An Overview of the Cattle Markets for the Past 100 Days and Looking Ahead
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- As much of a roller coaster as we have been on, the slaughter cattle market is about where it was anticipated to be prior to COVID outbreak in mid-March, although in January, it was around $120. The cash weighted average this week is $100.80
- Feeder cattle futures contracts in Jan/Feb were in mid $150s. This week they are in the mid $130s. In April, they went as low as $113.
- Cash market for grazing weight cattle held firm during the spring, although we never saw the spike that normally happens for cattle headed to grazing programs.
- Weighted average prices for this week are LM1 Steers $147.25, 6 wt. Steers $140.40. Large & Medium 1 Heifers 5 wt. $120.00, 6 wt. $115.00. In the past couple of weeks, load lots of reputation 7 weight backgrounded steers sold for $150 to $155.
- The pandemic has caused quite a bit of turmoil in managing marketing and feeding programs. Here are some standouts as a result of COVID:
    - Carcass weights are 50 lbs. heavier than this time last year
    - May 1 feedlot placements were 78% of last year, while marketings were 76% of last year.
    - June 1 cattle on feed report showed cattle on feed over 150 days at 43% higher than last year at 971,000 head, plus cattle on feed over 120 were 23% higher than last year. This is the reason for carcass weights 50 lbs. heavier than year ago.
    - To relieve the backlog of cattle in feedlots, packers need to kill 700,000 head of cattle per week, instead of the normal 650,000 head, which we have gotten to this week
    - The Choice box beef cut outs in mid-March were $208 just before the rally. They reached a record high of $475 on May 12 and have dropped back to $209 this week.
    - Consumer demand for higher dollar cuts have dropped, while ground beef demand has increased

Other hot topics:

- Legislation has been introduced to require 50% of slaughter cattle be sold on negotiated cash trade for better price discovery, such as at auction or multiple bids at the feedlot.
- Department of Justice (DOJ) has started an investigation into the four major beef packers over concerns of monopolistic activities.
- Sen. Chuck Grassley of Iowa has asked USDA why Packers and Stockyards (P&S) investigation has not been completed into the Tyson plant fire in Holcolm, KS last August. If the report is not forth coming, he will request an investigation into P&S as to why it has not been completed.
- Central Grocery in Minnesota has filed a Class Action suit against the four major packers accusing them of collusion and price fixing on boxed beef prices that retail suppliers were charged during the March to May pandemic fiasco.
- One positive from COVID is the huge demand for locally produced and processed beef and pork. Local custom processing facilities are reportedly booked thru 2020 and even into 2021. Farmers who market beef are selling product as quickly as they have it available. If this is not a short-term fad, it could have a tremendous positive impact on Virginia cattle producers and processors. VDACS Meat Inspection continues to receive numerous calls for inspection service at new facilities or upgrades at existing facilities.

Items to consider when making marketing plans for rest of 2020:

Two schools of thoughts on direction of market:

- The Negative :
- Backlog of slaughter cattle (approximately 1 million head),
- Heavy (some extremely heavy) cattle
- The negative beef movement of low demand of high end cuts and higher demand for ground product,
- Lost demand for both domestic and export caused by extremely high prices during April and May (box prices at record $475) will cause lower live prices this year or until the beef supply gets back in line with demand.

- The Positive:
- Prices will stay favorable through the summer and into the end of the year with improving economy and anticipation of a return to more normal business activities.
- Low feedlot placement in May, there could be a “hole” in slaughter cattle numbers later this fall allowing for a catch up in the backlog of heavy slaughter cattle.
- Farmer feeders are looking at the possibility of cheap corn and very likely would like to add value to their corn crop through cattle.
- While the cash market for slaughter cattle has not been profitable for cattle feeders, if feeders were hedged in someway, they could have very well made some money on cattle, or at least on their hedge.

Marketing your calf crop in 2020

- Consider weaning and selling commingled in load lots such as through Virginia Quality Assured (VQA) sales sponsored by Virginia Cattlemen’s Association (VCA)
- Perhaps selling either through in-barn sales as commingled graded or as uniform lots of one owner.
- Cattle of good quality with a history of vaccination, weaned for 45 plus days with acceptable flesh have been proven to be in higher demand than unweaned cattle with no history of a health program.
- This year has been proof that producers need to familiarize themselves and know their options in regards to risk management, such as Livestock Price Protection (LRP) or Chicago Mercantile Exchange (CME) using options or hedging. Using one of these may or may not be an option for everyone, but I think a producer at least needs to have a basic understanding of how they work and be prepared to use if desired. The 2020 fall contracts in January and February were in the mid $150s. By April, those prices had dropped to $115 to $120 and today are $134 to $136. Even though cash prices may not have suffered as much, there is still lost profit from not having some protection.

References

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