

In The Cattle Markets

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Cow-calf Producers Responding to Market Events and the Beginning of a Beef Cow Selloff

The Holcomb packing plant fire has certainly been a black swan event – rare, unpredictable and has had dramatic effects on the cattle industry. These dramatic effects have ranged from massive selloffs in the futures market, record packer profit margins coupled with increases in Saturday harvest numbers, and volatile feeder and fed cattle prices.¹ But to date, most of the cattle market commentary has focused on packing plant and feedlot responses. Little has focused on how cow-calf producers have responded due to this event and resulting feeder futures market volatility. Responses between these groups will be fundamentally different since packers and feedlots operate off margins whereas cow-calf operations rely on market price levels where profitability is largely driven by controlling costs ([Bowman, Pendell, and Herbel 2019](#)).

To illustrate the market uncertainty cow-calf producers were making decisions in this past year, let's take a representative Northern Plains cow-calf producer who calves in Mar or Apr and then sells weaned calves in Oct. At calving, Oct 2019 feeder cattle futures prices were \$157 per cwt. Poor planting conditions caused a run up on corn prices dropping demand for feeder cattle prices to \$147 per cwt. Markets bounced between \$145 and \$132 per cwt. in June, July, and August before the Holcomb fire dropped prices to \$127 per cwt. Prices did recover and the Oct 2019 futures contract finished near \$145 per cwt. Depending upon how risk-averse producers were likely determined price risk management used and ultimately gross revenue received for sold calves.

Given this market volatility, cow-calf producers could respond by either 1) selling cows and exiting the market or 2) retaining beef cows for breeding. Their response to these events ultimately determines the availability of feeder cattle in the coming years. The *Cattle Inventory Report* in January 2020 will officially detail the number of bred beef cows and heifers held for breeding herd replacement this fall ([USDA Cattle Inventory](#)). Before this release, the weekly USDA-AMS *Cow Slaughter Under Federal Inspection* ([Cow Slaughter](#)) report can provide the direction of cow-calf producer response. This report suggests that there is a large beef cow sell-off occurring since the week of September 14th (see Figure 1 panel a) with significant regional differences (see Figure 1 panel b). There is a clear uptick between beef cow slaughter in 2018 and 2019 beginning in week 37 and well above the 3-year average. Approximately 28% of the increase in beef cow slaughter came from regions with include NE, TX, and KS, 32% from ID, OR, and WA, and 16% from the South East.

¹ The Dec 2019 fed cattle futures charts clearly illustrate these changes. In Mar 2019, fed cattle were trading at \$119 per cwt, Sept. 2019 fed cattle were trading at \$98.00 per cwt, and now in Nov. 2019 cattle are trading between \$118.00-\$120.00 per cwt with about 1.5 months till contract expiration. There is probably some resistance to move the price much higher given prices have flatlined this past week.

The Holcomb fire occurred on Aug 9, 2019 (the 32nd week of the year). The Oct 2019 feeder futures contract initially dropped from \$140.00 to \$130.00 per cwt., settled at \$135.00 over the next few weeks before sliding back down to \$130.00 the week of September 14th (the 37th week of the year). Beef cow slaughter numbers closely tracked 2018 numbers for most of 2019 even during the fire incidence (week 32 to week 37). Since the week of September 14th, 2019, beef cow slaughter numbers are on an upward trend and do not show any signs of slowing down. The Holcomb fire has surely impacted some producers decision to remain in the business.

However, this rise in beef cow slaughter was partially driven by other factors other than the Holcomb fire. Several reasons include: 1) imported 90% lean beef prices are sky rocketing largely driven by Chinese demand but has pulled the domestic market along with it ([Lean Beef](#)), 2) wet spring and summer seasons has damaged hay tightening available hay supplies going into winter ([Hay Stocks](#)), and 3) while futures markets have rebounded from the fire, local cash markets have been slower to respond ([Feeder Cash Prices](#)). Combined, these factors, not related to the Holcomb fire, has some cow-calf producers exiting the industry. In the short term, this reduction in beef cows affects the number of calves born next year and feeder cattle available to enter feedlots. In the long term, it could ultimately signal that the industry is beginning to enter a contractionary phase of the cattle cycle. Monitoring these trends the remainder of the year will reveal producer preferences.

The Markets

<i>Data Source: USDA-AMS Market News</i>		Week of 11/8/19	Week of 11/1/19	Week of 11/9/18
5-Area Fed Steer	all grades, live weight, \$/cwt	--	\$113.03	\$113.70
	all grades, dressed weight, \$/cwt	--	\$179.39	\$179.16
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$237.08	\$230.78	\$217.37
	Choice-Select Spread, \$/cwt	\$25.48	\$25.78	\$16.05
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$149.88	--	\$147.54
	Nebraska 7-market, \$/cwt	\$150.07	\$159.98	\$157.75
	Oklahoma 8-market, \$/cwt	\$147.44	\$145.60	\$150.42
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$159.86	--	\$167.65
	Nebraska 7-market, \$/cwt	\$161.76	\$161.42	\$174.47
	Oklahoma 8-market, \$/cwt	\$153.24	\$151.81	\$164.13
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.56	\$3.76	\$3.53
	DDGS, Nebraska, \$/ton	\$149.50	\$145.50	\$137.00

Supporting Figures

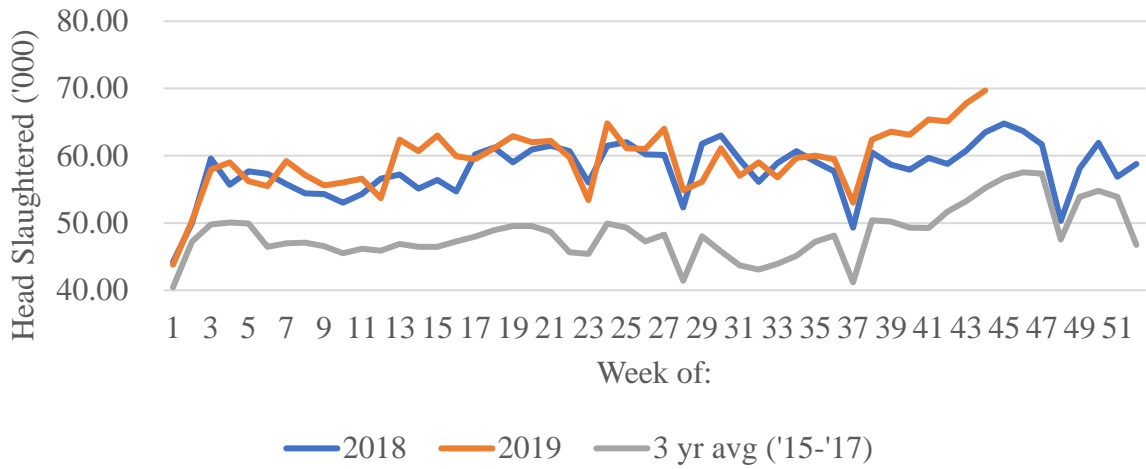


Figure 1a. Weekly Total Beef Cow Slaughter ('000 head)

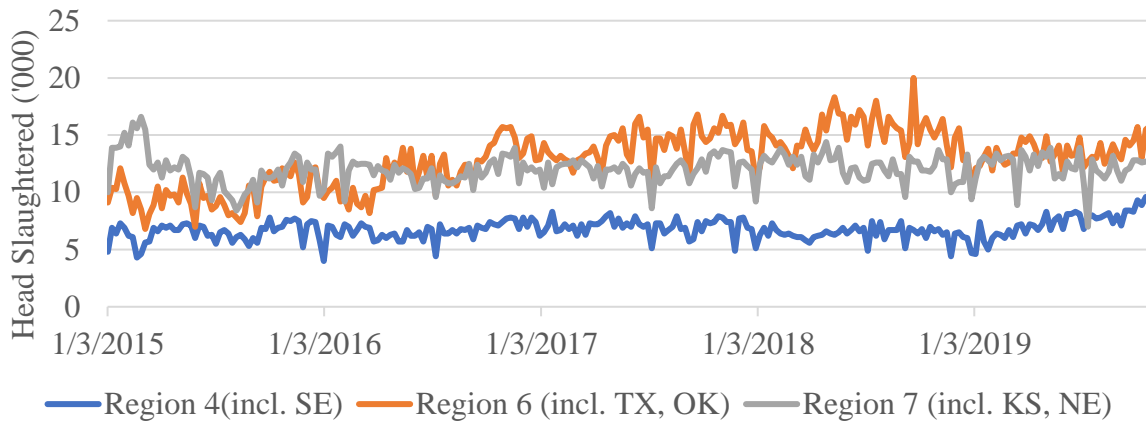


Figure 2b. Regional Weekly Total Beef Cow Slaughter ('000 head)