Tipsheet

December 9, 2016

THE MIDWEST

Winter is finally settling in across the countryside; bringing a chill across the market, too. High winds and blizzard conditions have slowed the movement of cattle and shifted rates of gain as cattle begin using more energy to stay warm than put on fat. The market generally dips before the first of the year and we expect this year to be no different. Adding to the seasonal lows, packers have cut hours and will not be working on Saturdays until January 7th. The shorter hours come as a direct result of the market highs in the past few weeks, which spoiled packer profit margins. Additionally, packers will not be accepting deliveries until December 19th. The packer buying spree last week filled their inventories, leaving them with no need to continue purchasing cattle. One source commented, "The market was too high and I knew it couldn't stay there, but I never expected this." The feeder cattle demand, however, was considerably higher this week. Folks are also looking to buy more cows this time of year for tax purposes. This week may have just been the market taking a breath after last week's rally, which sets the stage for another rally in January.

NUMBERS: A slow Fed Cattle Exchange this week meant fat cattle saw lower prices, with the average coming in at $103-106.50. Trade in Nebraska was a bit higher than the average, at $108-109, but lower than last week's $115 average. Kansas moved fat cattle around $112. We're expecting more cattle to begin moving on Fridays in the coming weeks. Overall, young second-calf cows were selling between $1,550-2,000. Four-year olds were at $1,600-1,800. Five- to six-year old cows saw prices between $1,250 and $1,500. Solid mouth cows sold for $1,000-1,100. Broken-mouth cows were a bit lower at $850 to $1,000. The calf market showed prices of $5 to $9 higher than last week, with 3-4 weight calves going for $9-12 over last week's market.

THE WEST

Sale barns saw full bleachers and enthusiastic crowds. This week, folks begin investing in quality bred cows to get into better tax brackets this spring. If you have old cows and can sell them, do it. Then, apply those funds into females to stay at proper operating numbers. Be sure to try and replace cows when you can to avoid getting into a tax bind and derailing your cash flow; then, start writing cows off or depreciating them as soon possible. Calf buyers are pulling out – if you need to sell calves, hold onto them until after the first of January. We'll see a spike in prices in the new year; yet, that rally is generally short-lived.

The CME Futures Board is still mystifying folks; one source called the board "not convenient and certainly not consistent." The CME Futures Board does not represent the current state of the cattle market; what you sell your cattle for on a daily basis represents their worth. In response to the dip in prices, another source commented, "don't be weak-hearted, this is what we normally see – chin up, boys!"

NUMBERS: Compared to what we saw in October, this month surprised us with a huge up-swing in prices. Steer and heifer calves less than 500lbs traded mostly steady, with steer and heifer calves over 500lbs trading $1-3 higher than last week. Yearling heifers were up $1 to $3 over last week's prices.

PACKER WATCH: Cattle feeders have it the worst, with an industry that is set up to take discounts rather than pay premiums. Cattle feeders have to buy in a competitive marketplace and sell in a noncompetitive atmosphere, leaving the feeders trapped in a prisoner's dilemma of selling to the nearest packer. If we sold fat cattle live, the market would be in a better position. The packers want to sell cattle "in the meat" because of yield gradings, but that process doesn't take into account that yields can change due to various stress factors related to hauling. This method takes all the competitive work out of the game because the feeders then have to sell to the closest packing plant to get the yields they need to maintain their profit margins. Additionally, there simply aren't enough packers. Increasing consolidation in the meat packing sector has decreased the availability of options and encouraged noncompetitive pricing packages.

THE WEST

Bottom Line: To increase transparency and true price discovery in the marketplace, packers need to be reporting cattle committed for delivery at 14- and 28-days out. The U.S. Cattlemen's Association remains at the forefront of this issue. If you believe that additional market data would help your operation, join us in the fight. Become a member or donate to the only cattlemen's association representing YOU – the producer.

THE SOUTH

The newest region added to Cattle Market News' weekly TipSheet saw a lot of cattle moving this week, with at least one sale barn reporting 3,300 head sold. We've noticed that the busy season is dragging a bit later into the year; we speculate that may be due to folks holding out for better prices. Nevertheless, the cow-calf producers are extremely pleased with the prices they received this week.

NUMBERS: Across the board, everything was up this week. Cull cows and calves were $2-4 higher than last week, with great buyer demand.