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In The Cattle Markets

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Cattle on Feed

The USDA NASS September Cattle on Feed Report was released Friday 9/18. The news was more-of-the-same and one surprise. 2015 has displayed none of the price escalation of 2014, a persistent retreat from record-high prices, and volatility. In 2015, and during August, fed cattle marketings have been slow and inventories have been substantial. Marketings during August were 6.1% below the prior year and cattle on feed inventories were 2.6% above the prior year. Such an environment is only conducive to lower prices. There are plenty of cattle in the pipeline and soft movement out of showlists into meat inventories. The September report held more of the same of this behavior and the industry expected as much.

During the prior week, cash fed cattle prices softened, meat discounts increased, beef retail and wholesale prices both softened, and cattle futures made substantial breaks late in the week. Live cattle futures have been in a downtrend for most of the summer and have recently been sitting at support levels. Support broke after Tuesday, the downtrend held, and prices moved lower.

October live cattle futures moved \$4/cwt lower during the week and finished at about \$136. October feeder cattle moved \$9/cwt lower during the week and finished at \$185.30. Cash fed cattle prices moved \$4/cwt lower and cattle traded during the week at \$135. The retail beef price moved \$5/cwt lower which is the most substantial move down in the past several years. Discounts for Yield Grade 4 cattle increased to \$11/cwt and the Choice premium – or the Select discount – narrowed to \$7.

The sharp moves in prices last week are consistent with the supply and demand picture. The inventory of cattle on the showlist and long-fed cattle remains high. Cattle on feed over 120 days are about 30% above last year. Slaughter weights are nothing short of enormous. Steer carcass weights are 906 pounds, this is equivalent last year's seasonal high, and there are still 6-to-10 weeks before the normal peak. Untimely marketings result in big cattle and meat tonnage – and little bargaining power in the hands of feeders. Further, untimely marketings result in additional supplies in the trim and byproduct market. We see this occurring and the report communicates more of the same.

The one surprise in the report was placements into feedlots during August were 5% below the prior year and the industry expected them to be even with the prior year. Well, sort of, the average of expectations suggested even placements. There was considerable uncertainty in aggregate expectations – some expected higher placements and others expected low placements. But 5% below the prior year was outside of the low of the range. This is the first news of the year which can be called bullish. But we will need to see if modest placements occur through the fall run. It is fairly well known that the cattle feeding industry places its

way out of trouble instead of marketing its way out of trouble. August was clearly a month where this occurred.

With the softening prices, packer margins have been maintained. Cash margins are currently some of the best for the year. If packers maintain disciplined buying then these margins can be maintained and the action driving fed cattle prices will be retail and food service supply and demand.

The Markets

The volume of competing meats continues to impact cattle and beef markets. Iowa cash hog prices are 68.75/cwt of carcass weight and this is about 25% below last year's prices. And we are still a long way from November and December. Retail chicken prices have also moved down sharply over the past two months due to supply pressures. And trade provides no news for higher beef or meat prices. Exports are off and imports are up – the stronger dollar will do that. Meat producers in North American have relied on exporting their way out of burdensome supplies. This has not been the case this year and is unlikely to show up in the fourth quarter.

Cattle and beef markets are simply showing more of the same – ample supplies, tepid demand, and softening prices.

		Week of	Week of	Week of
		9/18/15	9/11/15	9/19/14
<i>Data Source: USDA-AMS Market News</i>				
5-Area Fed Steer	all grades, live weight, \$/cwt	\$134.93	\$139.18	\$156.74
	all grades, dressed weight, \$/cwt	\$212.63	\$219.12	\$244.74
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$231.77	\$238.44	\$246.23
	Choice-Select Spread, \$/cwt	\$8.43	\$10.40	\$14.18
700-800 lb. Feeder Steer	Montana 3-market average, \$/cwt	\$202.42	\$224.90	\$237.33
	Nebraska 7-market average, \$/cwt	\$204.94	\$214.76	\$236.09
	Oklahoma 8-market average, \$/cwt	\$200.03	\$209.22	\$234.24
500-600 lb. Feeder Steer	Montana 3-market average, \$/cwt	\$218.67	\$238.08	\$274.21
	Nebraska 7-market average, \$/cwt	\$242.73	\$240.23	\$286.65
	Oklahoma 8-market average, \$/cwt	\$225.26	\$227.20	\$259.20
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.55	\$3.54	\$3.53
	DDGS Price, Nebraska, \$/ton	\$135.25	\$137.50	\$106.50