

## In The Cattle Markets

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### Emerging Grain Market Conditions and Impacts on Calf Prices

Feed grain and oilseed prices have undergone some dramatic changes over the past couple of months. These changes are indicative of changes to underlying fundamentals in those markets and will impact the value of feeder cattle and calf prices well into next year. It is worth examining the changes to crop market conditions and thinking about possible prices.

Corn and soybean futures have advanced substantially since early August. The 2020 harvest corn contract has increased about \$1 per bushel in that time period and the harvest soybean contract has increased roughly double that amount. Importantly, the increases have also been seen in the deferred contracts. DEC 2021 corn is a little stronger than \$4 per bushel and NOV 2021 soybeans are just short of \$10 per bushel. The price changes communicate more than adjustments reflecting crop conditions and the current harvest. Both are substantial revenue improvements for grain farming next year. Returning to the current crop, both corn and soybean prices appear at a substantial premium to what might be implied by the underlying market fundamentals. Both crops have excellent yields and modest harvest acreage impacts as related to the late-season storm in the upper Midwest. Crop damage concerns are persistent but appear less impactful in the context of USDA reports. Stock-to-use ratios imply more reasonably mid-to-high-\$3 corn and mid-to-high-\$9 soybeans. That is unless the long-term demand picture is also changing. And there is some evidence that is the case. Corn export demand has been strong but that for soybeans is considerably more so. Consumption of corn is also picking up from ethanol production. The crop market fundamentals are looking more like they did in the years prior to the trade war. Soybean demand may pull considerable acres to that crop and buoy both soybean and corn prices.

While these crop market impacts appear to be revealing themselves, the ramifications are for lower calf and feeder cattle prices. And this is emerging into those markets. \$1 higher corn costs translate into about \$6-\$7/cwt lower feeder cattle prices. This cattle price impact is exacerbated by dry conditions in the western U.S. and hay prices that are creeping higher. The impact on calf prices will be greater. With the higher grain prices and forage prices, we will see persistent pressure on feeder cattle and calf prices into 2021.

### The Markets

What do the technicals say? For live cattle, the technical situation remains strong but the possibility of further bullish moves currently appears limited. The internal uptrend in place since April was broken in early October. The market has returned to resistance plane levels but this, in combination with the trend being broken, are both sell signals. The trend improvement in fed cattle prices since the COVID shutdowns appears to have run its course.

Breaking resistance into higher prices will likely require improved demand indicators. The seasonal timing for improved prices is likely limited until March and April. The technical situation is largely the same for feeder cattle albeit that was revealed earlier. The uptrend was broken earlier with the corn price rally and resistance has also held. This market is reflecting the higher feeding costs likely into next year. We will need specific improvement in beef market fundamentals to see continued strength on the technical side for feeder cattle.

<i>Data Source: USDA-AMS Market News</i>		<b>Week of 11/13/20</b>	<b>Week of 11/6/20</b>	<b>Week of 11/15/19</b>
<b>5-Area Fed Steer</b>	all grades, live weight, \$/cwt	\$109.62	\$106.33	\$115.19
	all grades, dressed weight, \$/cwt	\$171.87	\$165.35	\$181.72
<b>Boxed Beef</b>	Choice Price, 600-900 lb., \$/cwt	\$222.99	\$211.03	\$240.66
	Choice-Select Spread, \$/cwt	\$15.58	\$14.51	\$25.13
<b>700-800 lb. Feeder Steer</b>	Montana 3-market, \$/cwt	\$136.24	\$145.96	--
	Nebraska 7-market, \$/cwt	\$145.38	\$146.39	\$158.21
	Oklahoma 8-market, \$/cwt	\$138.33	\$134.21	\$147.97
<b>500-600 lb. Feeder Steer</b>	Montana 3-market, \$/cwt	\$153.71	\$158.00	\$161.00
	Nebraska 7-market, \$/cwt	\$163.36	\$161.46	\$160.92
	Oklahoma 8-market, \$/cwt	\$155.32	\$150.54	\$156.51
<b>Feed Grains</b>	Corn, Omaha, NE, \$/bu (Thursday)	\$4.01	\$3.98	\$3.56
	DDGS, Nebraska, \$/ton	\$192.00	\$180.00	\$153.00