

When was the last time Fed Cattle prices were higher than feeder cattle prices per cwt? *You might think never! But that's only because it has been awhile.*

Over the last two decades the spreads between calves, feeder cattle and fed cattle have held enormous cushion compared to previous decades. The chart below provides the annual price history of steers in the Southern Plains. Annual fed cattle were above feeder and/or calf prices once in the mid-1990s, and were solidly there for years in the 1980s and 1970s.

What was happening in those time-frames? We have already drawn a few similarities regarding inflation and the 1980s, it was also the height of the farm crisis. In 1996 calf and feeder prices dipped for one year below fed prices. It was the height of that cattle cycle and the calf crops in 1994 and 1995 were the largest seen in more than 6 years.

Summarizing the work done by Dr. Peel: In the 1970s and 1980s the packing capacity was in a very different place than it is now and was in the process of consolidating. In the 1970s the four-firm ratio was between 25-30%, and through the 1980s aggressively consolidated to about 80%, where it was in 1996. The 1980s was also a period of growth in packing infrastructure but resulted in excess packing capacity through the 1990s and 2000s, due to smaller inventory levels. However, in the last few years this has flipped. Plant closures and expanding cattle inventories have led to a shortage of packing capacity for the first time in 35 years.

The cattle feeding sector is a drive demand part of the supply chain hinging on cost of gain and fed cattle price. In the 1970s and 1980s the U.S. was undergoing major structural change as the industry moved into commercial feeding. By the 1990s, the cattle feeding industry was established and two large calf crops landed on a corn crop year that resulted in corn costs doubling from the year before driving cost of gain to huge changes year over year. On an annual average basis the cost of gain in 1996 was so high, fed cattle and 700-800 pound steer prices were higher than calf prices.

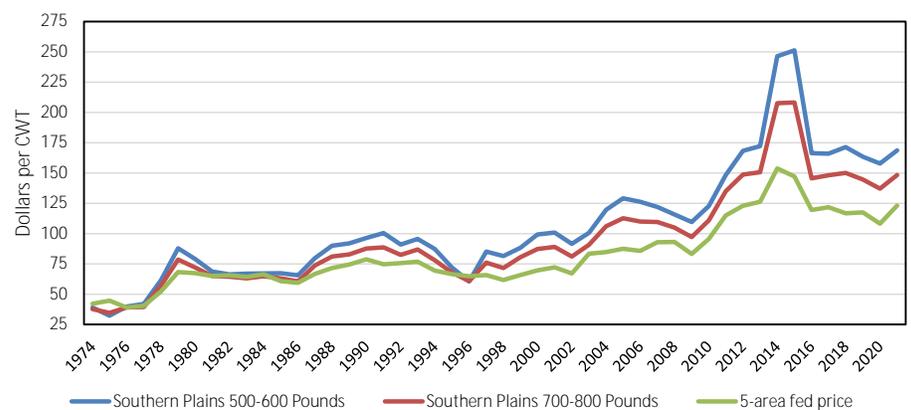
The U.S. cattle herd over the last four (2021-2017) years averaged 1.7% higher than the previous decade (2016-2007), generating similarly larger calf crops. Fewer packers, and concentration in feedlots create a different supply chain situation

than in the past, but its not out of the question these prices could invert.

The current prices on the live cattle contract puts 2023 fed cattle prices in the high \$140s to mid-\$150s per cwt and feeder cattle futures above \$180 per cwt. Plenty of room! But— consumer spending will likely be under pressure in early 2023. Monetary policy has shifted and is expected to tighten, inflation still will likely be high by recent historical standards, and that is expected to curb spending. Food prices are also going to be sensitive to the world food situation, regarding Ukraine. This may limit fed cattle prices, but they will still likely be above a year ago. Keep in mind the demand profile was different as well, as was policy regarding inflation. Recall price freezes in the Nixon era.

However, any feed growing problem in the U.S. will immediately adjust feeder cattle prices down. Prospective Plantings, and the growing season are key points here. We've been at \$6 corn before, but what happens if its \$8 per bushel? The rule of thumb is for a \$0.10 move in corn 700-800 pound steer price adjusts \$1 per cwt. After the Ukraine conflict changed the feed picture feeder cattle contracts remained low for only a moment before springing back up. In other words, they are ignoring the corn/feed market implications and banking on tight supplies of cattle this summer. Cash corn has increased a \$1 per bushel in the last month in a half and December futures for new crop corn have increased \$0.60 per bushel since the war broke out.

Annual Steer Prices



Source: USDA AMS



The Daily Livestock Report is made possible with support from readers like you. If you enjoy this report, find it valuable and would like to sustain it going forward, consider becoming a contributor. Just go to www.DailyLivestockReport.com to contribute by credit card or send your check to The Daily Livestock Report, P.O. Box 4872, Manchester, NH 03018

Thank you for your support!

The **Daily Livestock Report** is published by Steiner Consulting Group, DLR Division, Inc.. To subscribe, support or unsubscribe please visit www.dailylivestockreport.com.

The Daily Livestock Report is not owned, controlled, endorsed or sold by CME Group Inc. or its affiliates and CME Group Inc. and its affiliates disclaim any and all responsibility for the information contained herein. CME Group®, CME® and the Globe logo are trademarks of Chicago Mercantile Exchange, Inc.

Disclaimer: The *Daily Livestock Report* is intended solely for information purposes and is not to be construed, under any circumstances, by implication or otherwise, as an offer to sell or a solicitation to buy or trade any commodities or securities whatsoever. Information is obtained from sources believed to be reliable, but is in no way guaranteed. No guarantee of any kind is implied or possible where projections of future conditions are attempted. Futures trading is not suitable for all investors, and involves the risk of loss. Past results are no indication of future performance. Futures are a leveraged investment, and because only a percentage of a contract's value is required to trade, it is possible to lose more than the amount of money initially deposited for a futures position. Therefore, traders should only use funds that they can afford to lose without affecting their lifestyle. And only a portion of those funds should be devoted to any one trade because a trader cannot expect to profit on every trade.