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In The Cattle Markets
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Value of Stocker Cattle

Calf movements will continue to increase over the next few weeks as the fall run picks up pace. Given the decline in the beef cow herd, the 2020 fall run will see lower feeder and calf supply compared to 2019. USDA estimated the 2020 calf crop will be down 260,000 head, on top of a 250,000 head decline last year. Since September, sale receipts for cattle weighing over 600 pounds is down 19% compared to 2019. What does this mean for all feeder cattle prices and the price relationship between different weights of feeder cattle?

Typically, one would expect higher prices with a tighter feeder cattle supply, however higher feed costs, poor wheat pastures and tight feedlot space have tempered any upward price movements. Last week Iowa markets saw slight increases in prices for calves under 600 pounds, but prices declined for those weighing more than 600 pounds. Nebraska markets saw price declines for all but 5-600 pound cattle, and this price remained steady with the week prior. Note that feeder cattle prices tend to decline the greater the distance from Nebraska.

As the calf run picks up pace, the question to consider is what weight producers should buy calves at. Relative weights are the largest driving factor for the relationship between feeder cattle prices. Understanding this relationship helps to answer what weight calves should be purchased at. The normal relationship between different calf cattle prices is for prices per hundredweight to decline when cattle weights increase. This price slide is because the prices reflect what it costs to add weight to the animal. The price slide is a big indicator for gross margin, or value of gain, for stocker production. For example, last week Nebraska feeder prices indicated that the value of 300 pounds of gain for a 550-pound steer was \$1.15/lb. when sold at 850 pounds. An additional 100 pounds to a 950-pound ending weight has an average value of gain of \$1.17/lb. for the entire 400 pounds of gain. Currently, the value of gain is a bit stronger for gains towards the heavy end of feeder weights. A 650-pound beginning weight has a value of gain of \$1.19/lb. for 300 pounds of gain up to 950 pounds, whereas a 450-pound beginning weight has a value of gain of \$1.11/lb. for 300 pounds of gain up to 750 pounds. These values suggest that stocker producers have considerable flexibility about what weight to buy and how much weight to put on stocker cattle at this time.

Note that the above analysis does not indicate profit potential. The analysis assumes the same prices for all weights at completion of the stocker period as when purchased. The question then is what will prices look like for heavier feeder cattle in early 2021? June to September 2020 saw larger feedlot placements compared to 2019, indicating larger fed cattle supply for early 2021 than previously anticipated. Feedlots looking to fill lots in early 2021, coupled with two consecutive years of declining calf crops provides the potential for heavyweight feeder cattle prices to remain steady to slightly higher than fall 2020 prices. Given the drought

in the west the forage availability is the biggest challenge for southern and western stocker cattle. Many of these operations will likely not have adequate forage this winter, indicating that heavyweight feeder cattle supply for spring may be tighter than anticipated as lightweight animals are placed directly on feed this winter. If heavyweight feeder cattle prices remain stable and if the producer has adequate forage available, there is some potential for profit from stocker cattle this winter. Producers need to analyze their own costs and revenue potential. Wisconsin Extension has some decision tools available at <https://livestock.extension.wisc.edu/> that may aid in the decision process.

The Markets

Corn harvest is well underway, although wetter weather this week may slow it some. Rain and snow are moving across the Northern Plains and Eastern Corn Belt as of Monday morning. Typically, only small adjustments to yield are made by the USDA after the October reports. Therefore, the market adjustments will likely come from adjustments on the demand side. Bullish news is that China's economy has expanded, along with production animal and poultry production. Bearish news is that COVID-19 infections are on the rise.

Beef cutout prices were lower last week due to large slaughter rates and heavy carcasses. Beef demand will begin to increase early November as retailers gear up for holiday sales. There is some room for price increase, but the magnitude will be limited by large beef supplies and large slaughter of competing proteins.

<i>Data Source: USDA-AMS Market News</i>		Week of 10/16/20	Week of 10/9/20	Week of 10/18/19
5-Area Fed Steer	all grades, live weight, \$/cwt	\$107.52	\$108.26	\$109.73
	all grades, dressed weight, \$/cwt	\$168.35	\$169.67	\$174.31
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$211.74	\$216.03	\$217.93
	Choice-Select Spread, \$/cwt	\$13.80	\$11.36	\$26.37
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$143.03	\$148.62	\$149.87
	Nebraska 7-market, \$/cwt	\$149.47	\$151.86	\$152.17
	Oklahoma 8-market, \$/cwt	\$137.71	\$141.14	\$150.34
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$152.01	--	--
	Nebraska 7-market, \$/cwt	\$162.85	\$162.80	\$160.75
	Oklahoma 8-market, \$/cwt	\$144.86	\$146.96	\$151.69
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.83	\$3.63	\$3.92
	DDGS, Nebraska, \$/ton	--	\$165.00	\$153.00