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In The Cattle Markets

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Technicals Suggest Weaker Future Cattle Prices

I have been impressed by the strength of feeder cattle and calf markets through the fall. But what do the technicals say?: Very clearly sell. The feeder cattle futures have shown weakness early this week after holding fast last week and rallying to fill the gap down in late September the prior two weeks. In mid-September the market rallied close to resistance formed May and June. My interpretation of the feeder cattle futures rally through most of late August and early September was that it was driven by a strong cash calf and feeder cattle market pricing in a lot of the cheapening feed market. It is possible that all of this has run its course and traditional seasonal weaker calve prices are in the works. Of course, I have been saying that since August. However, the technicals support my position rather clearly. Feeder cattle and live cattle contracts have rallied to levels established in the early summer. The market turned lower in mid-July and it set to repeat that now. All of these fall contracts that have rallied to resistance planes have been turned back. Do we have the fundamental support to hold or push higher?

Turning to the fundamentals, boxed beef composition values and fed cattle prices have drifted sharply lower the last half of the year. But have recently shown strength over the prior two-to-three weeks. Both packer margins and cattle feeding margins are under pressure in this market. The surprising bullish news has been exports of course. But the overall perspective on protein markets is that beef, pork and poultry supplies are likely to be large through the fall and early winter. Supplies are large and cold storage stocks are increasing. Thus, feeder cattle and calve are unlikely to hold at the levels seen in this environment.

Further, the cheapening feed may have run its course. The USDA Crop Production and WASDE reports revealed corn yield forecasts were increased from 169.9 to 171.8 bushels per acre but the forecast of acres harvested was reduced from 83.5 to 83.1 million acres. Total production was revised up slightly less than 100 million bushels. Baring harvest surprises, the corn market looks to have bottomed.

All in all, there is little underlying fundamentals based support for prices holding.

The Markets

Feeder cattle and calf prices remain very strong this year compared to last. These will be welcomed by producers through the fall weaning and marketing season. Prices for cattle and beef are also stronger than but not as much as feeder cattle. And beef prices this week are the same as last and the Choice-Select spread is weakening.

<i>Data Source: USDA-AMS Market News</i>		Week of 10/13/17	Week of 10/6/17	Week of 10/14/16
5-Area Fed Steer	all grades, live weight, \$/cwt	\$111.01	\$109.45	\$97.59
	all grades, dressed weight, \$/cwt	\$174.96	\$172.43	\$153.93
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$197.50	\$197.39	\$182.43
	Choice-Select Spread, \$/cwt	\$8.11	\$8.82	\$9.54
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$161.57	\$160.39	\$113.72
	Nebraska 7-market, \$/cwt	\$169.42	\$169.34	\$126.61
	Oklahoma 8-market, \$/cwt	\$159.25	\$152.44	\$122.22
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$175.74	\$171.35	\$124.52
	Nebraska 7-market, \$/cwt	\$184.33	\$183.39	\$130.03
	Oklahoma 8-market, \$/cwt	\$158.49	\$157.95	\$124.43
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.09	\$3.10	\$3.05
	DDGS, Nebraska, \$/ton	\$116.30	\$115.50	\$110.25