COW/CALF CORNER

The Newsletter

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Feeder cattle prices push counter-seasonally higher

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Cash prices for most classes of feeder cattle pushed higher last week in Oklahoma and other markets. Both calf and feeder prices advanced counter-seasonally with feeder prices reaching new record levels at several weights. 700-800 pound steer prices typically decrease by an average of 1.1 percent from the July seasonal peak to September. In contrast, 700-800 pound steer prices this year have increased 4.7 percent from the July average compared to the first half of September average price of $230/cwt. in Oklahoma. 500-600 pound steer prices usually drop about 3.4 percent between the July seasonal peak and September. This year, 500-600 pound steer prices in the first half of September have increased more than 3.5 percent over the July monthly average to about $260/cwt. The strong market uptrend that has been in place for over a year has apparently not slowed yet.

What should we expect for calf and feeder prices this fall? If the market trend of recent months should slow considerably, seasonal price patterns might be expressed, at least to some degree, for the remainder of the year. Assuming stable markets at current prices, 700-800 pound steer prices would be expected to fall about 2.7 percent as an average seasonal decline from September to November. That would suggest 700-800 pound steer prices would decline to roughly $224/cwt. prior to Thanksgiving. This is close to what Feeder futures are suggesting using average Oklahoma City basis. Continuation of the uptrend would mean prices higher than this level.

For the calves, the picture is somewhat less clear. Using current September prices and applying normal seasonal price patterns suggests that 500-600 pound steer price should drop to roughly $246/cwt. for a November seasonal low. This level is above what is suggested by Feeder futures using historical (Oklahoma City) basis; with futures suggesting a 500-600 pound steer price at around $239/cwt in November. However, basis has been running two to four times normal levels so far in 2014 for feeder cattle weighing less than 700 pounds. For example, the August (Oklahoma City) basis for 500-600 pound steers was $46.14/cwt., compared to the previous five-year average basis of $12.58/cwt. Basis for lightweight feeder animals is determined by both price level and feedlot cost of gain. With record high cattle prices and falling cost of gain, basis for calves and stockers is exceptionally strong and will likely remain so for some time to come. Limited cattle supply has its most dramatic effect on calf prices and that is certainly the case in today's markets. The November basis for 500-600 pound steers (Oklahoma City) could swell from the five-year average of $14.74/cwt. to a level of $25-$35/cwt. suggesting November low cash prices close to current levels. Even if the market uptrend slows considerably, calf prices are likely to show little, if any, seasonal decrease for fall lows this year.

The above discussion begs the obvious and important question…will the market uptrend continue this fall? Certainly markets have exceeded everyone's expectations this year and are at record levels. Therefore, despite the odds against it, I am not prepared to say that feeder markets cannot push to even higher levels this fall. I am not uncomfortable with current feeder market price levels but I am a bit surprised at how quickly we have reached these levels. At current feeder prices, implied feedlot breakevens are $170/cwt. and up and cannot be covered with Live cattle futures through the winter. Lighter weight feeders also have feedlot breakevens that cannot be covered against Live Cattle futures next spring. Stocker prices this fall suggest breakevens for feeder cattle after winter grazing or backgrounding that cannot, in some cases, be covered by spring Feeder futures. In other words, limited feeder supplies are forcing most everyone on the margin side of this industry (that is to say, everyone except cow-calf producers) to bet on the come in the next few months. While current calf and feeder prices cannot be fully explained or justified (at least relative to Feeder and Live Cattle futures), it does not mean that they will not continue for some time.

If downstream cattle and beef prices continue increasing, betting on the come may work out fine despite the lack of anticipation on the part of Feeder and Live futures. It has worked remarkably well so far this year. This emphasizes once again, as has been noted for many months, that beef demand is the key. If demand is strong enough to let supply take cattle and beef prices where they need to go over the next 18 to 30 months, then all is well. If, however, demand at some point represents a firm lid on beef prices, the margin squeeze may become very severe until upstream prices rebalance. That said, supply limitations would limit any feeder price declines and might mean that an imbalance could persist for many months before other adjustments would bring feeder and fed cattle, along with beef prices, back into alignment.

In the meantime, we continue this exhilarating, if somewhat scary, ride into the unknown with cattle markets. There are lots of good reasons why prices are at current levels and why we should expect even higher prices, albeit at a slower pace, in coming months. The scary part comes, not because there is much downside risk in the markets, but just because we have never been here before and we are not quite used to the view from these lofty price levels.

Why is 45 day weaning important to feeder calf health??

Glenn Selk, Oklahoma State University Animal Science Professor Emeritus

Most of the "Value-Added" calf sales require that the calves are weaned at least 45 days prior to sale date. Some cow calf producers may wonder why the post-weaning period needs to be so lengthy. Data from Iowa from over a nine year period in a couple of their feedout tests compared the health status of calves weaned less than 30 days to calves weaned longer than 30 days. Data from over 2000 calves were summarized. Calves that had been sent to a feedlot at a time less than 30 days had a higher incidence of bovine respiratory disease (28%) compared to calves weaned longer than 30 days (13%). The percentage of calves that required 3 or more treatments also was significantly different (6% versus 1%) in favor of calves that had been weaned more than 30 days. In fact the calves weaned less than 30 days were not different in health attributes than calves that were weaned on the way to the feedlot.

A summary of this lengthy study can be found on line athttp://www.extension.iastate.edu/Pages/ansci/beefreports/asl-1648.pdf. Vac-45 calves apparently have a real advantage in terms of health compared to calves weaned for less than a month or those weaned on the way to the livestock market for sale date. Certainly part of the "value" in value-added calves can be attributed to properly applied vaccinations. However, there is little doubt that a portion of the improved health is due to the length of time between weaning and the movement of calves to the next owner.