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In The Cattle Markets

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Feed Cost Outlook: Will this year's record crop carry cattle producers through 2017?

Last week, Dr. Koontz talked about the shift in the fundamentals of the cattle market from bearish to neutral. With production expected to be higher next year, we will likely see prices come down at least slightly, but the change in fundamentals suggest that the bleeding has stopped. Despite the improving cattle market fundamentals, according to LMIC's latest projections, cow-calf returns for 2016 will be negative for the first time since 2009. This brings up something that I have been talking to producers about for months: cost management. While a good marketing plan can help to a certain extent, opportunities to price cattle above the cost of production are going to be limited if nothing is done to manage costs.

Fortunately for the cattle industry, there should be many opportunities for lowering costs over the next year. Harvest is wrapped up for most corn producers across the U.S., and all indications are that producers brought in a record corn crop. Yields topped 175 bushels/acre nationally, and total production was over 15 billion bushels for the first time ever. With a stocks to use ratio of more than 16%, it is unlikely that we will see corn prices above $4.00/bu for any sustained period of time for at least the first half of 2017. With that being said, I do expect to see lower corn production and potentially higher corn disappearance next year. We just published our 2017 crop planning budgets, and depending on the type of production system used, the net returns for corn and soybeans are similar. However, because soybean prices have fared better than corn prices over the past year, and factoring in the reduced risk due to the lower cost of production associated with soybeans, I fully expect to see fewer acres of corn planted in 2017. At the same time, the beef, poultry, and swine industries are all expanding production, which means higher feed use. The EPA also recently announced an increase in the renewable fuels mandate, which will provide a small boost to ethanol production, will also increase demand for corn. The reduced production and expected increase in corn demand may provide a small boost to corn prices in the second half of 2017, however barring any widespread natural disaster, the large stocks will likely limit any upward movement in corn prices. That is some much needed good news for the cattle industry.

Cow-calf producers are more heavily reliant on grass pasture as a primary feed source for a significant portion of the year. There has been some good news in 2016 on that front: pasture rental rates were down in 2016, and are expected to be even lower in 2017. In the Plains States, pasture rental rates were down about 1% in the first half of 2016 while pasture rents were down 2.2% in parts of the Corn Belt and Southeast. Mississippi saw an even sharper decrease in pasture rents, with nearly a 25% reduction in rental rates from 2015 to 2016. As more rental agreements are renegotiated this winter and with cattle prices much lower than they have been over the last couple of years, I fully expect to see lower pasture rental rates again in 2017.

So, with lower grain prices and lower pasture rental rates there are plenty of opportunities for producers to cut costs. Depending on the region, there are many other opportunities to cut costs as well. For cattle producers through the Corn Belt, grazing corn residual may present a cheap alternative to feeding hay over the winter. In the Southeast, producers can graze cattle on winter forages, although such opportunities may be limited this year due to drought. In the Southern Plains, there is winter wheat pasture. There are many other alternatives that I have not mentioned, however, the most important thing that producers can do when weighing alternatives is to put the pencil to the paper. Understanding the costs associated with each alternative will help producers choose the best option for their own situation, and ultimately could mean the difference between making and losing money during periods of falling cattle prices.

The Markets

The five-area fed steer price ended the week averaging $111.39 for live sales, and $174.13 for dressed; respectively, up $1.87 and up $4.21. Nebraska feeder cattle were mixed on the week with 500-600 pound steers down $0.37 averaging $150.04 and 700-800 pound steers up $2.57 averaging $138.02. Corn was up $0.04 on the week trading at $3.27/bu in Omaha on Thursday.

Data Source: USDA-AMS Market News		**Week of 12/16/16**	**Week of 12/9/16**	**Week of 12/18/15**
5-Area Fed Steer	all grades, live weight, $/cwt	$111.39	$109.52	$116.64
	all grades, dressed weight, $/cwt	$174.13	$169.92	$183.44
Boxed Beef	Choice Price, 600-900 lb., $/cwt	$192.05	$189.85	$196.56
	Choice-Select Spread, $/cwt	$14.99	$17.60	$10.49
700-800 lb. Feeder Steer	Montana 3-market, $/cwt	$126.76	$125.52	$140.59
	Nebraska 7-market, $/cwt	$138.02	$135.45	$158.94
	Oklahoma 8-market, $/cwt	$131.75	$129.93	$153.16
500-600 lb. Feeder Steer	Montana 3-market, $/cwt	$144.11	$147.60	$172.04
	Nebraska 7-market, $/cwt	$150.05	$150.41	$182.70
	Oklahoma 8-market, $/cwt	$144.28	$146.32	$180.11
Feed Grains	Corn, Omaha, NE, $/bu (Thursday)	$3.27	$3.23	$3.61
	DDGS, Nebraska, $/ton	$107.50	$107.50	$132.40