



IN THE CATTLE MARKETS



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**SOUTH DAKOTA STATE
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Backgrounding Calves

Locally, the corn harvest is moving at a rapid pace, and producers have already moved cows into stalks and stubble. While fall has been dry, there was solid forage production earlier in the season, resulting in lower feed costs for much of the region. A few weeks ago, the expected profit from backgrounding, (adding weight to newly weaned calves), penciled out at very high levels. Calf prices have since moved higher, but the relationship among prices suggests more changes are expected in the short run.

Consider a cow-calf producer looking to retain ownership of a calf from November 2024 through March 2025. A steer calf weighing 550 pounds could be fed a corn and hay ration to reach a target weight of 800 pounds. A proxy ration of 15.5 bushels of corn and 1.1 tons of hay would give the weight gain during that timeframe. The weighted average

price for 550-pound steers sold in South Dakota last week was \$320 per cwt, while corn was \$3.60 per bushel and hay was \$95 per ton. Thus, the calf was worth \$1,760, and the feed was \$160 per head.

Backgrounding is not without risk. From a financial perspective, the money tied up in backgrounding could be invested in something like 10-year Treasury notes, currently yielding above 4%. The \$1,920 could earn the 4% [annual rate] of interest, but only for five months for comparison. Thus, the producer would need a minimum of \$32 per head to cover the risk involved. That gives a breakeven value of \$1,952 per head or \$244 per cwt for an 800-pound steer. The March 2025 futures contract has been trading between \$242 and \$246 per cwt in recent weeks. All the components in this analysis can change and adjust rapidly. This is a competitive industry.

The feeder cattle price is the primary source of risk for backgrounding. Last year, the March 2024 futures contract price increased by almost \$20 per cwt from November 2023 until the contract expired. That would be a \$160 per head gain if the backgrounded cattle were not hedged. However, a couple of times in the past decade, the March contract price has also declined by almost \$20 per cwt over the backgrounding season. The futures market is unbiased (never consistently under- or over-shooting the final value), but it is never right.

Producers can mitigate the price risk by locking in price levels that give a clear profit. The use of put options or Livestock Risk Protection can also offset risk. Buying coverage is not free, but it eliminates most downside price risk and leaves the producer open to potentially higher prices.

The Markets

The cash market was higher for fed cattle and sharply higher for boxed beef last week. The futures for live cattle and feeder cattle were mostly steady across contract months. Cash prices for feeders were mixed across locations and weight classes. Cash corn was lower for the week with new crop futures prices briefly trading under \$4.00 per bushel. There continues to be carry in the futures market, giving an incentive to lay in feed needs at harvest.

		Week of 10/18/24	Week of 10/11/24	Week of 10/20/23
5-Area Fed Steer	all grades, live weight, \$/cwt	\$187.61	\$187.21	\$186.15
	all grades, dressed weight, \$/cwt	\$296.21	\$295.92	\$293.57
Boxed Beef	Choice Value, 600-900 lb., \$/cwt	\$317.84	\$308.42	\$304.63
	Choice-Select Spread, \$/cwt	\$25.58	\$19.22	\$26.56
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$263.53	\$269.18	--
	Nebraska 7-market, \$/cwt	\$273.97	\$271.15	\$252.23
	Oklahoma 8-market, \$/cwt	\$253.63	\$255.88	\$245.14
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$308.00	\$323.75	\$298.06
	Nebraska 7-market, \$/cwt	\$317.42	\$312.95	\$303.44
	Oklahoma 8-market, \$/cwt	\$289.90	\$282.99	\$273.08
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.83	\$3.95	\$4.93
	DDGS, Nebraska, \$/ton	\$165.40	\$162.83	\$204.00

Data Source: USDA-AMS Market News as compiled by LMIC

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