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## **In The Cattle Markets**

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### **Substantial Seasonal Price Weakness Through Fall**

We are a little better than halfway through getting this fall's calf crop marketed and the seasonal weakness in prices has been an eye-opener. I have spoken to producers that sold calves in October who received close to zero basis for 4-5 weight animals. This was \$15-25/cwt weaker than expected. A review of USDA AMS price reported for feeder cattle revealed these sales were small loads, in smaller regional Colorado markets, and were not all that common – but neither were these transactions unique occurrences. There were more than a few very cheap calves changing hands this fall and not just in Colorado. (And after listening to a fair bit of how bad all those buyers were I was able to determine these specific animals had minimal to no value-added services. Vaccinations pay.)

There appear to be a number of producers that have delayed marketing. Inexpensive, and lower quality, hay is relatively plentiful. And the mild fall weather has further encouraged this activity. The light feedlot placements seen in this month's USDA Cattle on Feed report was not all that surprising to me after the fact. There are some clear economic incentives to do something else with feeder cattle – and calves especially – this fall other than take them to market. While some the traditional marketing activities may have been delayed this fall, I am anticipating this will result in higher than normal placements for the remainder of this year and into next.

While calves, feeder cattle, and fed cattle have all seen very weak prices this fall the lower prices in the downstream beef product prices are translating into very effective product movement. Strong packer and retailer margins are encouraging that. Packers may make money in almost every month this year offsetting a terrible 2015. And while I have read newspaper stories that downstream firms are not liking cheaper food product costs, I cannot believe that's the situation when the retailer looks at the beef in the meat case. Saturday slaughter volumes have been substantial most of this year and well into fall compared to last and the prior five years. And while cold storage volume of beef did increase sharply in September, that volume is similar to prior year and reasonable with the volume of beef being processed. The market moves into lower prices I believe have over done it – similar to the extent the market over reacted during the expansion years of 2013-14 – and these lower prices are what it takes to move the volume of beef we have along with the higher volumes of other proteins. The third quarter retail beef demand index – found on K-State's AgManager.info website – shows a better than 5% decline relative to the prior year but a modest softening relative to the prior quarter. This decline in demand does help explain the much lower beef product prices. In the context of doing cattle market outlook, I have spoken most of this year that worst was over and there would not be more of the same from 2014-15 seen in 2016. The fall has not played out in any reassuring way.

So what to the technicals say? Down trends remain in place for the nearby and next deferred live cattle and feeder cattle contracts. The technicals remain long-term bearish. All markets have rallied sharply through the last two weeks of October. But that was following the larger sharp moves down through the end of September and first half of October. Retracements are to be expected. The sharp down moves broke support planes and are bearish signals in addition to the down trend. I am looking forward to – in some future ITCM release – being able to talk about support being established in live and feeder cattle markets either in charts for specific contract or in the longer term weekly charts.

## The Markets

<i>Data Source: USDA-AMS Market News</i>		<b>Week of 10/28/16</b>	<b>Week of 10/21/16</b>	<b>Week of 10/30/15</b>
<b>5-Area Fed Steer</b>	all grades, live weight, \$/cwt	\$104.15	\$99.24	\$136.22
	all grades, dressed weight, \$/cwt	\$163.62	\$157.15	\$209.88
<b>Boxed Beef</b>	Choice Price, 600-900 lb., \$/cwt	\$182.00	\$179.99	\$219.22
	Choice-Select Spread, \$/cwt	\$13.30	\$10.46	\$7.91
<b>700-800 lb. Feeder Steer</b>	Montana 3-market, \$/cwt	\$120.35	\$118.88	\$194.59
	Nebraska 7-market, \$/cwt	\$133.74	\$121.59	\$199.13
	Oklahoma 8-market, \$/cwt	\$126.17	\$121.75	\$192.81
<b>500-600 lb. Feeder Steer</b>	Montana 3-market, \$/cwt	\$132.78	\$124.99	\$217.47
	Nebraska 7-market, \$/cwt	\$137.07	\$133.85	\$228.21
	Oklahoma 8-market, \$/cwt	\$129.17	\$121.81	\$212.79
<b>Feed Grains</b>	Corn, Omaha, NE, \$/bu (Thursday)	\$3.10	\$3.06	\$3.54
	DDGS, Nebraska, \$/ton	\$108.75	\$109.00	\$112.25