

In The Cattle Markets

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Counter-Seasonal Opportunity

Events on the grains markets appear to be communicating the potential for counter-seasonal opportunities in feeder cattle markets. There is the potential for price strength into the fall.

Grain markets spent the first five months of this year rallying to impressive highs: \$7.50/bu harvest corn, \$15/bu harvest soybeans, and \$12-\$13/bu harvest wheat. Concerns about current supplies, strong international and/or domestic demand, political concerns over war in eastern Europe, the pandemic recovery, and potential for drought were all contributors. However, during the two weeks prior to the June 30 USDA NASS Acreage report the harvest corn market sold off \$0.80/bu and beans lost \$1/bu. The selling has continued after the report. And it is my assessment that the report was not surprising – the exception would be for soybeans. It was expected that the report would show 89.8 million acres of corn were planted. The actual report numbers were 89.921 million acres. Hardly a surprise. Pre-report expectations for soybeans was that 90.6 million acres would be planted and the report delivered 88.325 million acres. And the low end of the expectations was 89.2 million acres. That is outside of the expectation range and would be classified a surprise. Details on where bean acres are short are interesting, but in the end this is hardly a bearish report. Yet both markets have continued the selloff. There have been a few days of corrections during the move lower but harvest corn is down in total about \$1.50/bu and beans about \$2.00/bu. This change is a substantial and fundamental change in the outlook for animal feeding costs. This will without a doubt create opportunities for some improved prices of feeder cattle and calves.

But we will have to wait for the substantive resumption of trading in many cash feeder cattle markets following the holiday week. Markets and regions in the central U.S. that did trade were modestly higher. Cash markets for corn and other feedstuffs, however, have held their strength. Regional cash corn markets in Kansas, Colorado, and Texas are routinely \$1.30 to \$2.30/bu over the September contract price. The futures markets for grains are revealing a changing supply and demand picture that should be much more favorable for cattle producers. However, the cash markets have yet to follow.

The Markets

What does the technical picture say? The November Feeder Cattle contract broke the recent downtrend and that is a clear buy signal. This contract peaked in mid-February and established a downtrend in mid-March. That trend was pressured in late-June and with today's sharp move higher the buy signal is clearly confirmed. I am a strong supporter for making use of Livestock Revenue Protection products but their main weakness is the inability to be able to reduce risk management positions prior to marketing and as market conditions

become more established. The emerging grain market conditions create that opportunity. And the required cautions as well. Deferred live cattle contracts into 2023 as well as those in late 2022 are showing some recent strength but the technical picture is nowhere near as clear as for feeder cattle. The fed cattle market will have to continue to address large long-fed supplies before sustained improvement will be seen there.

<i>Data Source: USDA-AMS Market News</i>		Week of 7/8/22	Week of 7/1/22	Week of 7/9/21
5-Area Fed Steer	all grades, live weight, \$/cwt	\$144.35	\$146.16	\$122.16
	all grades, dressed weight, \$/cwt	\$232.22	\$233.96	\$198.33
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$267.17	\$265.70	\$283.03
	Choice-Select Spread, \$/cwt	\$25.36	\$23.62	\$22.32
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$177.00	\$165.25	--
	Nebraska 7-market, \$/cwt	\$207.26	\$191.21	\$171.01
	Oklahoma 8-market, \$/cwt	\$170.83	\$167.78	\$151.11
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	--	--	--
	Nebraska 7-market, \$/cwt	\$229.15	\$227.49	\$193.36
	Oklahoma 8-market, \$/cwt	\$189.07	\$191.29	\$166.44
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$7.43	\$7.49	\$6.18
	DDGS, Nebraska, \$/ton	\$207.50	\$222.50	\$165.00