COW/CALF CORNER

The Newsletter

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Feeder cattle markets at mid-year: 2014 vs. 2013

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We are approaching mid-year with feeder cattle prices at historic levels and showing little sign of slowing down. The question of what to expect in the second half of the year is on many minds. So far, 2014 has been in sharp contrast to the first half of 2013. About a year ago, feeder prices bottomed counter-seasonally in late May/early June. Feeder prices today are 50 percent or more above this time last year. Fed prices are currently about 24 percent higher than one year ago and Choice boxed beef is roughly 15 percent above the $200/cwt. level that it first achieved one year ago. It was just about a year ago, that feeder prices began the increases that have continued to today.

Many factors are quite different between the first half of 2014 compared to the first half of 2013. Most notably, perhaps, is the change in feed prices. In the spring of 2013, with feedlot cost of gain at record levels, feedlots could begin to see the prospects for a dramatic change in corn prices with the coming 2013 crop. Feedlot losses were severe enough that some feedlots essentially stepped out of the feeder market in the period from February until May, allowing feedlot inventories to drop until late summer and fall and thus softening feeder demand. At the same time, cow herd liquidation was still underway, supporting feeder supplies and limiting the decrease in beef production. Through May of 2013, cattle slaughter was down less than one percent and beef production for the year to date was even with 2012 levels. Heifer slaughter was down 3.8 percent year over year while beef cow slaughter was up 3.1 percent and dairy cow slaughter was up 4.1 percent at that point in the year. Continued drought and extremely tight hay supplies forced abandonment of heifer retention and resulted in more herd liquidation through mid-year 2013.

So far 2014 has been very different. For one thing, we are a year later with an even smaller herd and calf crop this year. Secondly, though drought conditions persist in some regions and even expanded until recently, larger hay supplies and improved forage conditions in other regions suggest that heifer retention and herd expansion are underway. Heifer slaughter so far in 2014 is down 8 percent and beef cow slaughter is down 13.8 percent along with an 11.5 percent year to date decrease in dairy cow slaughter. Compared to last year, relatively moderate feed prices and strong boxed beef and fed cattle prices allowed feedlots some positive returns in early 2014. The industry supply situation is significantly tighter now compared to this time last year. Total cattle slaughter is down 6.3 percent and beef production for the year to date is down 5.8 percent.

What happens to feeder prices in the second half of 2014? Having reached such breathless levels in the past few weeks, it seems unlikely that prices will continue to move higher. At the same time there is little reason for feeder prices to drop much, if any. Current feeder prices clearly suggest poor feedlot margins ahead. Today's feeder prices imply feedlot breakevens at $160/cwt. or higher in coming months. It will take a significant increase in wholesale and retail beef prices along with fed prices to support these breakevens long term, even with the current good prospects for continued moderate feed prices. Beef demand and the rate of beef production in coming weeks and months will be very important to determine the upper limits on prices. At the same time, in the short run, there is little that feedlots can do about high feeder prices. There is no "crop year" relief for feeder prices, like there was for corn in 2013. Feeder supplies will continue to tighten at least until 2016. The wring-out of feedlot capacity is not over yet.

Several factors could negatively impact feeder markets and should be monitored. Feeder prices could be pressured if corn market prospects were to change and deteriorate significantly. Rapid and widespread redevelopment of drought conditions could pre-empt herd expansion once again and temporarily pressure feeder markets. Neither of those weather related factors seem especially threatening at this time. Current U.S. feeder prices are pulling in relatively large numbers of Canadian and Mexican feeder cattle but overall feeder cattle supplies are tight in both countries. Mexico, in particular, is unlikely to be able to sustain the current rate of feeder exports to the U.S. through the end of the year. Despite robust demand so far, domestic and/or international demand for U.S. beef could weaken abruptly and pressure the entire beef and cattle complex. All of these factors will remain on the radar screen, but none seems to pose a significant eminent threat at this time. All in all, there is relatively little downside risk for feeder markets in the second half of 2014.

I generally expect feeder prices to move more sideways in the second half of the year. Some seasonal pressure could develop in the fall but even that is likely to be muted. Especially in the Southern Plains, moisture conditions and fall forage prospects in August and September will be a key factor and could result in strong stocker demand in the fall.

Using "Oklahoma Gold" or "Oklahoma Super Gold" for Replacement Heifers in Mid to Late Summer

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Fall born replacement heifers have been (or soon will be) weaned and will be at a very critical growing period. It is important that they grow at about 1.5 pounds per day from weaning until the start of the breeding season. Central and Eastern Oklahoma has been fortunate to receive spring rains and in some cases will produce adequate forage quantity for the cow herd and the replacement heifers. Currently summer pastures are green, growing, and adequate in protein content. However, warm season pastures such as native grass or bermudagrass can be expected to be declining in forage quality in the hot, dry days of July, August, and September. Also these grasses will be reaching plant maturity which accelerates the decline in protein content.

Therefore, the young heifers must receive supplemental protein to continue to grow at the necessary pace of 1.5 pounds per head per day going into their first breeding season. An economical solution would be to give these heifers 1.5 to 2 pounds per head per day of the protein supplement called Oklahoma Gold. This is an OSU-developed protein supplement scheme that consists of a high protein (38% - 45%) pellet that contains the label-recommended dosage of one of the ionophores. Ionophores are feed additives (monensin or lasalocid) that improve feed utilization, inhibit coccidiosis, and enhance the onset of puberty in growing heifers. Research from Texas A&M in the 1970's indicated that heifers receiving an ionophore reached puberty about 2 weeks earlier than counterparts that did not receive an ionophore. Inclusion of the ionophore in the growing program should cause a few more heifers to be cycling early in the breeding season.

The protein supplement will allow microbial digestion of the average quality late summer forage which in turn provides the energy needed to support the desired amount of gain. If forage quantity is very limited, the protein supplement alone will not produce adequate gains. In this scenario, a rancher first needs to decide if keeping more replacement heifers is really in his or her best interest.

Light-weight or young, weaned heifers that need an added boost while still on late summer pasture may benefit more from the Oklahoma Super Gold supplementation program. "Super Gold" consists of feeding 3 pounds per head per day of a 25% crude protein pellet. Once again, an ionophore is included at the proper dosage and will be beneficial to these young growing heifers. Plan ahead for late summer supplementation of fall-born replacement heifers. More information about the Oklahoma Gold (http://pods.dasnr.okstate.edu/docushare/dsweb/Get/Document-2042/ANSI-3032web.pdf) and Oklahoma Supergold supplementation programs (http://pods.dasnr.okstate.edu/docushare/dsweb/Get/Document-2026/ANSI-3033web.pdf) is available on line.