

November 29, 2021

In The Cattle Markets

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Cattle markets continue to show gradual strength and price improvements. After the price break in late-August and early-September, all live cattle futures contract prices have returned to and pushed into life-of-contract highs. Feeder cattle contracts have not pushed into new highs, and likely won't, given the feed costs situation but all contracts show very strong prices. Underlying cash cattle and calf markets have followed suit. The 5-Market weighted average has pushed into the \$130s, the first time since 2017 (and without mandatory cash trade I might add), and while feeder cattle and calves have shown little of the typical seasonal weakness. Small calf prices have pushed into levels similar to what was seen this spring.

The Markets

What does the technical picture say? This week should be interesting. Most contracts have broken resistance while having pushed into new highs. This is what the market has to do to move higher and is thus a buy signal. However, the move was weak and with softening momentum. Further, as market closing is here this Monday the number of hook reversals are plentiful and there are even key reversals in some more distant contracts. These are, albeit often short-term, sell signals. The technicals reveal that persistent pattern of gradual moves higher followed by periodic hard adjustments lower. There is optimism and aggressive risk reduction. More of the same technically.

The underlying fundamentals continue to paint a strong picture. Boxed beef cutout valuations continue to drift lower following summer seasonal highs. But packer margins remain incredibly strong by historical standards. FI steer and heifer slaughter remain at elevated levels and repeatedly press on what I perceive as industry capacity of 525 thousand head per week. Saturday slaughter also is at elevated levels. Cattle on feed over 120 days and over 150 days continue the seasonal decline but remain above last year. The leverage remains with the packer in this situation, but the packer has a strong incentive to run as many hours as possible. Beef cow slaughter also remains strong. The beef herd liquidation, at least partially, continues and will impact next year's supply.

And there is no bearish news on the demand side. All indicators of domestic demand are excellent. Beef supplies are up, cold storage is down, and beef cut prices are high – not as high as during the seasonal peaks but very strong given beef supplies. Exports to China have been much talked about and are growing leaps and bounds. But I would encourage the reader to compare increases in beef exports to China to the decline in beef exports to Hong Kong. International demand appears to remain strong but all else is not constant.

There are solid underlying supply and demand fundamentals, and it is clear that the bottleneck in the packing sector remains. It is reasonable to have long-term optimism but at the same time be willing to periodically and aggressively reduce risk.

<i>Data Source: USDA-AMS Market News</i>		Week of 11/26/21	Week of 11/19/21	Week of 11/27/20
5-Area Fed Steer	all grades, live weight, \$/cwt	\$138.17	\$133.11	\$110.27
	all grades, dressed weight, \$/cwt	\$216.01	\$209.60	\$173.37
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$279.25	\$279.67	\$243.45
	Choice-Select Spread, \$/cwt	\$16.21	\$14.69	\$23.76
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	--	\$146.24	\$133.15
	Nebraska 7-market, \$/cwt	\$173.06	\$155.31	\$142.31
	Oklahoma 8-market, \$/cwt	\$162.04	\$157.94	\$138.01
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$177.52	\$165.67	\$154.49
	Nebraska 7-market, \$/cwt	\$189.97	\$178.74	\$165.18
	Oklahoma 8-market, \$/cwt	\$180.72	\$173.76	\$152.76
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$5.73	\$5.60	\$4.24
	DDGS, Nebraska, \$/ton	\$202.50	\$205.00	\$207.50