

In The Cattle Markets

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Advantage Packers

Anecdotal evidence and supply observations suggest packers have recently had a negotiating advantage over feedlots. Packer margins continue to be wide and the supply of cattle on feed continues to be high. What indicators may be followed to support such assertions and shed light on the situation going forward? Margins, spreads really, and prices can be monitored. Committed and delivered cattle can be analyzed. Forward contract volumes can be scrutinized. Here is a look at each of these categories.

Packer margins are alluded to quite often. Usually analysts are referring to the spread between the sum of the cutout and drop (converted to a standard per-head value) and the price paid for cattle. The LMIC tracks this as the live-to-cutout spread, which has been wider than a year ago for several months. When spreads are very narrow, packers are assumed to be earning unsustainable low returns that are close to marginal variable cost. When spreads are very wide, packers are assumed to be earning unsustainable profits that competition will erode. A wide spread (or margin) would also imply that packers would have the ability to pay more for cattle. That demand needs to be balanced against supply (the current high number of cattle on feed). The effects on relative prices for cash cattle, formula-priced cattle and forward-contracted cattle can be monitored using the AMS cattle dashboard¹.

The AMS summarizes cattle committed and delivered in daily, weekly and monthly reports. As on-feed inventories decline, the negotiating advantage will likely shift back toward feedlots. Packers will not be able to readily line up cattle and will have to bid more aggressively to pull them forward. This could be monitored using the daily summary, which provides a week-to-date tally of committed cattle. Last week, the Friday report showed slightly fewer cattle committed compared to a year earlier, while the week prior had a much larger number committed compared a year earlier. Locations or sources of cattle are also provided in these reports. The monthly total delivered from the Northern Plains and Eastern Mountain region, for example, was 99,965 head for the month of November, up from 85,795 head a year ago.

The other AMS report to focus on is the Packer Owned Cattle report, specifically its forward contract activity. The new signings and cumulative total give a general view of activity. The cumulative total is currently 1,437,929 head versus 1,675,913 at this time last year. Then, individual months can be monitored. This can be especially useful for smaller feedlots with more narrow marketing windows. The volume contracted for April is 201,428 head versus 223,965 head for this time last year. An indication of a turnaround in the relative negotiating

¹ The dashboard and reports can be accessed at: <https://www.ams.usda.gov/market-news>

strength would be when the current totals, by month, converge with or begin to exceed last year's totals. September is the only month with a contract total that exceeds the total from this week in 2017.

The Markets

In the cash market, fed cattle traded steady for the week on a live basis and slightly higher on a dressed basis. The feeder market was mixed with lighter weights lower and heavier weights trading higher. In South Dakota the price for calves has been steady in the low \$170 per cwt area for several weeks, trading about \$15 per cwt lower than last year. Corn was lower in Nebraska for the week. The implied volatility remains extremely low in both live cattle and feeder cattle futures markets, keeping the cost to offset risk moderate.

<i>Data Source: USDA-AMS Market News</i>		Week of 12/14/18	Week of 12/7/18	Week of 12/15/17
5-Area Fed Steer	all grades, live weight, \$/cwt	\$118.14	\$118.11	\$119.71
	all grades, dressed weight, \$/cwt	\$187.62	\$185.99	\$188.92
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$213.11	\$213.43	\$203.00
	Choice-Select Spread, \$/cwt	\$11.50	\$14.98	\$18.29
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$141.81	\$143.99	\$151.21
	Nebraska 7-market, \$/cwt	\$156.15	\$155.73	\$164.21
	Oklahoma 8-market, \$/cwt	\$144.74	\$141.73	\$150.05
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$169.41	\$164.41	\$178.25
	Nebraska 7-market, \$/cwt	\$174.14	\$176.62	\$179.94
	Oklahoma 8-market, \$/cwt	\$163.02	\$159.91	\$168.21
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.61	\$3.60	\$3.22
	DDGS, Nebraska, \$/ton	\$158.75	\$152.50	\$147.50