

In The Cattle Markets

John Michael Riley, Extension Agricultural Economist
Department of Agricultural Economics, Mississippi State University

Gearing Up for Winter Grazing

Last week, Dr. Tonsor provided perspective on feedlot profitability. This week, let's continue that discussion and take a quick look at the upcoming winter grazing season for producers in the Southeastern United States. I will use Alabama prices as opposed to my home state of Mississippi since Alabama reports a weighted average. Using some quick calculations for ease of discussion, the following is an example of the winter grazing picture.

Last week, in neighboring Alabama, medium and large, number 1, 412 pound (weighted average) steers sold at \$2.84 per pound, or \$1,170 per head. Market expectations for selling feeder cattle in March of next year are trading near \$2.30 and have ranged from \$2.04 to \$2.30 per pound (these prices have been seen from July through September). Alabama auction barn prices for 700 to 800 pound steers (the weight of the cattle that make up the bulk of feeder cattle futures contract prices) are usually about 10 to 12 cents per pound lower than the feeder cattle futures contract price during March. So, this implies that Alabama prices for heavy weight, 700 to 800 pound steers, in March of 2015 are expected to be about \$2.15 to \$2.20 per pound. Of course, the discount for any cattle compared to feeder cattle futures prices is never exact.

Using a conservative expected selling price of \$2.10 per pound for a 750 pound steer, the total value would be \$1,575 per head. Simply subtracting this value for the heavy steer (the revenue received at the end of the grazing period) from the \$1,170 for the light steer (the cost of the steer at the beginning of the grazing period) equates to a 'value of gain' of \$405 per head. Since 338 pounds are being added to the steer during the grazing period (for this exercise, from October to March) this means the producer could spend as much as \$1.19 for each of those added pounds. So, despite record high cattle prices, the result of lower 'other' input prices potentially has profits in positive territory for winter grazing.

As an extension to the example here, if cost of gain were 70 cents per pound then, if calf prices stay at \$2.84 per pound, a price as low as \$1.88 per pound for the 750 pound steer would keep the producer in the black. Granted, the example here is likely not applicable to every producer. Mississippi State Extension Service offers an application for iOS devices that aids decisions and situations like the one discussed here (to download, visit: <https://itunes.apple.com/us/app/msues-break-even/id580535520?mt=8>).

The Markets

Cattle prices last week were mostly stable. The 5-area fed cattle price for the week was one penny per hundredweight higher at \$156.75 but \$1.04 higher for dressed steers. Choice and Select boxes were sharply lower through September 26. Yearling steers traded higher in

Oklahoma and Nebraska (but were lower in Alabama). Corn continues to suffer as harvest progresses, dropping below the \$3 per bushel mark last week in Omaha.

		Week of	Week of	Week of
<i>Data Source: USDA-AMS Market News</i>		9/26/14	9/19/14	9/27/13
5-Area Fed Steer	all grades, live weight, \$/cwt	\$156.75	\$156.74	\$125.81
	all grades, dressed weight, \$/cwt	\$245.78	\$244.74	\$199.18
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$239.62	\$246.23	\$193.43
	Choice-Select Spread, \$/cwt	\$13.04	\$14.18	\$16.53
700-800 lb. Feeder Steer	Nebraska 7-market average, \$/cwt	\$245.07	\$236.09	\$176.00
	Oklahoma 8-market average, \$/cwt	\$236.71	\$234.24	\$162.41
500-600 lb. Feeder Steer	Nebraska 7-market average, \$/cwt	\$294.31	\$286.65	\$191.93
	Oklahoma 8-market average, \$/cwt	\$254.35	\$259.20	\$167.13
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$2.98	\$3.53	\$4.56
	DDGS Price, Nebraska, \$/ton	\$106.50	\$106.50	\$212.50