

In The Cattle Markets

Matthew Diersen, Risk & Business Management Specialist
Ness School of Management & Economics, South Dakota State University

Cattle on Feed

The expectations before the November *Cattle on Feed* report were for fewer placements, more marketings, and fewer cattle on feed compared to a year ago. Several analysts expected placements to be down about five percent. The actual placements came in below the average expected as did the actual on-feed total. Feedlots in Colorado and Kansas have on-feed totals sharply lower than a year ago. Texas had a sharp decline in placements compared to last year, and those were uniformly lower across weight classes. Perhaps tight feed supplies are pressuring those feedlots. Idaho and Washington stood out slightly with increased placements compared to a year earlier. Overall, the report would be slightly supportive of nearby fed cattle prices as it indicates tighter supplies of market-ready cattle.

The on-feed situation is a continuation of a couple of longer-run patterns. In the October report the heifer mix in feedlots was reported at 39.7 percent of cattle on feed. This was an increase from a year earlier and from the prior quarter. It was also the highest heifer mix since 2001. The supply of feeder cattle outside of feedlots as of October 1 continued to decline. Note that the supply level outside feedlots was down 3.3 percent from a year earlier and the trade estimate for placements was down 3.6 percent - consistency of indicators is reassuring. At 28.6 million head, the supply outside feedlots is the tightest since 2014. There are fewer feeder cattle available, fewer being placed, and a larger share of those have been heifers, which means continued tight fed cattle supplies going forward. Drought conditions are prevalent, especially in the western U.S. The dairy sector seems to have stabilized and is in a better position to compete for tight forage supplies compared to the beef (cow-calf) sector. The combination of these factors would generally be supportive of calf and feeder cattle prices for the remainder of 2022 and throughout 2023.

Heading into 2023, the Economic Research Service (ERS) and LMIC have price forecasts for fed cattle and feeder cattle that can be compared to recent futures prices. The ERS forecasts for fed cattle are \$153, \$154, and \$155, respectively, for the first three quarters of 2023. The LMIC forecasts reflect a higher seasonal increase in the second quarter, with prices ranging from \$147 to \$158 across the three quarters. Recent live cattle futures prices for most of 2023 range from \$155 to \$160. Thus, fundamentals suggest some price pressure relative to the futures prices. This could be managed by using put options, establishing floor prices while leaving the upside open. Sharp rallies could be managed by stepping in futures sales. The ERS forecasts for feeder cattle are \$177, \$190, and \$214, respectively, for the first three quarters of 2023. The LMIC forecasts reflect more uniformity, with prices ranging from \$176 to \$188. Feeder cattle futures prices show a similar uptrend expected as prices increase from \$183 to \$203 for much of 2023. The disparity may slightly favor using futures sales in nearby months, while favoring put option approaches for summer and fall months.

The Markets

The cattle markets finished steady for the week. In the cash trade, fed cattle were unchanged on a live basis and on a dressed basis. Feeder cattle prices were mixed as heavier-weight cattle traded higher and lighter-weight cattle traded lower. On the futures side, live cattle were higher while feeder cattle were steady. Cash corn was sharply higher, while DDGS were slightly lower. Regionally, corn stalk bales are prevalent in fields with wide ranges of prices at recent auctions.

<i>Data Source: USDA-AMS Market News</i>		Week of 11/18/22	Week of 11/11/22	Week of 11/19/21
5-Area Fed Steer	all grades, live weight, \$/cwt	\$152.89	\$152.71	\$133.11
	all grades, dressed weight, \$/cwt	\$241.79	\$241.34	\$209.60
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$257.08	\$263.27	\$279.67
	Choice-Select Spread, \$/cwt	\$24.90	\$27.42	\$14.69
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	--	\$182.60	\$146.24
	Nebraska 7-market, \$/cwt	\$183.97	\$180.96	\$155.31
	Oklahoma 8-market, \$/cwt	\$175.92	\$175.73	\$157.94
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$204.96	\$203.24	\$165.67
	Nebraska 7-market, \$/cwt	\$209.32	\$210.68	\$178.74
	Oklahoma 8-market, \$/cwt	\$188.28	\$188.25	\$173.76
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$7.26	\$7.03	\$5.60
	DDGS, Nebraska, \$/ton	\$264.50	\$271.40	\$205.00