

In The Cattle Markets

Stephen R. Koontz, Professor

Department of Agricultural Economics, Colorado State University

Any News Suggesting Prices Have Bottomed?

The main question I continue to get through this fall and early winter is: when will the plunge in the cattle market be over? The why of what's been happening have been fairly well-discussed: heavy slaughter weights, large inventories of market-ready cattle, and the strong dollar. The strong domestic demand discussed by Dr Tonsor in this column was present in the third quarter but it has not been enough. Further, weakness in the historically strong hamburger market suggests all may not well for the fourth quarter.

So are any of the right things happening to turn the market around? Yes, modestly. The best news from last week is the turnaround in beef trade numbers. Beef imports were down and exports were up and both rather sharply. Import tonnage for October was off 18% and exports were up 18%. As a result net imports were down 35%. Cheapening wholesale beef prices is the likely cause. Net beef imports went from 6% to 2% of the volume of monthly commercial beef production. Of course this is a too-simple way of thinking about the issue as the US exports very high and very low value products while importing primarily lean meat to be used in hamburger. But the volume remaining in the domestic is reduced.

The thing that market watchers will need to see next is some additional softening of retail beef prices. Retail beef prices are off from record highs but retailer margins remain very strong. Featuring of beef and a willingness to sacrifice margin for sales will move additional volume. My take on fed cattle and beef inventories the last half of this year is that feedlots first had heavy inventories to work through, then packers, and now the retail level. Inventories remain problematic for everyone but the retail margin is usually biggest before the featuring starts.

Steer slaughter weights appear to have turned the corner. Steer weights were 923 pounds last week and that is six weeks past their high of 930. Heifer carcass weights are still increasing but steers appear to be in the seasonal decline. Further, the cattle of feed reports show continued light placements and a drawdown of the inventory of cattle on feed that have been on feed for over 120 days and 90 days. These numbers are down 6% and 3%. While these are in line with normal seasonal declines, the last three months of placements have been modest and this week's report will tell us if its four months.

What do the futures contract charts say? There are no clear bottoming patterns and the downtrends are firmly in place. Further, support has been broken but the market has not softened much thereafter. These are mainly technical signals for continued down moves. There are a few shorter term signals – a couple of strong closes on single days – but key reversals can be very short-lived. These patterns have preceded corrections to the upside in the down trending markets.

Hedgeable margins for cattle feeders are not strong but they look better than they have in two years. The hard break downward in feeder cattle prices are creating a much better outlook for that industry next year. And while calf prices are considerably off from last year, the returns to cow-calf producers remain strong. It is likely herd expansion will continue. The focus on feed costs in last week's column is a very useful perspective to keep. Forage and feed grain prices are substantially reducing the high costs of the past five to seven years.

I think that's the operative phrase for cattle market outlook is: "Next year." We need to see two months of strong marketings, more solid trade movement, and retail featuring. These are the things to watch for. And it is then that cattle prices will show some strength.

The Markets

Cattle prices last week decreased from prior week levels. The 5-area fed cattle price for the week was down over \$5.00 per cwt. while Nebraska yearlings traded lower at \$157.23 per cwt. Corn prices were up slightly for the week trading at \$3.66 per bushel in Omaha.

		Week of 12/11/15	Week of 12/4/15	Week of 12/12/14	% Chg Prev. Week	% Chg Prev. Year	Chg Prev. Week
<i>Data Source: USDA-AMS Market News</i>							
5-Area Fed	all grades, live weight, \$/cwt	\$118.15	\$123.39	\$162.38	-4%	-27%	(\$5.24)
Steer	all grades, dressed weight, \$/cwt	\$187.10	\$193.85	\$256.12	-3%	-27%	(\$6.75)
Boxed	Choice Price, 600-900 lb., \$/cwt	\$203.13	\$204.13	\$249.05	0%	-18%	(\$0.99)
Beef	Choice-Select Spread, \$/cwt	\$13.94	\$11.26	\$13.48	24%	3%	\$2.67
700-800 lb.	Montana 3-market, \$/cwt	\$141.36	\$154.80	\$219.89	-9%	-36%	(\$13.44)
Feeder	Nebraska 7-market, \$/cwt	\$157.23	\$166.47	\$243.55	-6%	-35%	(\$9.24)
Steer	Oklahoma 8-market, \$/cwt	\$158.18	\$165.72	\$238.49	-5%	-34%	(\$7.53)
500-600 lb.	Montana 3-market, \$/cwt	\$184.93	\$191.47	\$290.34	-3%	-36%	(\$6.54)
Feeder	Nebraska 7-market, \$/cwt	\$188.61	\$198.60	\$307.59	-5%	-39%	(\$9.99)
Steer	Oklahoma 8-market, \$/cwt	\$186.49	\$195.30	\$294.61	-5%	-37%	(\$8.81)
Feed	Corn, Omaha, NE, \$/bu (Thursday)	\$3.66	\$3.65	\$3.78	0%	-3%	\$0.02
Grains	DDGS, Nebraska, \$/ton	\$131.90	\$131.20	\$145.90	1%	-10%	\$0.70