

## In The Cattle Markets

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### The Decision to Retain at Weaning During the Fall Calf Run

The CME futures market appears to be providing some incentives for producers to deliver cattle at later dates. As of October 25, 2021, there is about \$2-3 per cwt. increase between contracts with Jan '22 trading at \$158.90 and Apr'22 trading at \$163.38, all of which are higher than the Oct '21 contract of \$155.78 and the feeder cattle cash index of \$153.35 per cwt.

So how does a producer take those signals and make a retention decision? One way is to combine CME futures price offerings with historical price data across different weights to calculate what is known as the “value of gain”. Then add current and expected feed prices to calculate the “cost of gain”. Finally, compare the calculated value and cost of gain - which provides a simple “feed/no-feed” decision. If the value of gain is greater than the cost of gain then there are financial incentives to retain and feed cattle. However, if the value of gain is less than the cost of gain then there are no market incentives to retain and feed cattle. That said, producers must consider unique factors that could either improve the value of gain or decrease the cost of gain such as additional premiums received from cattle at the time of sale or the ability to get cheaper feed resources from a relative or friend.

To illustrate this decision, I used a sample cow-calf operation in Nebraska that is looking to decide between selling 66 head of 450 lb. weaned steers calves in the middle of November or retaining these weaned calves and selling them in the middle of April at 750 lbs. Using this sample operation and current/forecasted feed prices, the calculated cost of gain was between \$60-90 per cwt depending on the price assumptions and feed used with a 2 lb. per day gain. Using Beef Basis (<https://beefbasis.com/>) assuming the type of cattle and marketing dates, the calculated value of gain for that operation selling into the Lexington, NE livestock auction is \$121.13 per cwt. Using this sample operation, there appear to be some financial incentives to retain cattle and put on additional weight.

#### *Factors that Could Impact the Retention Decision*

Weakening demand for beef and crop/forage conditions are two factors that could negatively impact the retention decision by either decreasing the value of gain or increasing the cost of gain. Strong retail and export beef demand has supported prices for livestock even given disruptions in the supply chain. However, beef exports have started to slow from their record-setting pace and as of yet, there are few advanced purchases for beef into 2022. This is one indication that the export markets have started to potentially move away from higher-priced US beef. In the domestic market, advanced purchases of wholesale beef from retail stores have also started to slow as well indicating that perhaps domestic retailers are more willing to

live in the cash market and then adjust featured products in the short run. This is perhaps one of the first signs that the price of beef is just too high for retailers to take any longer.

High crop prices and decreased forage conditions are two factors that have been impacting cow-calf and feedlots during 2021. Harvest has started for corn and soybeans, and in some places already completed. Now everyone is looking to see what the actual yields are and how these factors into the feedlot's cost of feed. This will have a large impact on what feedlots will be willing to pay for feeder cattle in the coming months and at what weight they desire to place feeder cattle. Lower yields and thus higher corn and soybean prices usually result in higher feed costs for feedlots reducing the price they are willing to pay for feeder cattle and creating higher premiums for heavier cattle relative to lighter cattle. Forage conditions, previous and future, continue to be a persistent concern for cow-calf producers. Some feeding regions are coming off two years of drought conditions and many producers have already sold off both feeder cattle and parts of the cowherd. National weather forecasts recently were updated and the probability of having another La Nina event this year is pegged at 90%. What this suggests is that weather will be colder in the Midwest and drier in the South and Southwest – not too dissimilar to 2020. If this weather forecast materializes, then the price for grass and hay will continue to rise, pasture rental rates adjusted higher, and likely continue the cow herd liquidation this has persisted over the last three years.

*Protecting Output Price Under a Retention Decision*

While the incentives to retain cattle and put on additional weight appear to be present this year in some locations, producers must calculate their operations value and cost of gain to determine if it is a correct decision. Using some form of risk management could be appropriate given the assumptions about volatility and price certainty. In situations where we are uncertain about the price direction, we need to know about the price volatility. If volatility is high (low) synthetic puts (LRP) is an appropriate tool to use. These risk management decisions could help limit some of the impacts of a negative price movement due to softening beef demand and potentially worsening crop/forage conditions under the situation where the producer decides to retain calves post-weaning.

<i>Data Source: USDA-AMS Market News</i>		<b>Week of 10/22/21</b>	<b>Week of 10/15/21</b>	<b>Week of 10/23/20</b>
<b>5-Area Fed Steer</b>	all grades, live weight, \$/cwt	\$124.39	\$123.84	\$105.07
	all grades, dressed weight, \$/cwt	\$195.83	\$195.70	\$163.95
<b>Boxed Beef</b>	Choice Price, 600-900 lb., \$/cwt	\$280.70	\$280.55	\$209.03
	Choice-Select Spread, \$/cwt	\$18.70	\$19.56	\$17.65
<b>700-800 lb. Feeder Steer</b>	Montana 3-market, \$/cwt	\$152.31	--	\$137.62
	Nebraska 7-market, \$/cwt	\$164.36	\$164.51	\$143.80
	Oklahoma 8-market, \$/cwt	\$156.92	\$153.43	\$128.31
<b>500-600 lb. Feeder Steer</b>	Montana 3-market, \$/cwt	\$166.06	\$164.00	\$149.15
	Nebraska 7-market, \$/cwt	\$176.76	\$181.00	\$155.46
	Oklahoma 8-market, \$/cwt	\$160.91	\$159.96	\$143.82
<b>Feed Grains</b>	Corn, Omaha, NE, \$/bu (Thursday)	\$5.23	\$5.14	\$3.98
	DDGS, Nebraska, \$/ton	\$207.50	\$207.50	\$175.00