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In The Cattle Markets

Glynn T. Tonsor, Professor

Department of Agricultural Economics, Kansas State University

Next Options for Fall Calf Crop

In the midst of this year's fall calf crop marketing process it is useful to step back and note marketing prospects and options available to buyers and sellers of calves. For context note the current projected price of selling a 550 lb calf in Salina, KS on October 19th is \$137.28/cwt. The main marketing alternatives available include selling at weaning, preconditioning, backgrounding, dry lot wintering, and winter grazing.

To provide further context on current market signals the Value of Gain (VOG) projections provided by BeefBasis.com are provided in Table 1.ⁱ These estimates were derived for the Salina, KS market and include an adjustment of \$3.18/cwt to reflect pending adjustments in the CME Feeder Cattle settlement index.ⁱⁱ

Table 1. Value of Gain Projections, as of October 10, 2016

	DOF	Sales Date	Sales Weight	ADG	Sales Price	VOG (\$/hd)	VOG (\$/cwt)
<i>Preconditioning</i>	35	11/23/2016	600	1.43	\$ 127.30	\$ 8.76	\$ 17.52
<i>Background</i>	100	1/27/2017	800	2.50	\$ 114.22	\$ 158.72	\$ 63.49
<i>Dry Lot Winter</i>	175	4/12/2017	725	1.00	\$ 120.24	\$ 116.70	\$ 66.69
<i>Preconditioning + Winter Grazing</i>	165	4/2/2017	850	1.82	\$ 110.01	\$ 180.05	\$ 60.02

Note: Projections made for Salina, KS market using BeefBasis.com. An adjustment of \$3.18/cwt (2011-2015 average) was used for projected sales prices to reflect pending changes in CME Feeder Cattle settlement index.

The projected VOG for preconditioning at first glance appears very poor at \$17.52/cwt (\$8.76/hd). However, it is important to note this projection presumes no premium at marketing. Recent research suggests that an average premium of \$3.27/cwt may apply when vaccination and weaning claims are both made at marketing.ⁱⁱⁱ If a producer proactively marketed their preconditioned calves achieving this premium then the projected VOG increases to \$56.76/cwt (\$28.38/hd).

Prospects for longer ownership efforts of backgrounding, dry lot wintering, or combining a preconditioning and winter grazing program currently have VOG projections of \$60-\$66/cwt. When one couples these projections with the current wheat (and broader grain complex) market situation, it seems probable that a higher share of cattlemen will seriously consider engaging in winter graze out (rather than just winter grazing). Producers planning to graze out wheat are encouraged to repeat this exercise and derive updated VOG projections post-placement as critical dates approach of when cattle would have to be removed to retain a marketable grain crop.

It likely goes without saying at this point but any effort at delaying cattle sales, or purchasing cattle for later sale at heavier weights, exposes an operation to both down- and up-side price risk. Many cow-calf producers are understandably disappointed with their current calf price prospects which may lead them to retain ownership longer than originally planned. Only time will tell if that strategy proves profitable. In the meantime, *all producers* are encouraged to conduct analyses such as the one shown here to compare market based VOG projections with their own production costs to guide more informed decisions.

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 \$100.90/cwt while Oklahoma yearlings traded higher at \$128.87/cwt. Corn prices were up for the week trading at \$3.04/bu in Omaha.

<i>Data Source: USDA-AMS Market News</i>		Week of 10/7/16	Week of 9/30/16	Week of 10/9/15
5-Area Fed Steer	all grades, live weight, \$/cwt	\$100.90	\$102.65	\$125.35
	all grades, dressed weight, \$/cwt	\$159.03	\$161.54	\$195.92
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$184.72	\$188.63	\$203.67
	Choice-Select Spread, \$/cwt	\$8.66	\$9.43	\$5.47
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$113.21	\$126.51	\$181.72
	Nebraska 7-market, \$/cwt	--	\$141.79	\$197.52
	Oklahoma 8-market, \$/cwt	\$128.87	\$112.65	\$186.44
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$127.32	\$130.46	\$206.62
	Nebraska 7-market, \$/cwt	--	\$144.83	\$217.26
	Oklahoma 8-market, \$/cwt	\$128.22	\$132.82	\$196.20
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.04	\$2.94	\$3.59
	DDGS, Nebraska, \$/ton	\$112.81	\$114.70	\$117.90

ⁱ <http://www.beefbasis.com/VOG.aspx>

ⁱⁱ A map showing alternative market locations in the BeefBasis.com database is available here: http://www.beefbasis.com/BasisLocation_8.aspx. Producers are encouraged to identify and utilize information for the market closest to their operation.

ⁱⁱⁱ Source: <http://www.waeaonline.org/UserFiles/file/JARESeptember20163Mallory393-405.pdf>