



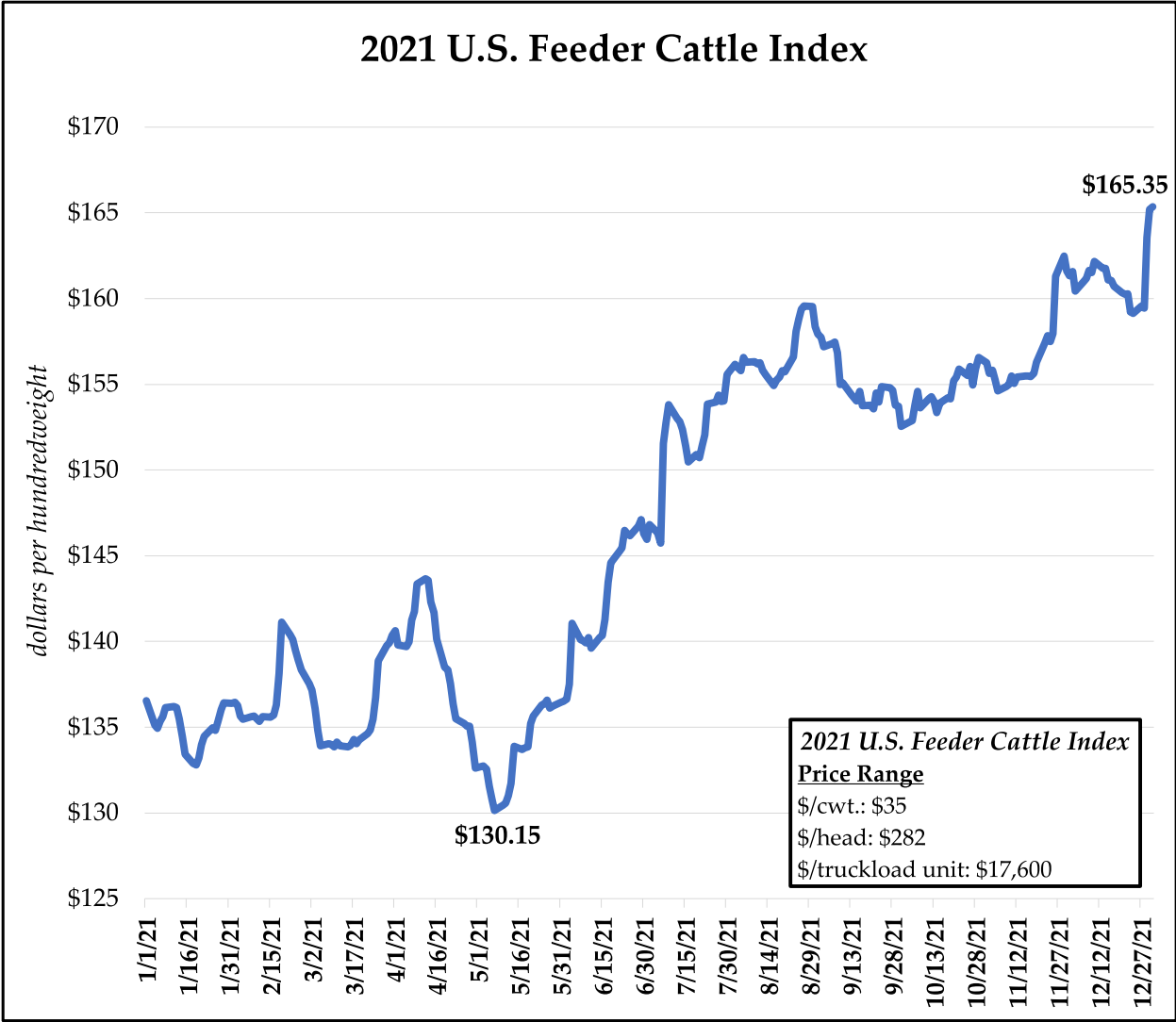
## **Marketing Feeder Cattle in 2022**

Chris Prevatt, State Specialized Agent, Beef Cattle and Forage Economics

Published in *The Florida Cattleman and Livestock Journal*, February 2022

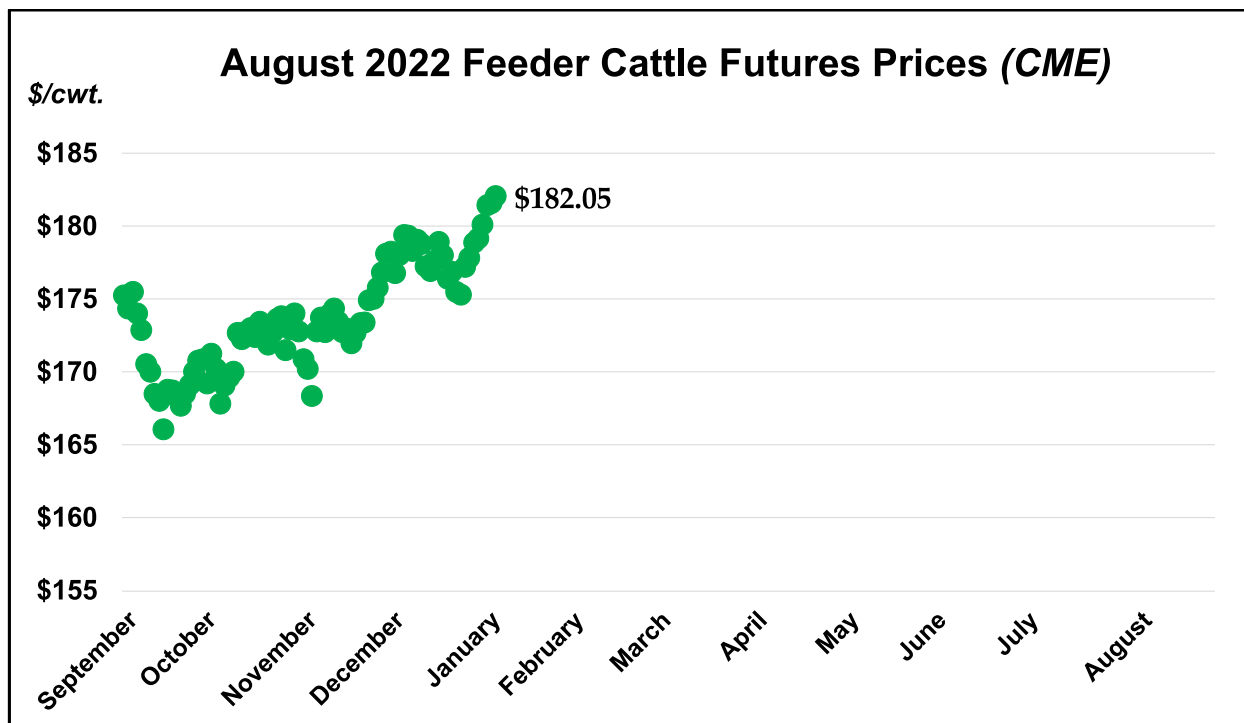
It's been two years since the outbreak of COVID-19 (coronavirus) in China and it's resulting spread throughout the world. The unknowns from this health crisis has and continues to cause extreme volatility in U.S. Beef Cattle Industry. The entire U.S. beef cattle supply chain have been impacted on both sides of the profit equation. In this article we will take a look back at the volatility in U.S. Feeder Cattle cash markets that occurred during 2021 and also evaluate the potential for marketing Feeder Cattle during the summer of 2022.

The figure below shows the substantial increase in U.S. Feeder Cattle prices during the second half of 2021. The U.S. Feeder Cattle Index Price provided by the USDA's Agricultural Marketing Service is made up of actual sales of Feeder Cattle via auctions, direct trade, video sales, internet sales within the 12-State Region of Colorado, Iowa, Kansas, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, and Wyoming. The price for the U.S. Feeder Cattle Index Price is a 7-day computed weighted average price for an 800-lb. Feeder Steer and provides a proxy for the current U.S. feeder cattle cash market.



The low for the 2021 feeder cattle market occurred on May 7th at \$130.15 per hundredweight. Since May 7th, the market has moved \$35 per hundredweight (\$282 per head) higher to \$165.35 per hundredweight on December 31. For a load of 60 head of 800-pound feeder steers, that amounts to an improvement of \$17,600 per truckload unit. If evaluating the change from the beginning of January 2021 to the end of December 2021, feeder cattle prices for an 800-pound feeder steer have increased by \$28 per hundredweight or \$230 per head. For a load of 60 head of 800-pound feeder steers, that amounts to an increase of \$14,400 per truckload.

The chart below looks at the CME Feeder Cattle Futures Contract for August 2022. In terms of providing a short-term price projection, the CME Feeder Cattle Futures Contract provides us with the market’s expectations of an 800-lb. Feeder Steers (Basis: 12-State Region of Northern and Southern Plains) at a future date, which in the case of this example is August 2022.



Each year there are windows for marketing feeder calves near the high-end of the market. This stresses the need to develop an understanding of where prices for your feeder calves are and where they are projected to go. One way to accomplish this is by understanding the relationship between the future price (CME Feeder Cattle Futures) with the current market price (U.S. Feeder Cattle Price Index). Comparing these two prices provides us with a way to project the current markets expectation of price movement in the near-term.

On December 31, 2021, the 7-day computed weighted average of the U.S. Feeder Cattle Index Price was \$165.35 per hundredweight and the settlement price of the August 2022 CME Feeder Cattle Futures Contract was \$182.05 per hundredweight. This information indicates to producers that between December 31<sup>st</sup> and the expiration of the August 2022 Feeder Cattle Futures Contract (last Thursday of the contract month) the market is expecting cash prices to increase from \$165.35 per hundredweight to \$182.05 per hundredweight. The market is pricing in a \$16 per hundredweight, \$133 per head, and \$8,350 per truckload unit over the next 8 months. Thus, for producers the short-term expectation for feeder cattle is for prices increasing.

### What will help Feeder Cattle Prices improve further?

Domestic and global beef demand has been excellent the last several years. This was especially important given the huge supplies that were produced from the early expansion years and are still being produced.

- 1) For feeder cattle prices to see improvements in the short run, an improvement in U.S. economic conditions as well as increases in consumer income are required. Additionally, where beef is sold is extremely important. We are continuing to see restaurant re-

openings and improvements in seating capacity in major cities. This will go a long way in helping to improve prices in the short run. High-end restaurants are particularly key for premiums to exist for producers marketing beef cattle.

- 2) **Risk.** Anytime risk is high, we should expect consumer goods to increase in price and raw products to decline. Why? Because everyone assumes more risk in the supply chain. Remember when crude oil was sold for -\$40 per barrel, the extreme civil unrest in many cities, government mandates to shut down certain businesses, and the collapse of the supply chain and subsequent shortages that have been present since March 2020. Due to these risks, no one in the supply chain wants to assume more risk right now for the same returns they were receiving prior to the pandemic.

### **Bottom Line**

While the future for marketing feeder calves looks bright, there is no telling what may transpire in cattle markets in the near term as commodities remain extremely volatile. In the short-term the futures market continues to predict an increase in feeder calf prices. Each operation must evaluate the information available for their individual operation and take the necessary steps to capture the opportunities that are presented during 2022. The cattle producers who continue to search for ways to lower their unit cost of production (what it costs to produce a pound) and enhance their market prices will be in a better position when prices improve throughout this decade.

\*\*\*

### **Upcoming Events**

Visit our calendar online to view all our upcoming events and their registration links:

February 8, 11:00-11:45 a.m. – Ona Highlight with guest speaker Colleen Larson, Regional Dairy Extension Agent, Okeechobee. Colleen will be presenting, “The SLICK Gene in Holstein Cattle Improves Thermotolerance.”

\*\*\*

UF/IFAS Range Cattle REC - 3401 Experiment Station Rd., Ona - <http://rcrec-ona.ifas.ufl.edu/>