tight supplies. It is more important now than ever before that U.S. cattle producers are aware of market movements and how price fluctuations can impact their bottom lines, especially those who plan on retaining their calves past weaning.

The Markets

Cattle prices were mixed compared to last week. The Oklahoma 8-market average 500-600 pound steers was down \$6.78 on the week while Montana 700-800 pound steers were up \$10.91 on the week. The five-area fed steer price ended the week at \$139.18 for live sales, and \$219.12 for dressed, down \$2.57 and \$3.02 respectively. Corn prices were higher on the week trading at \$3.54/bu in Omaha on Thursday.

<i>Data Source: USDA-AMS Market News</i>		Week of 9/11/15	Week of 9/4/15	Week of 9/12/14
5-Area Fed Steer	all grades, live weight, \$/cwt	\$139.18	\$141.75	\$160.84
	all grades, dressed weight, \$/cwt	\$219.12	\$222.14	\$249.20
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$238.44	\$241.06	\$251.08
	Choice-Select Spread, \$/cwt	\$10.40	\$11.39	\$13.96
700-800 lb. Feeder Steer	Montana 3-market average, \$/cwt	\$224.90	\$213.99	\$235.96
	Nebraska 7-market average, \$/cwt	\$150.30	\$221.21	\$242.67
	Oklahoma 8-market average, \$/cwt	\$209.22	\$209.62	\$231.95
500-600 lb. Feeder Steer	Montana 3-market average, \$/cwt	\$238.08	--	\$284.74
	Nebraska 7-market average, \$/cwt	\$240.23	\$253.90	\$283.42
	Oklahoma 8-market average, \$/cwt	\$227.20	\$233.98	\$260.31
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.54	\$3.45	\$3.37
	DDGS Price, Nebraska, \$/ton	\$137.50	\$138.50	\$106.50