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In The Cattle Markets
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Cattle Marketing and Price Risk Management

In the last few weeks there has been much discussion regarding the direction of cattle prices. Many analysts have explained that although short-term price forecasts are mixed, the long-term price outlook is bearish due to an increasing cattle herd. Whether you are bearish or bullish on this coming week's short-term cattle price outlook, price volatility will be high and discussions on feedlot profitability will be commonplace.

Every cattle producer wants to sell their cattle at the highest price but feedlot profitability is dependent on more than just the output price. Profitability for any cattle producer is contingent on good cattle marketing and price risk management skills. In volatile and bearish markets those necessary skills will be put to the test.

Cattle marketing involves producing the type of cattle the market desires, marketing the animal at the best location and pricing at the correct time. Feedlot profitability starts with the price paid for the feeder calf and is impacted by feed costs and management decisions. Last week's feedlot margins decreased not only because of the decreased fed cattle price received upon finished sale, but also because the cattle finished were placed in June when the feeder cattle price was high. Thus producers earned small profit margins per animal through low returns and high costs. Additionally, this calculated feedlot margin assumes producers exercised no price risk management strategy and paid cash market prices for feeder cattle and feed. However each individual producer likely has a very different feedlot margin.

Knowing your own cost of production is essential in determining profitability as these costs are likely a larger component of the margin than the final fed cattle price. With cost of production knowledge, a producer can look for marketing opportunities that might otherwise not appear attractive. Additionally, producers can use the futures and options markets more effectively by finding hedging strategies to lock in price above costs of production.

Many producers have grown complacent with regards to cattle marketing and price risk management in the last couple years, as cattle prices continued to increase throughout 2014 while feed prices decreased. Those who did explore different marketing and hedging strategies found that the risks didn't necessary warrant the high costs associated with changing marketing strategies. With these recent market developments, now is the time to reconsider managing price risk and reviewing marketing strategies. Purchasing and selling decisions need to be made in a timely manner and without emotion. Volatility in the cattle markets is not likely to decrease and the long-term outlook is bearish; however given good cattle marketing and price risk management, profitability is achievable.

The Markets

Nearby live cattle futures prices decreased \$6.20 last week and lost almost 60% of the gains made in October. Nearby feeder cattle prices decreased \$10.45. The five-area live fed steer price ended the week at \$130.41. Cash prices also decreased in the southern Plains and Nebraska on extremely low trade. Beef prices decreased, with cutouts down between \$1.40 and \$3.20. Dried distillers grains increased almost \$2.75 per ton last week, while December corn futures prices closed on Friday at \$3.73, their lowest price since September 10, 2015.

<i>Data Source: USDA-AMS Market News</i>		Week of 11/6/15	Week of 10/30/15	Week of 11/7/14
5-Area Fed Steer	all grades, live weight, \$/cwt	\$130.41	\$136.22	\$166.61
	all grades, dressed weight, \$/cwt	\$204.18	\$209.88	\$261.86
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$218.53	\$219.22	\$250.35
	Choice-Select Spread, \$/cwt	\$8.85	\$7.91	\$12.08
700-800 lb. Feeder Steer	Montana 3-market average, \$/cwt	\$179.55	\$194.59	\$227.26
	Nebraska 7-market average, \$/cwt	\$193.98	\$199.13	\$244.18
	Oklahoma 8-market average, \$/cwt	\$187.62	\$192.81	\$238.12
500-600 lb. Feeder Steer	Montana 3-market average, \$/cwt	\$215.44	\$217.47	\$280.68
	Nebraska 7-market average, \$/cwt	\$220.45	\$228.21	\$293.77
	Oklahoma 8-market average, \$/cwt	\$214.27	\$212.79	\$286.56
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.56	\$3.54	\$3.34
	DDGS Price, Nebraska, \$/ton	\$115.00	\$112.25	\$113.30