



December 12, 2016

In The Cattle Markets

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Technicals Turn from Bearish to Neutral

Fed cattle prices are now five-to-six weeks into a rally off the lows set in early October. The rally in feeder cattle is less steadily strong but is still decidedly off seasonal lows. Is there fundamental news to support this strength? So far the main bullish fundamental news appears to be that low prices do what they are supposed to do. We don't like them on the receiving end they are an indicator of a functioning market. In that light, we continue to see strong volumes of fed cattle marketed and strong Saturday kills at beef packing plants. Retail prices continue to soften but there is as of yet little weakening of the retail margin. Further, packer margins have weakened but remain rather healthy. So the news appears to be that fundamentals are not changing such that market conditions will continue to get bearish.

I receive questions regularly from producers and reporters about imports. There is no news here. Either last week or really the last 5-6 months. Changes in exports and imports of cattle and beef during 2016 are clearly being driven by cattle and beef prices and not the reverse. To be clear, imports and exports are not driving cattle and beef prices. Beef imports are following the typical seasonal pattern and are weaker this fall – about 18% -- than the past summer. Further, beef imports are substantially weaker – 25-30% – than summer or fall of 2015. And are forecast to be weaker yet in 2017. October beef exports were slightly higher than an average of the prior five years during that month and are substantially above exports the third and fourth quarter months of 2015 -- about 12-25% depending on the month. Further, the export volume above the average of the prior five years for that month is a notable event. With years of shrinking numbers and supplies it has not been possible to see strong export volume. And now the strength of the U.S. dollar is working against exports. It is the lower prices that are making exports happen. Finally, fed cattle imports from Canada are almost exactly the same through the last half of 2016 as for 2015 with the exception of a sharp drop in imports in July. Prices drive imports/exports and not the reverse.

So what to the technicals say? Down trends in the daily charts that have persisted all of 2016 and that were set up in 2015 appear to be broken or, for certain, have been pressured. This is seen for nearby and deferred 2017 daily charts on live cattle and feeder cattle contracts. These technicals have turned from overwhelmingly bearish to neutral. And markets have rallied off the substantial lows of late October and early November. Further, there appears to be head and shoulders bottoming patterns that have been completed in live and feeder cattle markets. Both markets broke the left shoulder support in September through October and moved lower forming the head in mid-October. Then in early-November support held, forming the right shoulder and the market has rallied strong for the following 5-going-into-6 weeks. I have doubts the market has completely turned and will strengthen. Forecasts for 2017 are for expanded production – and without increased exports – prices will be lower. And along those lines the weekly charts remain clearly bearish. On the weekly charts, the

long-term downtrend that was established in early 2015 is still in place. But the daily charts are shaping up to communicate the route is over. So – in the daily charts – the down trend pressured or broken, support has held, and bottoming patten in place. That’s the most bullish news we’ve had in a while and the next several weeks will be informative.

The Markets

<i>Data Source: USDA-AMS Market News</i>		Week of 12/9/16	Week of 12/2/16	Week of 12/11/15
5-Area Fed Steer	all grades, live weight, \$/cwt	\$109.52	\$114.03	\$118.15
	all grades, dressed weight, \$/cwt	\$169.92	\$174.85	\$187.10
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$189.85	\$189.55	\$203.13
	Choice-Select Spread, \$/cwt	\$17.60	\$16.74	\$13.94
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$125.52	\$126.27	\$146.08
	Nebraska 7-market, \$/cwt	\$135.45	\$137.76	\$157.22
	Oklahoma 8-market, \$/cwt	\$129.93	\$134.27	\$158.18
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$147.60	\$144.16	\$184.93
	Nebraska 7-market, \$/cwt	\$150.41	\$152.25	\$188.60
	Oklahoma 8-market, \$/cwt	\$146.32	\$150.76	\$186.49
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.23	\$3.22	\$3.66
	DDGS, Nebraska, \$/ton	\$107.50	\$107.50	\$131.90