

In The Cattle Markets

Matthew A. Diersen, Professor

Department of Economics, South Dakota State University

Forward Contracted Fed Cattle and Basis

Heading into the New Year is a good time to think about price and basis levels. The markets currently reflect steep inversions as cash prices for live and feeder cattle are higher than their respective futures prices. On the basis side, there was talk for much of the past year about the relatively high basis levels occurring in the area. Related to that would be the forward basis information from the USDA-AMS report “LM_CT153”, which covers weekly fed cattle volume contracted with basis levels.

The report is titled “National Weekly Direct Slaughter Cattle: Prior Week Slaughter and Contract Purchases” or “Weekly Direct Slaughter Cattle – Packer Owned Cattle”. It does not receive much attention, but it gives the weekly volume (number of head) of new forward contract signings between feeders and packers. It also tracks the cumulative volume and a breakdown by delivery month with an average basis and a basis range of the related futures contract. The report is available at: http://www.ams.usda.gov/mnreports/lm_ct153.txt

The volume contracted is high. With all of the talk about tight fed cattle supplies the volume contracted for delivery in recent months has been quite high. There were over 400,000 head contracted for October, with slightly less in November and so far in December. The highest amount for a given month is usually April delivery. In April of 2014 there were 421,737 head contracted – a monthly record. Seasonally, it would be unusual to see such high volumes for the other months. Looking at April of 2015, there are currently 250,636 head contracted. A year ago at this time there were 228,855 head contracted. The point is there have been large shares delivered on contracts in recent months and large shares expected in the coming months. The cumulative total continues to hover above 2 million head.

The basis pattern is consistent with the inverted market. Earlier this year local feedlots wondered about higher basis levels. Since March of 2014 in South Dakota the basis on fed cattle for non-delivery months has been much higher than average. June and October were close to the 5-year average. The constant surprise of higher cash prices at least partially explains the pattern. The general expectation has been for lower prices, at least by the next delivery time. That has carried over into the forward prices. This past week showed the average basis for forward contracts as positive through June of 2015. The range of basis levels for most months still shows a typical wide pattern – anywhere from -\$10.00 to +\$6.50 versus the futures price.

Knowing the recent basis levels and knowing that contract volumes have been high and are likely to continue may help feedlots as they evaluate new offers from packers. The futures price pattern and recent forward basis pattern both support the idea of a continued inverted market until June of 2015.

The Markets

The cattle markets were mixed for the week. Live cattle futures traded mostly steady and feeder cattle were sharply lower. The cash markets fell early in the week too. Prices continue to be sharply higher than a year ago. The cash markets in South Dakota were sharply lower this week as the futures pressure and sharply higher corn prices were factored into the feeder market. This is seasonally a slower time for local auctions until the New Year.

		Week of	Week of	Week of
<i>Data Source: USDA-AMS Market News</i>		12/12/14	12/5/14	12/13/13
5-Area Fed Steer	all grades, live weight, \$/cwt	\$162.38	\$166.83	\$130.61
	all grades, dressed weight, \$/cwt	\$256.12	\$263.95	\$206.35
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$249.05	\$255.44	\$201.32
	Choice-Select Spread, \$/cwt	\$13.48	\$13.90	\$13.95
700-800 lb. Feeder Steer Price	Montana 3-market average, \$/cwt	\$219.89	\$236.80	\$166.53
	Nebraska 7-market average, \$/cwt	\$243.55	\$257.53	\$173.30
	Oklahoma 8-market average, \$/cwt	\$238.49	\$238.49	\$163.82
500-600 lb. Feeder Steer Price	Montana 3-market average, \$/cwt	\$290.34	\$297.33	\$188.33
	Nebraska 7-market average, \$/cwt	\$307.59	\$305.72	\$203.22
	Oklahoma 8-market average, \$/cwt	\$294.61	\$293.15	\$186.36
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.78	\$3.78	\$4.28
	DDGS Price, Nebraska, \$/ton	\$145.90	\$125.95	\$221.50