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In The Cattle Markets

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Cattle Price Slide Presents Buying Opportunities

While it is common knowledge that cattle prices have been on a downward slide for the last year and a half, what has been talked about much less is a tightening in the feeder cattle price slide. In January of 2015, when markets were near their peak we had a difference of nearly \$100/cwt between cattle weighing 400-500 pounds and cattle weighing 800-900 pounds while last week that difference narrowed to about \$20/cwt for the same weight ranges. Even when we factor in the lower prices in general, we have gone from a 50% price differential in early 2015 to an 18% price differential last week when compared to nearby feeder futures prices.

The narrowing price spread is sending a clear economic signal for feeder cattle and calves to be kept out of the feedlot and on grass, corn stalks, and/or wheat pasture. When combined with favorable conditions across much of the Plains, this presents a tremendous opportunity for cow-calf producers as well as for stocker cattle producers. While it still may have been ideal for cow-calf producers to have sold their calves back in late August/early September before prices came tumbling down, many producers were not able to take advantage. The next best alternative may be to place a hedge or a put option to manage downside price risk and hold onto the cattle through the winter to take advantage of the narrowing price slide.

The value of gain for a 550 pound calf that puts on 200 pounds over the winter is just under \$220/head, assuming prices remain constant. Further, the decline in the value of the original 550 pounds of calf when priced as a part of the 750 pound animal is just \$32.00 per head. This compares to a value of gain of just under \$253/head using prices from a year ago when markets were much higher, but the value of the original 550 pounds of calf would have declined by \$134.00 when prices as part of a 750 pound animal. Assuming that the resources are available, producers should easily be able to put an additional 200 pounds on a feeder steer for much less than \$220/head. This should especially be true of the wheat stocker operations in the southern plains, again assuming that the price slide doesn't suddenly get steeper in the coming months.

When thinking about the broader implication that the narrowing price slide may have on markets in general, the primary impact will be on feedlot placement weights and timing. First and foremost, we will likely continue the trend of heavier placement weights as the lighter weight cattle are kept on-farm to put on additional weight. Second, it could provide a slight short-term boost to feeder cattle markets as cattle feeders try to fill their pens at the same time producers are keeping the cattle on farm. This is likely one of the primary drivers of the temporary bull market that we have seen over the last couple of weeks, but as Stephen Koontz said in last week's ICM article, the fundamentals are still bearish in the long term, making risk management a major key for anyone thinking of buying/retaining cattle through the winter.

The Markets

The five-area fed steer price ended the week averaging \$104.31 for live sales, and \$162.24 for dressed; respectively, up \$0.16 and down \$1.38. Nebraska feeder cattle were mixed on the week with 500-600 pound steers up \$2.13 averaging \$139.20 and 700-800 pound steers down \$5.54 averaging \$128.20. Corn was down \$0.08 on the week trading at \$3.02/bu in Omaha on Thursday.

<i>Data Source: USDA-AMS Market News</i>		Week of 11/4/16	Week of 10/28/16	Week of 11/6/15
5-Area Fed Steer	all grades, live weight, \$/cwt	\$104.31	\$104.15	\$130.41
	all grades, dressed weight, \$/cwt	\$162.24	\$163.62	\$204.18
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$187.03	\$182.00	\$218.53
	Choice-Select Spread, \$/cwt	\$13.60	\$13.30	\$8.85
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$118.13	\$120.35	\$179.55
	Nebraska 7-market, \$/cwt	\$128.20	\$133.74	\$193.98
	Oklahoma 8-market, \$/cwt	\$129.72	\$126.17	\$187.62
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$133.47	\$132.78	\$215.44
	Nebraska 7-market, \$/cwt	\$139.20	\$137.07	\$220.45
	Oklahoma 8-market, \$/cwt	\$132.86	\$129.17	\$214.27
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.02	\$3.10	\$3.56
	DDGS, Nebraska, \$/ton	\$107.38	\$108.65	\$115.00

