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In The Cattle Markets

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Cattle and Calf Markets

For the past two months, anticipating what cattle and calf markets will do next been an exercise in frustration and humility. The markets dropped sharply in September and rallied back the last half of October. The main question posed to me has been, “Is the bottom in?” I think so, but it doesn’t have to be. And it also depends on your planning horizon.

From a long-term perspective, the bottom is not in and I think we can be in for more of the same over the next three years. It has been a long time since industry members and market watchers have had to think through how all the cattle and beef markets will react under an expansion where we actually have increased numbers. For the past several years the cattle industry – outside of cattle feeding – could count on selling animals for more than they paid for them. That is over as of this fall and I think rationality could return to valuations of heifers and bred heifers. We have not yet seen the bulk of this year’s fall run of calves but the numbers do promise to be up. Further, recent beef cow slaughter continues to be below last year. The beef herd firmly turns the corner this year and we will see increased numbers into next year. And likely the next two.

The deferred feeder cattle contracts also communicate caution. March and April 2016 are at a \$10/cwt discount to the November 2015 nearby contract at the end of last week. First looks at summer 2016 contracts are likewise soft. The outlook into next year is caution. My calculation of stocker margins using basis-adjusted feeder cattle prices suggests that holding calves now into the spring is not the answer. Margins, and certainly hedgable margins, are tight. The market has recovered, the reasonably strong current basis, and weak deferred contract prices communicate that it’s time for cow-calf producers to consider moving animals.

What this fall has also taught me is that the cattle feeding industry is not immune from a good-old-fashion wreck. It has been several years since we’ve had one but they sure can happen in October. The cattle feeding industry planned on marketing fed cattle at cash prices better than \$150/cwt and had falling costs-of-gain below \$1.00/pound. What can possibly go wrong? Let me count the ways: showlists of market ready cattle that are populated by pens that should have been shipped two weeks ago, steer carcass weights that are heavier than bull carcass weights, and even building inventories of beef and competing meats in cold storage.

What we need to see going forward is strong fed cattle marketings and fed cattle slaughter. After a hard drop in steer slaughter the first week in October, we have returned to strong numbers but more are needed. The industry will need time to seasonally reduce fed cattle weights. Showlists need to be cleaned up. And we need to remember this industry usually does not market its way out of trouble but rather places its way out. We have had two months of that occur – revealed by the September and October Cattle on Feed reports – and two more

would help. All these things that are needed and are up in the air. They can happen but they do not have to happen.

Then we need to remember that competing meat supplies are abundant, imports of beef are up, exports are down and the dollar remains very strong, and the domestic consumer has been willing to spend much of the savings in energy on record high priced beef. More and more caution.

I have told a number of cow-calf producers to go back into their bank records and save a picture of that check they received in fall of 2014. The one from fall 2015 will be nowhere near as large. The one from 2014 should be framed and placed on the wall and forgot about except for celebratory purposes.

In the end, the market moves in fed cattle and feeder prices have mirrored moves in live cattle futures and feeder cattle futures. Futures have made 50% corrections upward following the dramatic downward moves between August and October. Higher prices for fed cattle and calves will need reasons – addressing one or more of the cautions above. And it would appear to be easy for this market to drift lower based on fundamentals and technicals. Again, caution is warranted.

The Markets

<i>Data Source: USDA-AMS Market News</i>		Week of	Week of	Week of
		10/30/15	10/23/15	10/31/14
5-Area Fed Steer	all grades, live weight, \$/cwt	\$136.22	\$135.38	\$167.46
	all grades, dressed weight, \$/cwt	\$209.88	\$208.49	\$263.23
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$219.22	\$216.03	\$251.79
	Choice-Select Spread, \$/cwt	\$7.91	\$6.26	\$13.21
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$194.59	\$201.95	\$245.95
	Nebraska 7-market, \$/cwt	\$199.13	\$206.02	\$248.01
	Oklahoma 8-market, \$/cwt	\$192.81	\$195.13	\$237.37
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$217.47	\$221.36	\$281.42
	Nebraska 7-market, \$/cwt	\$228.21	\$232.87	\$293.72
	Oklahoma 8-market, \$/cwt	\$212.79	\$210.58	\$281.65
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.54	\$3.48	\$3.31
	DDGS, Nebraska, \$/ton	\$112.25	\$112.00	\$111.80