

In The Cattle Markets

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The Fall Begins to Turn?

Cattle markets showed strength into September but stalled in the last half of the month and weakened into October. October is usually a tough month for cattle and beef markets and we will have to see how the rest of the month plays out but the market fundamental mix and technical picture offer some troubling signals.

Placements of cattle in feedlots were the strongest for the year in May and June and these are the animals to be marketed soon. The inventory of cattle on feed over 120 days and over 150 days is high as revealed by the most recent report. Exports are showing a response to the record high prices in terms of drifting lower. Fed steer and fed heifer weights continue the seasonal increase and are likely for the next month and a half. This weight increase is not being limited by the falling corn price and the beginning of harvest – cash corn prices are surprisingly weak. Packer margins turned a sustained negative in August and did so again at the end of September. Prior to these two moves, margins had not been as negative since before 2019. (Several of my colleagues have stated to me that packers have made so much gross margin since 2019 that this is irrelevant – that they have so much money in the bank. I am doubtful. If gross margins are record high and plants do not increase volumes, then said plants are at capacity or are not able to run. If gross margins are negative, then the incentive is to not run. History is irrelevant. Every animal loses money.) The signal is to reduce bids or not operate. Operation is a must only if beef is forward sold – and a reasonable risk manager will be long in the market for sales promised but not yet purchased. Finally, it is minor but boxed beef composite values have finally broken lower through the \$300/cwt value after an excellent summer. This is an important lower price level – a minor penetration – but below \$300 nonetheless.

There are a variety of factors that press for the slowing of cattle processing, sales, exports, and in the end – prices. The next several weeks will determine the strength of cattle buying. What is needed to satisfy forward contracts and what volume can be moved through cash market retail and food service channels? We will learn that. The strength of demand in the remainder of the four quarters will be a good signal for the following year's potential. From a long-term perspective, what happens in the replacement market during the fall will be informative too.

The Markets

What does the technical picture say? Long-term trends in the live cattle and feeder cattle market remain clearly upward. But the movement higher has clearly stalled since the highs of mid-July. Futures have moved above resistance in mid-to-late September, but this market is

not much above the highs of June 7. Again, long-term uptrends are not yet broken, and therefore sell signals are not generated, but shorter-term uptrends have clearly been broken, and this market has stopped in its strong upward move.

In the end, cow-calf producers will see some of the strongest prices of the year for fall-weaned calves. But it is time to worry about market conditions next year. Feedlot break evens are also currently record high. Retained ownership in my mind is a non-starter and the big question is, take the big check or keep her and look to calf returns for the next three years – and the accompanying feed costs?

<i>Data Source: USDA-AMS Market News</i>		Week of 10/6/23	Week of 9/29/23	Week of 10/7/22
5-Area Fed Steer	all grades, live weight, \$/cwt	\$182.72	\$183.64	\$146.23
	all grades, dressed weight, \$/cwt	\$289.26	\$290.27	\$230.28
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$299.94	\$300.85	\$246.89
	Choice-Select Spread, \$/cwt	\$24.34	\$22.54	\$27.78
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$264.54	\$269.60	\$181.36
	Nebraska 7-market, \$/cwt	\$264.82	\$266.07	\$191.23
	Oklahoma 8-market, \$/cwt	\$250.61	\$256.19	\$172.69
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	--	--	--
	Nebraska 7-market, \$/cwt	\$306.34	\$307.88	\$211.62
	Oklahoma 8-market, \$/cwt	\$276.96	\$281.93	\$175.97
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$4.82	\$4.77	\$6.88
	DDGS, Nebraska, \$/ton	\$206.33	\$204.80	\$293.75