

## In The Cattle Markets

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### Fed Cattle Supplies

Despite last quarter's record high heifer placement numbers, feedlot placements in recent months have been lower than a year earlier, especially of heavier feeder cattle. Steer and heifer weights in 2022 set record-high levels. Recent slaughter weight patterns are sending mixed signals about available beef supply. On a monthly average, the carcass weights are slightly higher than a year ago; however, the most recent weekly average carcass weight is slightly less than a year ago. On an absolute measure, the weights are still high, and the first quarter slaughter totals should provide some clarity of the short-run supply.

Another aspect of supply is the pace of beef cow slaughter. Federally inspected cow slaughter was almost 7 million head last year. After a steady start, slaughter this year has fallen back to a more average level. Prices are showing some seasonal strength. Slaughter weights continue to be suppressed. The point is that cow slaughter was very high, and it seems to be slowing. The heifer mix on feed was at a record high level to begin 2023. What about the pace of heifer placements? The heifer mix in feeder cattle auction receipts was 42 percent in January and 44 percent in February of 2023, both steady to higher than is seasonally typical. Steer and heifer slaughter levels have moved in tandem in early 2023, suggesting a steady [high] heifer mix on feed as of April 1.

With tighter supplies of market-ready cattle in the short-run, the volume moving through the forward contract channels is expected to tighten. Typical sales by pricing type usually show that about 65 percent of fed cattle are sold on a formula, another 30 percent on a negotiated basis and, the final 5 percent on a forward contract. The recent trend has been away from the forward contract option. At the beginning of April 2023, 851,220 head were contracted for future delivery. A year earlier, 1,293,539 head were contracted. The pattern holds across months. For example, there are fewer head contracted for June and December delivery compared to June and December 2022. One would expect basis bids in contracts to increase or a larger share to move through negotiated channels in the coming months.

The increase in fed cattle and feeder cattle prices has coincided with increased price volatility. The implied volatility for the June 2023 live cattle contract was less than 10 percent earlier this year. It has since risen above 13 percent in recent trading sessions. While still not high, it is no longer considered low. The shift or increase is more pronounced in the nearby months versus the deferred contracts. Volatility is also higher for higher strike prices. This suggests that the trade is more concerned about prices moving higher compared to moving lower during the next few months. The implied volatility in the nearby feeder cattle contracts has also increased from relatively low levels. Thus, the price of risk protection using options (for sellers and buyers) has increased.

## The Markets

The cattle markets finished sharply higher for the week. In the cash trade, fed cattle were up sharply on a live basis and on a dressed basis. Feeder cattle prices were mixed, being lower in the north and higher in the south. On the futures side, live cattle were volatile, but little changed. Feeder cattle futures were volatile, but little changed on the nearby months and higher for the deferred months. Cash corn finished the weekly sharply lower, as did DDGS. Corn remains lower and DDGS higher than a year ago.

<i>Data Source: USDA-AMS Market News</i>		<b>Week of 4/7/2023</b>	<b>Week of 3/31/2023</b>	<b>Week of 4/8/2022</b>
		<i>\$/cwt</i>		
5-Area	all grades, live weight	\$173.10	\$168.74	\$138.82
Fed Steer	all grades, dressed weight	\$278.65	\$270.36	\$222.43
Boxed Beef	Choice Price, 600-900 lb.	\$288.46	\$280.51	\$270.50
	Choice-Select Spread	\$11.92	\$10.88	\$9.06
700-800 lb.	Montana 3-market	\$197.10	\$201.58	\$155.00
Feeder Steer	Nebraska 7-market	\$213.40	\$206.90	\$169.16
	Oklahoma 8-market	\$196.88	\$192.74	\$157.62
500-600 lb.	Montana 3-market	\$252.19	\$255.15	\$195.96
Feeder Steer	Nebraska 7-market	\$254.34	\$247.53	\$206.36
	Oklahoma 8-market	\$244.38	\$238.42	\$195.02
Feed Grains	Corn, Omaha, NE, \$/bu	\$6.70	\$6.81	\$7.66
	DDGS, Nebraska, \$/ton	\$271.33	\$272.00	\$310.00