

In The Cattle Markets

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Very Strong First Quarter

Cattle markets are approaching the end of the first quarter of 2023 on a very strong note. Animal prices across the board have been very robust. Fed cattle have traded above \$165, 7-8 cwt feeder cattle have traded above \$190, and 5-6 cwt calves have traded just short of \$235/cwt. Live cattle futures approached within \$11/cwt of all-time high prices established in November 2014. However, feeder cattle are well below their records due to the strength in the forage and feedgrain markets. Cow-quality hay is routinely above \$200/Ton and corn has only recently shown enough weakness to press below \$6/Bu on the board. Cash basis in the southern plains continues to hold at \$1 over.

It is rather possible that this strength is the usual spring seasonal rally come early. There may be more up moves for the second quarter but that would likely require changes in the fundamentals not see now. Recent beef export news has been disappointing whereas pork and chicken exports have been strong. The relative protein prices do much to explain this result. While retail margins have remained wide, in contrast, packer margins narrowed considerably through the fourth quarter of 2022. These margins are large compared to what is typically observed in the first quarter of the year. But defining what is typical, or what is the new norm, is difficult given the events of the past five years. What is inarguable is the strength of domestic demand. Consumers were willing to pay very high retail prices for large offerings of beef quantities. It seems unlikely that this will persist with the slowing economy and the central bank's aggressive moves to control inflation. The number of factors in the for-and-against list regarding optimism in cattle prices has more on the against side.

The one big change possible in the for-category is the return to more normal forage and feedgrain prices. If that is the case, then feeder cattle and calves are rather under-valued. But that will take a retreat from costs of gain that are between \$1.30 and \$1.50 per pound. This is the major change and current fundamentals that would result in further strength in the calf market.

All in all, the first quarter of 2023 looks to be more of a return to market conditions observed prior to 2016-17. Tighter supplies and thinner margins. Which will be made more pronounced by any herd rebuilding. But there appears to be little of this in 2023 as beef cow liquidation continues at a strong pace. Again, there is more and more evidence of normal operations through the supply chain. In particular, the volume of Saturday fed cattle slaughter is off considerably compared to last year whereas the Monday to Friday slaughter has increased.

The Markets

What does the technical picture say? Live cattle, since October, have alternated between moving sharply higher followed by longer periods of modest corrections. The move today, Monday 3/13, has pressed the trend line for some contracts and the close will need to be watched. Close below the trend is a sell signal. However, there is also a need to confirm any sell signal with persistent weakness through the week. More deferred contracts are pressing the trend the hardest. Spring feeder cattle contracts moved \$10 higher after breaking resistance. A correction is reasonable. Fall feeder cattle contracts continue to display several strong uptrends. I believe the market is again, in the early spring, offering some great price levels for risk protection, especially LRP, precisely because the drought is not yet over.

<i>Data Source: USDA-AMS Market News</i>		Week of 3/10/23	Week of 3/3/23	Week of 3/11/22
5-Area Fed Steer	all grades, live weight, \$/cwt	\$165.40	\$165.02	\$138.30
	all grades, dressed weight, \$/cwt	\$265.32	\$264.43	\$220.11
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$286.48	\$288.59	\$253.70
	Choice-Select Spread, \$/cwt	\$10.55	\$10.71	\$6.41
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$197.78	\$193.53	\$155.63
	Nebraska 7-market, \$/cwt	\$197.23	\$194.15	\$162.23
	Oklahoma 8-market, \$/cwt	\$191.75	\$188.58	\$153.51
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$256.32	\$250.68	\$199.90
	Nebraska 7-market, \$/cwt	\$251.90	\$234.38	\$203.36
	Oklahoma 8-market, \$/cwt	\$232.01	\$230.07	\$190.79
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$6.37	\$6.58	\$7.15
	DDGS, Nebraska, \$/ton	\$278.60	\$280.50	\$287.00