Time to start planning: Heading into spring, summer grazing programs should take note of the feeder cattle futures board. The feeder cattle contract for both August and September 2020 is above $155 per cwt, which for many summer grazing programs would translate to a nice profit.

This opportunity may be short-lived, though. If we think back to last year, the Feeder cattle contract started the year near $150 before moving higher in April where the daily close reached above $180 per cwt. However, after that high both contracts that could have been hedged against fell rapidly through July due to surging feedstuffs prices, and bottomed after the Holcomb, KS packing plant fire with both contracts in the $130s at the time those yearlings would normally be pulled off grass.

For calves bought in the second quarter of last year, let’s take the Southern Plains for example, producers had the opportunity to lock in gross margins in excess of $200 per head (750 lb steer, $160 per cwt less calf cost of 550 lb steer at $180 per cwt). The grazing opportunity last year was exceptional, and inexpensive gains per day were had for most regions.

There is no guarantee that grazing conditions will be as good as last year, but from a hedging perspective the current August and September contacts likely pencil out some decent profits for most of the U.S. The Livestock Marketing Information Center is currently forecasting 700-800 lb. steers in the Southern Plains to be in the high $140s to low $150s per cwt in the third quarter.

The feeder cattle futures market is likely pricing in strong cattle feeding returns, good forage conditions, and appear more optimistic regarding feed costs than the current December 2020 corn futures suggest. Strong cattle feeding returns will rely on fed prices, which the

Live cattle futures board are pricing in strong demand for beef overseas, as well as by-passing a U.S. recession for another year. These are big caveats to cash fed prices holding what the board is showing right now for the second half of 2020 and early 2021 and will ultimately determine feedlot demand for feeder cattle in the 3rd quarter.

Calf prices, on the input side of summer grazing programs, may be slightly earlier highs this year. The cold wet spring of 2019 likely delayed dry-up for pastures, and once conditions improved, calf prices rallied those bidding for animals to fill those programs. This year that rally may be earlier and more subdued if spring conditions return to normal.

The five year average puts Southern Plains calf price highs at the end of March, a few weeks ahead of 2019’s rally.

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