

Estimated cattle feeding returns tend to be quite variable; this year looks like it will bring more of the same. Assuming a cattle feeder sells the same number of animals each month, the balance of 2020 is expected to mostly be profitable, even with the recent collapse in cash fed steer prices. On average, February's estimated closeout profitability was not as good as expected just a month ago and came in below January's.

The Livestock Marketing Information Center (LMIC) has been estimated monthly cattle feeding returns since the mid-1970s. Those estimates assume feeding-out a 750-pound steer in a commercial Southern Plains feedlot and include all costs of production. The estimates are not survey-based and presume normal weather conditions. Cash prices are used (i.e., fed cattle prices and feedstuff costs are not hedged). In 2019, those monthly returns averaged about \$9.50 per steer, ranging from \$180.92 for an animal sold in December down to -\$152.85 for September. Over the prior five years (2014-18), the annual average was about \$23.00 per steer. The 10-year average was about -\$7.00.

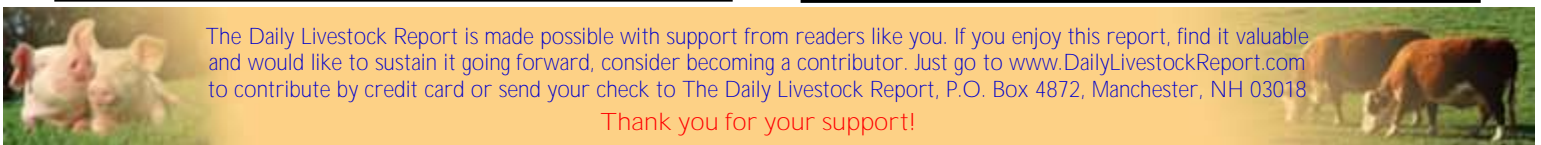
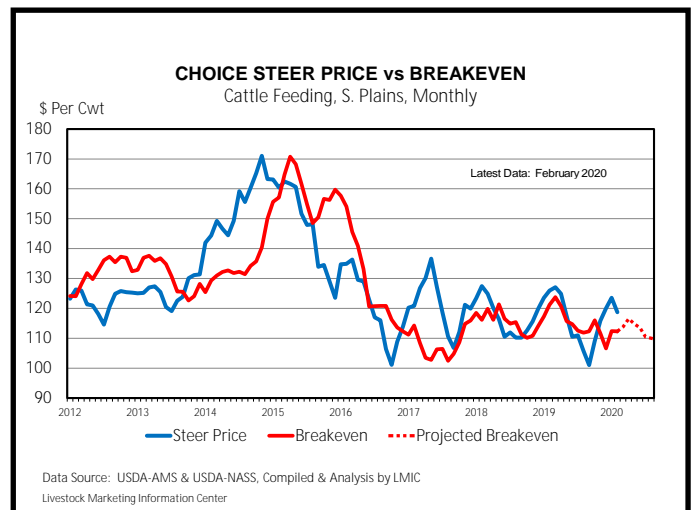
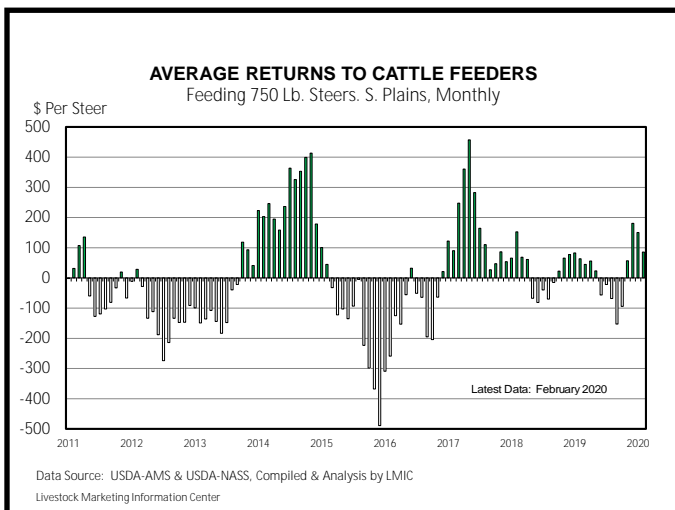
On average, for steers closed out during January of this year, the LMIC estimated profitability at \$150.00 to \$151.00 per head. A month ago, the LMIC projected that the February number would come in at \$136.00 to \$140.00 per steer. That turned out to be optimistic if the cattle were not hedged. Between the first full week of February and the last week of the month, Kansas fed steer prices fell by nearly \$6.00 per cwt., or for a 1350-pound

steer by \$81.00 per animal. That price drop was caused by coronavirus developments. LMIC put the final February profit at about \$86.00 per steer. Further, projected returns for the next few months were lowered. Currently, the LMIC projects modest red ink on unhedged cattle sold in June and July.

Breakeven fed steer sale prices have been moderating along with feeder cattle prices. For steers (750-pounds) placed on-feed in February, which will have a sale date of August, the breakeven using current feedstuff costs is \$109.00 to \$111.00 per cwt. On Monday, the August Live Cattle futures contract ended the day at \$104.35, after rallying over \$2.00 per cwt. since Friday's close.

Given the structure of the markets, two types of feedbacks are expected. First, whenever cattle feeders are faced with a wide basis (the difference between the cash and futures prices), they will aggressively market fed cattle, especially on their hedged animals. Second, the lack of profitability currently depicted for this summer (breakeven sale prices above what summer Live Cattle futures are offering), is likely to be a factor dampening placements of animals on-feed.

Yesterday's rebound in Live Cattle futures prices compared to last Friday's close was across all traded contract months. That short-term strength spilled-over to the Feeder Cattle futures. Still, prices were only back to where they were a few days ago. For example, the September 2020 Feeder contract closed at \$145.50, which was up nearly \$2.00 from last Friday but was \$1.00 below a week ago.



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