

## In The Cattle Markets

Glynn T. Tonsor, Associate Professor

Department of Agricultural Economics, Kansas State University

### Feedlot Profitability ...

Last Friday the USDA released their monthly Cattle on Feed report providing estimates that overall were in line with pre-release expectations. Specifically, estimates include current inventories being down 1%, August placements being down 3%, and August marketings being down 10% from 2013. These estimates reaffirm the firmly established story of tight cattle and beef supplies.

Given the lack of surprises in this report, it is useful to re-examine the most recent estimates of closeouts offered in K-State's Kansas Feedlot Net Return series. This report, which provides both historical and projected return information, released on September 10<sup>th</sup> indicates steers sold in July at a profit of \$310/hd<sup>1</sup>. This is the largest estimated return on steers in the K-State series history. This also marks the seventh consecutive month of closeouts with profits exceeding \$125/steer which is something that has never previously occurred going back to 1993 when the current K-State analysis starts. Projections for closeouts during August and September period are both over \$100/head. This is consistent with several past months as these positive returns essentially reflect the substantial increase in fed cattle prices relative to expectations when feeder cattle were purchased, at levels much lower than today's prices.

While this run of very strong returns so far in 2014 is certainly welcomed by feedlot operators, current projections should be noted and some context on the economics of recent returns should be recognized. First, animals scheduled to be sold in the fourth quarter are expected to carry much lower and actually very negative returns. This sharp reversal reflects the notable increase in feeder cattle prices and the corresponding lack of further increases in expected fed cattle prices. It is also important to note the lower economic value reflected by recent record setting \$/hd returns. For instance, the July closeout net return of \$310/steer is estimated to have been realized by incurring \$1,881/hd in total costs. This compares to the previous record of \$308/steer set in October of 2003 with total costs of \$957/hd. While the recent return levels are historic on a \$/hd basis, the return on investment is far from record setting. The main implication of this is that feedlot operators, lenders, and analysts would be well-served to note this, pay attention to corresponding implications of elevated capital requirements, and ultimately reflect on these factors in making purchasing/selling and related risk management decisions.

---

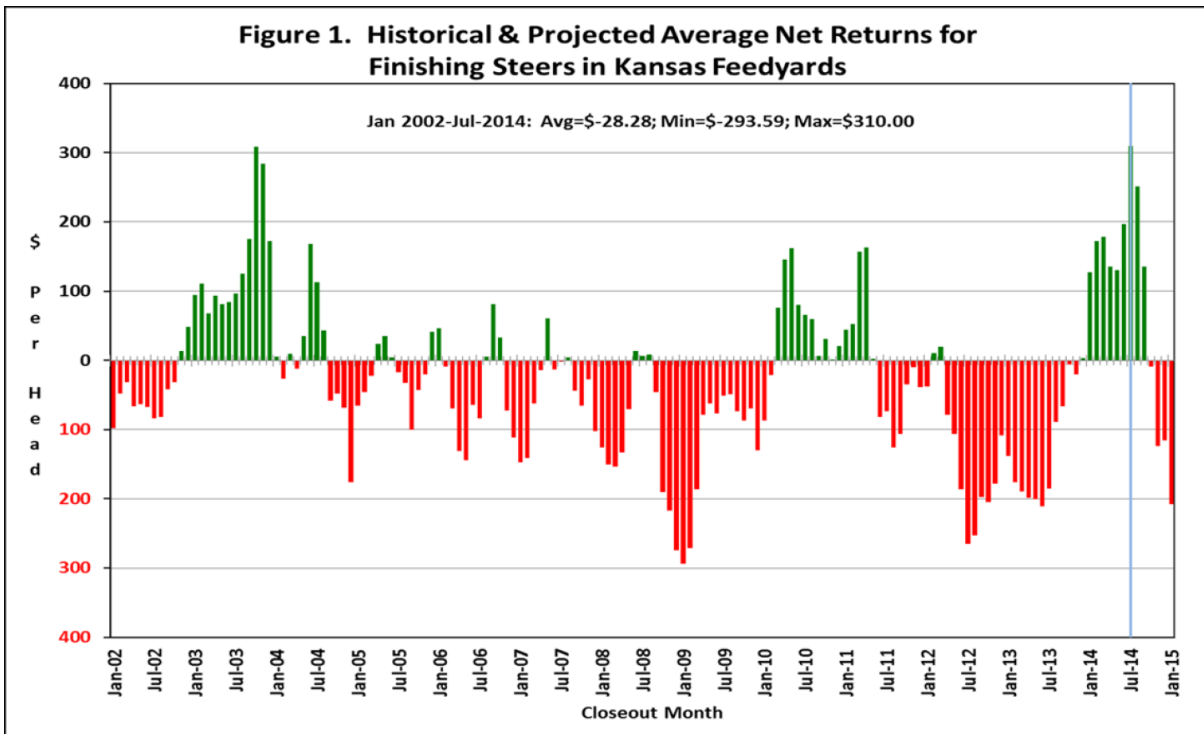
<sup>1</sup> This monthly series is available online at:

<http://www.agmanager.info/livestock/marketing/outlook/newsletters/FinishingReturns/default.asp>

**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-14	251.35	88.20	156.35	169.69	131.91	138.81	198.99
Sep-14	135.59	88.97	149.96	173.24	112.14	140.39	189.54
Oct-14	-9.31	88.07	152.64	191.44	86.38	153.29	190.36
Nov-14	-124.17	86.05	153.04	206.84	63.37	161.90	192.32
Dec-14	-115.91	84.97	152.92	211.02	65.89	160.88	197.38
Jan-15	-207.55	83.36	152.84	220.95	47.20	167.55	196.15

\* Net return is \$/head and all other values are \$/cwt. \*\* FCOG = Feeding cost of gain



## The Markets

Cattle prices last week generally declined from prior week levels. The 5-area fed cattle price for the week was down at \$156.74 per cwt. while Nebraska yearlings traded lower at \$236.09 per cwt. Corn prices were up for the week trading at \$3.53 per bushel in Omaha.

<i>Data Source: USDA-AMS Market News</i>		<b>Week of 9/19/14</b>	<b>Week of 9/12/14</b>	<b>Week of 9/20/13</b>
<b>5-Area Fed Steer</b>	all grades, live weight, \$/cwt	\$156.74	\$160.84	\$124.07
	all grades, dressed weight, \$/cwt	\$244.74	\$249.20	\$195.65
<b>Boxed Beef</b>	Choice Price, 600-900 lb., \$/cwt	\$246.23	\$251.08	\$192.94
	Choice-Select Spread, \$/cwt	\$14.18	\$13.96	\$16.63
<b>700-800 lb. Feeder Steer Price</b>	Montana 3-market average, \$/cwt	\$237.33	\$235.96	\$163.17
	Nebraska 7-market average, \$/cwt	\$236.09	\$242.67	\$164.49
	Oklahoma 8-market average, \$/cwt	\$234.24	\$231.95	\$159.40
<b>500-600 lb. Feeder Steer Price</b>	Montana 3-market average, \$/cwt	\$274.21	\$284.74	\$167.17
	Nebraska 7-market average, \$/cwt	\$286.65	\$283.42	\$185.62
	Oklahoma 8-market average, \$/cwt	\$259.20	\$260.31	\$167.68
<b>Feed Grains</b>	Corn, Omaha, NE, \$/bu (Thursday)	\$3.53	\$3.37	\$5.03
	DDGS Price, Nebraska, \$/ton	\$106.50	\$106.50	\$213.25
	MWDGS Price, Nebraska, \$/ton	\$49.00	\$49.00	\$106.00