

In The Cattle Markets

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Prior Record High Fed Cattle Prices Broken

Fed cattle markets have moved into and through April on a very strong upward trajectory. The prior high in the live cattle futures market of \$172.75 established in November 2014 was broken. The April 2023 live cattle contract will likely settle above the prior record high and the deferred contracts expiring in February, April, and June of 2024 are currently trading above the prior record. These prices are clearly communicating the current strong demand and anticipated tighter future supplies. The cash market is moving with futures and basis is even-to-modestly weak except for cattle grading over 80% Choice – basis for the highest quality grade cattle is very strong.

Feeder cattle futures, while strong, are well below record highs because of the limited forage supplies and high feedgrain prices. Nearby contracts are trading above \$200/cwt and deferred contracts into 2024 are around \$230/cwt. Again, anticipating tighter supplies and moderating feed market prices. The cash market is also moving with futures with the strongest basis in the smallest calves reflecting that likelihood of lower costs of gain.

This is the price environment and herd building has yet to appear. Heifers are a strong proportion of the FI slaughter mix and beef cow slaughter continues at a strong pace. The unsaid conclusion is that better cattle prices are yet to come. (That should be a question.) I believe the continued rally is unlikely for the remainder or even a portion of the year. Seasonality is favorable in the spring, but the seasonal peak is likely soon. Cattle and beef markets have persisted in a rather unique environment for the past two years. Supply and demand – and market fundamentals in general – have routinely taken a bit of a hiatus. Beef production peaked in 2022 and yet retail and wholesale prices were some of the largest. The shocks to the meat supply chain have had an impact as have the fiscal stimulus. And both are moderating. Net beef exports have been reasonably strong and unlikely to continue to be so in an elevated price environment. Retail and wholesale beef prices have strong and margins have been substantial at times. I anticipate less strength in these prices in the future and also a narrowing of margins. Fewer animals certainly suggest the latter. Packer margins currently incentivize the need to cut kills. Long-term contracts and forward sales into spring challenge that incentive. But these factors will be the headwinds at also accompany tighter cattle supplies and long-term bullishness. And the cattle industry needs to consider what is going on in hog and pork markets as a worrisome analogue.

In the long-term the cattle market is likely to have substantial strength but in the short-term – within the year – we will see the market get back to business of relative protein prices mattering, disposable income not being substantially better than the prior year, and the surprises in trade news being pessimistic. Both inflation and the economy are slowing. And

that corn crop is not yet planted. Cow-calf producers and stocker operations need to look closely at LRP for anticipated marketing window time periods. Out-of-the-money Put options should also be considered.

The Markets

What does the technical picture say? Charts for live cattle and feeder cattle futures contracts traded from mid-2022 through 2023 will be used by many technicians to demonstrate up trends. These charts will replace my battery from 2012-14. There are a multitude of up-trends: short term through long term. Draw them and monitor them. A close below a trend is a sell signal. However, there is also a need to confirm any sell signal with persistent weakness. Trends being broken across the listing of contracts creates multiple signals. There are reasonable headwinds but no currently clear sell signals – as this market rallies into new territory. And interestingly does so without mandatory cash trade.

<i>Data Source: USDA-AMS Market News</i>		Week of 4/14/23	Week of 4/7/23	Week of 4/15/22
5-Area Fed Steer	all grades, live weight, \$/cwt	\$180.44	\$173.10	\$141.02
	all grades, dressed weight, \$/cwt	\$289.77	\$278.65	\$225.89
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$297.91	\$288.46	\$272.48
	Choice-Select Spread, \$/cwt	\$16.01	\$11.92	\$12.69
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$206.44	\$197.10	\$170.00
	Nebraska 7-market, \$/cwt	\$222.92	\$213.40	\$167.15
	Oklahoma 8-market, \$/cwt	\$203.22	\$196.88	\$159.79
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$269.91	\$252.19	\$202.15
	Nebraska 7-market, \$/cwt	\$266.37	\$254.34	\$200.88
	Oklahoma 8-market, \$/cwt	\$250.83	\$244.38	\$194.31
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$6.78	\$6.70	\$8.00
	DDGS, Nebraska, \$/ton	\$271.67	\$271.33	\$320.00