November 1, 2023
THE MARKETS

Packers were quick to point to declining box prices at mid-week. Slow lists are little changed from last week, but cattle owner's attitudes are more optimistic and this is expressed in higher asking prices. Cattle owners will attempt to re-establish their leverage in price determination. No trade has occurred in any area, and there are few expectations it will break out today.

Sales volumes last week were moderate. Early pricing influenced by crashing cattle futures was $1-3 lower. Late week prices moved to steady in the north and steady to firm in the south by week's end. Sales live in the south were $185-$186 — steady to one higher than the previous week. In the north a range of prices from $183-$187 live and $288-$292 were reported — $2-3 lower early last week to steady by week's end.

The slaughter this past week was 636,000 down 2,000 head from the previous week. The slaughter was 31,000 head under last year. The year on year reductions in slaughter are reflective of the decline in the nation's cattle herd – both cows and fed cattle. The cow slaughter will increase during the final quarter of this year but remain under last year.

Cattle Futures . Live cattle futures ground higher fighting against bad news from the boxed beef trade.

Benchmarking . On Tuesday of each week, USDA releases a weighted average price report for all cattle sold the previous week. The report summarizes the distributed price levels for each category of sale such as Negotiated/Formula/Forward Contracts. Beef producers are able to measure the marketing price for their cattle compared to the national averages.

The Comprehensive Fed Cattle Weekly Report offers the most current information on the current status of fed cattle being harvested. The report is published each Tuesday and includes the previous week's change in carcass weights and quality grading. The latest report shows carcass weights at 889# up 1# from prior week and 2# under last year. Carcass weights will be fundamental in determining total beef production. The combined steer and heifer weights can easily be influenced when the proportion of steers to heifers in the weekly slaughter changes. Quality grade was down .4% at 79.0%.

The Weekly Steer and Heifer Grading Report is indicative of regional supplies of choice and prime cattle and often is determinative of regional differences is live price. The report is also reflective of the current status of fed cattle offerings in each area.

Forward Cattle Contracts : Forward contracts will always bear some relationship to the corresponding futures month closest to the delivery month for the cattle. Basis levels will move up and down as processors want to add to forward contracts or not. The driver in forward purchases of cattle will always be forward sales of beef. Packers will always be willing to take a price risk off the producer's plate in return for an extra margin.

The total number of forward contracted cattle has declined as deferred futures and packer basis bids fail to provide sellers a profit margin for feeding. The decline of forward contracts pushes more cattle into the cash market where they are sold either as grid or negotiated prices. Not all of these cattle find their way into mandatory price reporting. Nevertheless, more cattle in the spot markets will provide more liquidity to the cash markets. The spread between futures and proforma break-even prices has made it difficult for packers to negotiate forward contracts.

The Cutout . Box prices fell at mid-week after opening the week higher.

Beef Feature Activity Index. Bird flu has hit once again and flocks scattered across the midwest are suffering and the result is likely to increase the price of Thanksgiving turkey. Ham prices have already risen and both developments will be positive for beef.

Replacement markets

The history of any market with prices that run upward uninterrupted is an accident waiting to happen. Emotional markets are prone to "irrational exuberance" as the Fed chair once commented on the stock market. The replacement market is transitioning through an adjustment phase and this is healthy. Some buyers are caught with forward bought cattle at frothy prices but putting the breaks on a runaway market is restoring some reason to pricing and lowering price risk to the participants. The $30 cwt. decline in feeder cattle futures has caused all participants to more carefully weigh risks associated with high prices and future purchases and sales will benefit.

Winter grazing opportunities are always in flux. While spotty, there will be winter grazing in some areas and farmers are watching the growth of wheat and oats for signs grazing can begin. More farmers are deciding to opt out of cattle ownership this year and are looking for grazers to furnish the cattle for their fields. The recent decline in the deferred feeder contracts has increased the risk associated with winter grazing and grazing rates appear to be on the rise. Farmers are asking .75/pound for the gain without any care or death loss provisions included.

Oklahoma City . —

Compared to last week: Numbers limited this week due to heavy rains that that moved in last week and over the weekend. Sharply colder temperatures upon us as well and much of the state seeing a hard freeze this week. Some areas of the state seeing as much as 10 inches of rain. Feeder cattle and calves not well tested. Demand moderate to good for feeder cattle and 45 plus day weaned calves. Demand light to moderate for un-weaned calves and feeder heifers. Quality mostly average. Supply included: 100% Feeder Cattle (55% Steers, 43% Heifers, 2% Bulls). Feeder cattle supply over 600 lbs was 51%.

OKC West —

Feeder Cattle Futures . Futures were modestly higher.

Feeder Cattle Cash Index . The index is tracking the moves in cash prices.

Video and Internet Replacement Cattle Auctions . The movement from traditional private treaty sales to Internet auctions has been slow but steady. Producers have chosen this option as the primary marketing tool for most of the cattle offered in the replacement markets.

National Weekly Feeder Summary released on Friday of each week tracks the national prices by region for last week.

Grain Futures. Corn prices are trading sideways. Basis levels are improving as many farmers refuse to sell grain until after the start of the new year. Business has generally been good on the farm the past few years and farmers are inclined to push sales into next year hoping to avoid paying taxes on this year’s income. Corn basis offerings in Guymon, Oklahoma are at $1.15 for current delivery — basis the December contract.

ADDING PERSPECTIVE TO CASH AND FUTURES PRICES

Surprises in the monthly USDA COF reports are not new. The magnitude of the reaction to larger than expected placements was extreme by any historic cattle futures standards. The volatility during the past week was unnerving to many and dollar moves in minutes both directions were common during the daily trade sessions. Differing views of the market can hit the futures in waves and each wave moving the market price – sometimes a lot.

A monthly deviation from the dwindling herd size was fully understandable with scorchingly hot August and September temperatures. The change in placement patterns does not signal herd rebuilding. Herd rebuilding will begin as heifers are held back from feedyard placement for breeding. That may be occurring now but doesn’ t happen overnight. It is doubtful the market high for this cattle cycle is behind us.

A few facts may shed light on the recent price moves. September placements will not impact fed supplies the balance of this year into the next. It is rare live cattle pricing does not improve towards year end as holiday demand for beef improves. Historic charts show little evidence next year Feb/April prices should ever be discount to the October pricing. It is doubtful September placements will begin a trend of higher placement number each following month. The placement of beef building light weight calves has slowed feedyard turnover in much of the southern plains.

Commodity funds can frequently overwhelm the marketplace with large order flow for a contract with poor liquidity and it is not surprising to witness disproportional price movement as a result. Price has a way of sorting out the nuances of the market and by this past week’s end, stubborn bulls were regaining control of price discovery.

No amount of data will assure sharply higher prices next spring;

however some simple fundamental analysis would support the prospect. Cattle owners feel the strength of their changed leverage in the marketplace and this past week confirmed their ability in Kansas and Texas to advance prices $1 in the face of crashing futures prices. This leverage is unlikely to fade next year because of a one-month placement number.

FOOTNOTE

Students of markets and data histories may look back a long time and have difficulty finding a time when October cattle prices established a premium price to February/April forecast for the following year. This does not mean a risk of -0- it will not occur this year. We can be reminded of Long Term Capital in 1998 — a hedge fund run by Nobel Prize economists who promised investors a currency arbitrage with -0- risk. It took the Federal government and a consortium of banks to bail out the billions of dollars lost in their financial debacle when the no risk proposition failed.

EXPLANATIONS OF BREAKEVEN/CLOSE OUT TABLES

Regional differences in grain and cattle basises create a difficulty in modeling a national composite for current close outs or a proforma forward look at a breakeven. Readers should consider your own area for adjustments to these models. Most calculations are basis relevant prices in Guymon, Oklahoma.

CURRENT BREAKEVEN PROJECTION

The Cattle Report introduces the FEEDER METER. The report estimates profit or loss for currently purchased feeder steers and projects a result 180 days out. The chart is interactive and updated every 15 minutes in real time based on changes in futures markets in grain and cattle. Corn basis information is based on current trade prices adjusted every two weeks. Feeder prices are based on the USDA index price for 800# steers and fed cattle sales are $2 cwt. premium the appropriate futures contract.

CURRENT CLOSE OUT

The Cattle Report estimates current profit or loss on cattle placed on feed 180 days ago. This report generated from industry averages attempts to simulate a typical close out based on the feeder index for 800# steers 180 days ago. The close out assumes grain was purchased at market each month. Selling prices and interest rates are based on prevailing benchmark quoted prices. This chart will change weekly.