COW/CALF CORNER

The Newsletter

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Cattle Market Situation: The Short Run

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Fed cattle prices appear to have bottomed seasonally a bit early this summer. Prices have increased from a low around $91/cwt. in late June to the current level of $94+/cwt. Although it is early to be certain, current prices are consistent with boxed beef prices and there is no obvious reason that current price levels cannot hold into the fall. However, fed prices are unlikely to advance further and may trade in a $93-$95 range until late in the third quarter. Fed prices could advance solidly into the mid to upper $90s by the end of the year.

The latest cattle on feed numbers showed a continued seasonal increase in feedlot inventories. June placements were up 17 percent compared last year. The increase was slightly smaller than the pre-report estimates of a 20 percent increase. Moreover, the increase reveals more about how small last year's value was rather then how large placements were this year. The June placement total is actually 1.7 percent smaller than the previous five-year average. Marketings were equal to year ago levels, also slightly smaller than expected. The resulting on-feed inventory was as expected at 103 of last year. The July 1 on-feed total was 3.2 percent smaller than the previous five-year average.

The June placement increase followed a similar May increase and reveals the seasonal build up of feedlot inventories relative to last year. Feedlots, with additional cash on hand, have aggressively placed cattle to rebuild feedlot inventories. In doing so, they have also bid up feeder cattle prices and will face declining margins as the recent placements are marketed later in the year. There is also the question of how the recent bulge in placements will impact fed cattle markets in the fall. The weight distribution of May and June placements was quite wide as feedlots chased any available feeder cattle. There does not appear to be any significant bunching that necessarily implies a second bottom in fed prices this fall as long as demand is steady. But the possibility bears watching.

Given that feedlots have already placed much of the available feeder supply, placements will decrease seasonally until fall and feeder prices should retain strong support in the second half of the year. Calf prices will likewise stay relatively strong although subject to seasonal decreases in the fall. The extent of seasonal weakness may be limited if stocker demand is strong this fall as expected. Good forage and moisture conditions are likely to favor continued interest in stocker production into the fall.

Cattle Market Situation: The Long Run

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The USDA July Cattle report indicated that the U.S. cattle herd continues to shrink and there is no indication that producers have any intentions of expanding anytime soon. The beef cow herd was estimated at 31.7 million head, down 2 percent from last year. Beef replacement heifer numbers were also down 2 percent from a year ago. While I believe it is possible that we could begin to see limited retention by the end of the year, these numbers suggest that herd expansion would begin in 2011 at the earliest and would not result in increased feeder supplies prior to 2013.

In the meantime, the 2010 calf crop is estimated at 35.4 million head, down 1 percent from last year. The estimated July 1 available feeder supply is down 2.6 percent from a year ago. At some point, cow-calf producers are likely to begin holding back some heifers thereby further squeezing feeder supplies. In general, cattle prices are expected to trend higher through 2012 at least. The pace of that trend will likely be determined by continued demand recovery over the coming months. Potential input cost shocks notwithstanding, cow-calf producers should see generally improved profit opportunities for the foreseeable future. Stocker and feedlot producers will face limited buy-sell margins with short run market dynamics providing both opportunities and risk at times.