

# CattleFax UPDATE

THE  
DECIDING  
FACTOR

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## The Value of Fed Cattle Leverage

The All Fresh retail beef price for 2014 is on pace to average 14 percent higher than last year. At the same time, fed cattle prices are on pace to realize an even higher year over year gain than retail at +23 percent compared to 2013. As a result, fed cattle prices (excluding the hide and offal value) are going to capture 24.7 percent of the retail price, which are 2.1 percentage points higher than last year and the highest annual percentage since 1993. Ultimately it is consumer demand for beef that drives demand back through the beef supply chain over the long term – but in the shorter term, fed cattle supply and other market factors in the cattle feeding and packing segments can have a major impact on the fed market, and that includes leverage shifts.

This year the data suggests both supply and demand contributed to the extreme move in fed cattle prices – but the leverage shift between the cattle feeder and retailer, which may be influenced by supply and demand, contributed to the fed price increase more than it has at any time in the last 25 years. With fed prices on pace to increase from \$126/cwt in 2013 to \$155/cwt in 2014, up \$29/cwt, it is estimated the leverage shift accounted for \$11/cwt of the price increase. There are only three other years since 1990 in which a leverage shift accounted for more than \$3/cwt of a fed price increase (2003, 2010, and 2011).

Per capita net beef supply is on pace to be down 4 percent this year versus last year, which accounts for about \$8/cwt of the \$29/cwt increase in fed price. Price inflation, hide and offal value and beef demand account for about \$10/cwt of the \$29/cwt fed price increase.

Interestingly, in breaking out the value of each component of the fed price change from one year to the next, in only one other year has leverage, supply, and demand all had a

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### Market Highlights

The fed cattle market was \$164 this week in the South, \$4 lower than last week. The fed cattle market in the North was \$162 to \$164, \$3 to \$4 lower compared to last week. Cattle sold at \$255 to \$257 on a dressed basis in the North, \$8 to \$10 lower than last week. Boxed beef was lower for the week as demand has slowed. Feeder cattle were steady to \$10 lower for the week, depending on the day that they sold. Calf values varied by region, in the Southeast they were mixed to \$6 higher for the week. In other regions they were steady to as much as \$10 lower. Cull cows were steady to \$3 lower this week. Corn traded about 15 cents higher this week, corn is now approximately 75 cents above its low in September, basis the December contract.

### Minimal Changes for U.S. Corn

The USDA released the December WASDE report (World Agricultural Supply and Demand Estimates) this week. No changes were made to projected corn supply and only minimal changes were made to the usage side of the balance sheet. The food, seed & industrial category was revised slightly higher (up 10 million bushels) to 1.395 billion. Projected exports, corn used for ethanol and feed & residual usage were left unchanged. Ending stocks declined 10 million bushels to 1.998 billion and stocks to use declined 0.1% to 14.6%.

### Currentness

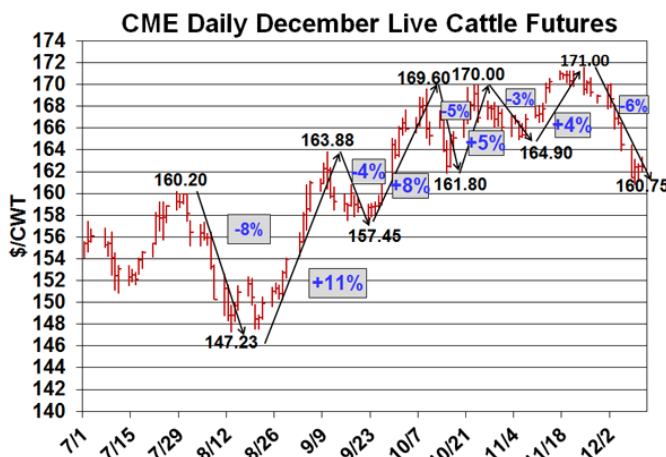
Very current

Current

Caution

Uncurrent

Steer carcass weights are steady at 901 and are 26 pounds above last year.



Price volatility has not let up in 2014. A 4 to 8 percent change in short term prices is common. The market has been forgiving because the trend has been higher, but when the trend turns lower profit margins will have major risk and managing this risk will be very important.

# Holiday Slowdown Noted

With the upcoming year-end holidays the cash market will remain very thin due to the combination of reduced slaughter schedules and record large basis contracts. Look for the cash and beef markets to have a more normal alignment moving into January. In addition, a more consistent cash market and slaughter schedule is expected. Fed supplies will continue to be historically small moving forward, but as evidenced by increasing days on feed and record heavy carcass weights, the feeding industry has lost currentness moving through the fourth quarter. This trend will need to be watched closely as to the affect it will have on leverage and bargaining position. Longer term, continued year over year declines in beef production are projected in the first half of 2015, which will support fed prices at historically strong levels, although increasing supplies of lower priced pork and poultry will be a price limiting factor.

**Next Week:** Fed supplies will be slightly larger. The beef complex will trade softer. Fed cattle prices are expected to trade softer in the low \$160's.

**Late December-February:** Placed against supplies against this timeframe are slightly larger than a year ago and if the carryover moving forward does not improve a more noticeable increase in supplies will be noted. This could result in a decrease in leverage and bargaining position for the cattle feeder and limit

the market potential. The price relationship between beef and competitive meats will need to be watched closely. Look for the cash market to be in the low \$160's in late December and then firm up into the upper \$160's by late in this timeframe.

**March-April:** Fed cattle supplies are projected to be manageable, although the carryover coming through the winter will be critical to watch to determine the feeder/packer leverage. Beef demand and usage seasonally picks up into the spring. This combination would suggest that in a seasonal market, the fed prices will challenge and possibly take out the fourth quarter highs. *Kevin Good*

## Projected Fed-Cattle Marketings (000 Head) 12-Dec-2014

	Placed Against	Pre Mo Carryover	Begin Inv	Mo Shipments	Carry-Over %	Net Weeks	Adj. Wkly Avg Shipments	% of Yr Ago
DEC	705	483	1188	805	36	4.4	127	89
JAN	742	443	1185	759	39	4.2	126	92
FEB	727	485	1212	733	42	4.0	128	96
MAR	648	540	1188	786	37	4.4	124	94
APR	700	462	1162	781	36	4.4	124	93
MAY	789	439	1228	787	39	4.0	137	99

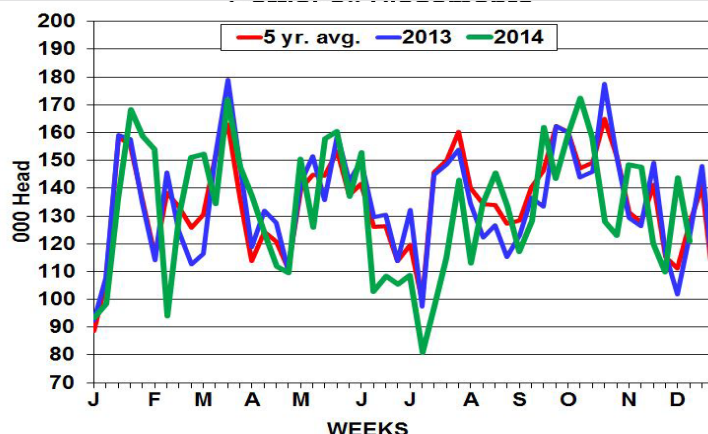
## CattleFax Shipments

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Monthly Totals (000 hd)</b>												
2013	652	538	568	541	614	598	705	641	592	597	516	596
2014	605	534	553	589	586	626	597	596	539	560	455	243
<b>Weekly Averages (000 hd)</b>												
2013	148	128	135	123	139	150	160	146	148	130	129	142
2014	137	133	132	134	139	149	136	142	128	122	120	122
14%13	93	104	98	109	100	99	85	97	86	94	93	86
14%5Yr	101	96	103	105	99	101	89	96	89	95	93	84

## CattleFax Placements

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Monthly Totals (000 hd)</b>												
2013	575	504	614	532	688	523	599	576	576	702	576	541
2014	605	529	635	542	643	494	495	551	613	679	526	264
<b>Weekly Averages (000 hd)</b>												
2013	131	120	146	121	156	131	136	131	144	153	144	129
2014	138	132	151	123	153	118	113	131	146	148	138	132
14%13	105	110	103	102	98	90	83	100	101	97	96	102
14%5Yr	107	99	108	107	102	97	81	89	91	95	101	102

## CattleFax Placements



## Contract and Formula Cattle 12-Dec-2014

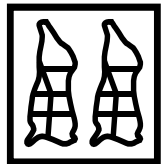
	Scheduled in December	Shipped in December	Scheduled in January	Scheduled in February
Kansas	210,000	111,000	200,000	200,000
Texas	240,000	121,000	260,000	250,000
Colorado	80,000	38,000	75,000	75,000
Nebraska	210,000	100,000	200,000	200,000
Totals	740,000	370,000	735,000	725,000

Basis Bids	January	February	March
Steers	\$1 to \$2.50 over	\$1 to \$2.50 over	even to \$2 over
Heifers	\$1 to \$2.50 over	\$1 to \$2.50 over	even to \$2 over

## Buyers Looking for Bargains

Beef Complex



The Choice boxed beef cutout was quoted \$6.63 lower for the week; Selects over the same period lost \$4.32. Demand for ribs and loins continued to slow, leaving end cuts and trimmings to support the market.

Buyers have been hand to mouth throughout the increase in the beef market that has occurred over the last month. Now that prices have moved lower, some of those buyers may look to make some purchases, especially with two upcoming short production weeks on tap due the holidays. This could provide at least some support in the market over the next week or two.

**Next Week:** Buyer interest is expected to improve as buyers look to fill early January needs, knowing offerings will be limited throughout the holidays. Look for Choice boxes to sell between \$245 and \$247, Selects from \$233 to \$235. *Duane Lenz*

## Fed Cattle Prices 12-Dec-2014

	Live Steers	Hot-Wgt Prices	Live Heifers	Hot-Wgt Prices	Trade Volume	Contract Formula
PANH	164	N.T.	164	N.T.	62,200	98%
KS	164	N.T.	164	N.T.	61,000	95%
NE	162-164	255-257	162-164	255-257	70,000	75%
CO*	164	N.T.	164	N.T.	22,000	95%
CB	160-164	255-256	160-164	255-256	11,000	0%
PNW*	N.T.	N.T.	N.T.	N.T.	0	0%
SW	N.T.	N.T.	N.T.	N.T.	0	0%

Price ranges reflect the last best test for average choice to high quality cattle.

\*Includes all reported Canadian Imports

# Pivotal Point for Feeder Cattle Market

## Feeder Cattle Outlook

As stated in last week's CattleFax Update, the feeder cattle markets are in an important decision period as we await a signal of whether they will follow a seasonal or contra-seasonal pattern. While the verdict is still out on which direction the market will take, we can look at the size of the correction moving into the spring of 2015 for both a seasonal and contra-seasonal pricing pattern and plan our risk management strategies accordingly.

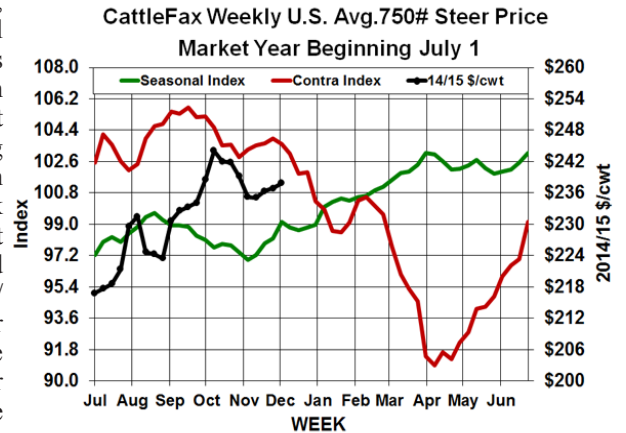
Using the CattleFax weekly U.S. average 750-pound steer price, the fourth quarter high is currently \$244/cwt. If the markets are to remain seasonal, the typical move from the fourth quarter high (\$244) to the spring low (first and second quarters) is a 6 percent decline – the futures markets have already priced this move in. If the markets

are labeled as trending towards a contra-seasonal pattern in the next several weeks, the average correction to the market is an 18 percent decline.

Heavier cattle that are either coming off wheat or leaving backgrounding yards before entering feedyards during the spring of the year are at the most risk for a softer market. Lighter weight feeders/calves or grass ready cattle will be more resistant to a weaker market as they will be in high demand as green grass fever will start to set in.

If operators have feeder cattle (750 to 850-pounds) for marketing in the spring of 2015, it is especially important to pay attention to the direction that the market is trending. If the spring fed cattle market is determined to be in a contra-seasonal trend, adding additional risk protection is highly advised in order to protect margins for spring marketings – as an 18 percent break from the \$244/cwt cash high would equate to a \$200/cwt cash feeder cattle low in the spring. Forward or basis contracts are also an alternative to help reduce market risk. If the market remains seasonal there is a perceived notion to not be as aggressive adding additional risk protection, as the market will be steady to stronger into the spring.

**Bottom Line:** Pay attention to the feeder and fed cattle markets in the near-term, as it will be highly recommended to add risk protection if the markets move to a contra-seasonal pattern. Protecting margins for spring feeder cattle marketings will be the main objective. *Ethan Oberst*



Feeder Cattle and Calves: Representative Direct Sales					
Area	# Hd.	Wt.	Breed Type	Price	Del.
<b>CENTRAL</b>					
<b>STEERS</b>					
TX	300	800	Choice English X	224.50	APR
TX	300	800	Choice English X	225.25	JUN
TX	350	775	CH Eng X DEL	229.50	MAR
TX	450	775	CH Eng X DEL	230.50	JUN
CO	400	705	CH Eng X DEL	261.59	IMM
<b>CENTRAL</b>					
<b>HEIFERS</b>					
TX	350	725	CH Eng X DEL	222.50	MAR
TX	350	725	CH Eng X DEL	223.00	APR
TX	350	725	CH Eng X DEL	223.00	MAY
TX	350	725	CH Eng X DEL	223.00	JUN
<b>SOUTH</b>					
<b>STEERS</b>					
GA	100	775	Choice English X	228.25	IMM
GA	250	825	Choice English X	216.25	IMM
GA	400	875	Choice English X	213.85	IMM
<b>SOUTH</b>					
<b>HEIFERS</b>					
GA	150	725	Choice English X	210.50	IMM
GA	150	775	Choice English X	205.00	IMM
<b>Live Cattle Imports, Year-to-Date Totals</b>					
		<b>29-Nov-14</b>	<b>14-YTD</b>	<b>13-YTD</b>	
<b>Canada</b>					
Feeders		10,988	418,077	285,480	
Slaughter		14,358	684,068	666,468	
		<b>06-Dec-14</b>	<b>14-YTD</b>	<b>13-YTD</b>	
<b>Mexico</b>					
		37,254	972,105	859,075	

## Feeder Cattle Price 12-Dec-2014

West & Northwest							Central							Southeast						
			WA/OR																	
CO	MT/WY	CA	NV/UT	AZ/NM	ID		TX	KS/MO	ND/SD	NE	OK	IA		AL	AR	FL	GA	LA/MS	KY/TN	
<b>STEER</b>							<b>STEER</b>							<b>STEER</b>						
9-10	214-219	211-218	201-206	200-207	200-210	200-208	9-10	210-214	212-217	215-220	217-222	211-215	214-219	9-10	210-214	212-216	204-208	208-212	210-214	217-221
8-9	221-226	220-227	219-224	217-223	212-223	215-223	8-9	222-226	222-227	221-226	224-229	226-230	223-228	8-9	215-219	226-230	210-214	214-218	215-219	225-229
7-8	227-233	226-234	228-234	227-234	218-233	226-235	7-8	230-235	227-237	234-240	243-249	240-245	238-244	7-8	226-231	235-240	223-228	227-232	226-231	227-232
6-7	251-260	249-260	251-260	248-259	241-258	246-258	6-7	243-250	253-270	251-260	255-264	268-275	253-262	6-7	245-252	253-260	240-247	243-250	243-250	236-243
5-6	284-295	282-295	273-284	270-283	269-282	268-282	5-6	290-300	276-290	289-300	285-296	300-310	282-293	5-6	280-290	290-300	265-275	267-277	275-285	265-275
4-5	324-336	321-335	322-334	317-333	315-332	314-330	4-5	310-322	328-345	318-330	321-333	340-352	318-330	4-5	310-322	318-330	316-328	318-330	318-330	293-305
<b>HEIFER</b>							<b>HEIFER</b>							<b>HEIFER</b>						
8-9	214-219	211-218	205-210	203-209	204-210	201-209	8-9	207-211	209-215	207-212	217-222	209-213	215-220	8-9	202-206	206-210	198-202	202-206	202-206	208-212
7-8	220-226	216-224	216-222	214-221	211-221	212-221	7-8	220-225	221-228	219-225	224-230	223-228	219-225	7-8	211-216	217-222	206-211	210-215	210-215	216-221
6-7	232-241	229-240	231-240	230-239	223-238	228-240	6-7	227-235	229-240	237-246	233-242	236-243	229-238	6-7	226-233	227-234	220-227	223-230	225-232	220-227
5-6	260-271	257-270	253-264	250-263	251-262	248-262	5-6	235-245	245-258	259-270	251-262	266-276	249-260	5-6	241-251	250-260	236-246	238-248	240-250	230-240
4-5	289-301	286-300	288-300	287-299	280-292	285-300	4-5	273-285	278-295	283-295	293-305	298-310	293-305	4-5	273-285	288-300	267-279	269-281	273-285	248-260
<b>COWS</b>							<b>COWS</b>							<b>COWS</b>						
util	108-118	110-125	109-117	109-117	105-115	105-118	util	105-115	106-119	112-122	116-126	115-123	114-124	util	112-118	103-113	111-118	112-119	105-115	107-114
cn/cut	103-113	102-116	100-108	101-109	98-108	96-112	cn/cut	104-114	98-117	100-110	100-110	106-113	101-111	cn/cut	105-110	99-109	104-111	105-112	95-105	105-112
bulls	128-138	129-140	118-131	118-132	116-135	117-133	bulls	127-135	128-139	132-142	130-140	136-141	130-140	bulls	130-135	122-132	136-144	138-145	130-140	124-134
<b>West —</b> Feeder cattle prices were \$4 to \$6 lower. Calf prices were \$3 to \$7 lower. Slaughter cow values were \$3 to \$4 lower. — Chad Spearman							<b>Central —</b> Feeder cattle ranged from steady to \$10 lower for the week. Calves were near steady, instances of \$8 lower. Largest value declines came late week. Market cows were \$2 to \$3 lower. — Troy Applehans							<b>Southeast —</b> Feeder cattle prices ranged from steady to \$5 lower. Calf values ranged from steady to \$6 higher. Market cows were near steady. — Troy Applehans						





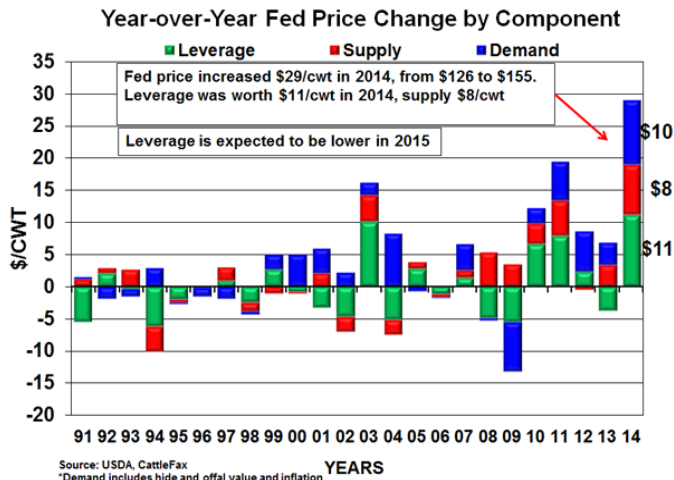
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### The Value of Fed Cattle Leverage continued from page 1

positive impact on fed prices in the same year like in 2014 – that year was 2011, which the demand only portion of the fed price increase was less than \$1/cwt. The point is, when looking at the fed price change through each component, it is very clear as to how the fed market was as explosive as it was in 2014 – It truly was a perfect storm of events.



**Bottom Line:** Tight supplies, strong demand and a leverage shift all had a significant impact on the fed price increase in 2014. Looking forward into 2015 supplies are still expected to be smaller and demand remain strong, which is why fed prices are forecast to average \$6-\$8/cwt higher near \$162/cwt. However, with only a small decline in beef supply forecast for 2015 and demand not expected to increase at near the rate it did in 2014, leverage may shift back towards the retailer which will limit the fed price increase in 2015 compared to 2014. *Tod Kalous*

### F.I. Slaughter Mix (000 head)

	----- Week Ending -----				----- Year To Date -----			
	29-Nov-2014		30-Nov-2013		2014	2013	Pct Chg	
Total Sltr	492		556		27513	29513	DN 6.8	
	Pct	No	Pct	No				
Steers	50.4	248	51.4	286	14271	14791	DN 3.5	
Heifers	30.3	149	28.4	158	7776	8430	DN 7.8	
Cows	17.7	87	18.5	103	4959	5773	DN 14.1	
Bulls	1.6	8	1.6	9	508	519	DN 2.1	

### Summary of Activity Sponsored by:



Summary of Activity	This Week 12-Dec-14	Last Week 5-Dec-14	Year Ago 13-Dec-13
<b>CattleFax Data</b>			
Placements	120,839	143,851	135,175
Shipments	96,795	146,343	151,400
Avg In-Weights	750	719	695
USDA Sltr Wgts	1,367	1,366	1,335
USDA Str Carc Wgt*	901	901	875
Days on Feed	151	150	148
Carryover Pct	37	39	38
Weekly Supply	409,900	447,600	441,200
Percent Grade Choice & Higher	70.37	69.74	68.19
Prime Grade Pct	5.24	5.16	4.06
Choice Grade Pct	65.13	64.58	64.13
Select Grade Pct	24.23	24.70	26.70
<b>Live Prices (\$/cwt)</b>			
Slaughter Steers	163.64	167.50	130.82
Steer Calf (450#)	326.76	327.51	209.37
Steer Calf (550#)	286.28	289.41	185.68
Yearling Steer (650#)	254.95	257.31	171.96
Yearling Steer (750#)	233.48	237.86	164.23
Yearling Steer (850#)	222.98	226.79	157.93
Utility and Commercial Cows	114.54	116.20	81.66
Canner and Cutter Cows	106.91	107.32	74.80
Lean Hogs	85.56	86.70	79.42
Omaha Corn (\$/bu)	3.78	3.65	4.28
12-City Broiler	97.18	101.32	94.89
Dollar Index	88.66	89.40	80.21
<b>Meat Prices (\$/cwt)</b>			
Certified Angus Beef Cutout (UB)	260.81	266.43	211.58
Choice Cutout	247.79	254.42	200.45
Select Cutout	235.94	240.26	186.62
Choice/Select Price Spread	11.85	14.16	13.83
Cow Cutout	234.76	235.30	160.01
Hide and Offal	16.18	16.46	14.91
Pork Cutout	90.93	93.62	88.13
<b>Slaughter (000 hd) and Meat Production (Mil lbs)</b>			
Cattle	566.0	562.0	607.0
Hogs	2,254.0	2,236.0	2,321.0
Total Red Meat Production	957.0	948.9	986.1
Beef Production	468.2	464.3	489.6
Pork Production	484.2	480.2	491.5
Poultry Production	N/A	831.1	775.6
	CME AVG FDR PRICE	6 STATE FED STR PRICE**	KS-TX-OK FED STR**
Thu 12/11	N/A	166.10	166.50
Wed 12/10	239.77	167.32	167.43
Tue 12/09	240.90	167.32	167.43
Mon 12/08	241.71	167.32	167.43
Fri 12/05	242.49	167.35	167.43

\* USDA steer carcass weights are actual from two weeks ago.

\*\* 5-Day weighted average fed steer price (CO,IA,KS,NE,TX,OK), (KS,TX,OK)