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Cattle Market Volatility

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Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska - Lincoln

Cattle Market Volatility

Market Report	Yr Ago	4 Wks Ago	3/19/04
<u>Livestock and Products,</u>			
<u>Average Prices for Week Ending</u>			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	\$78.35	\$78.36	\$87.95
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	86.68	91.60	101.22
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	92.40	104.70	109.75
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	118.19	116.69	133.28
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	*	42.00	*
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	*	*	49.00
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	95.79	116.76	113.71
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	97.25	*	94.37
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	194.17	195.92	199.12
<u>Crops,</u>			
<u>Cash Truck Prices for Date Shown</u>			
Wheat, No. 1, H.W. Omaha, bu	3.45	3.74	3.86
Corn, No. 2, Yellow Omaha, bu	2.27	2.70	2.93
Soybeans, No. 1, Yellow Omaha, bu	5.67	8.82	10.20
Grain Sorghum, No. 2, Yellow Kansas City, cwt	4.13	4.91	5.28
Oats, No. 2, Heavy Minneapolis, MN, bu	2.03	1.70	1.89
<u>Hay,</u>			
<u>First Day of Week Pile Prices</u>			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	127.50	130.00	130.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	77.50	55.00	55.00
Prairie, Sm. Square, Good Northeast Nebraska, ton	115.00	*	*
* No market.			

It seems to me that the fed cattle market has become more volatile since BSE was discovered in North America last May. Is this the case? Have prices for box beef and for feeder cattle become more volatile? Doing some quick analysis to see if in fact this was true, I looked at week to week changes in the USDA reported Choice Box Beef Cutout Value, the price of fed cattle in Nebraska on a live weight basis and the price of 750 pound steers in Nebraska.

The average weekly change in box beef prices from January 1, 2000 to May 10, 2003 averaged \$2.30 per hundred weight (cwt.). Since May 17, 2003, the average weekly change has been \$5.71 per cwt. That is a weekly change of more than \$45 for an 800 pound carcass. Prior to the BSE event in Canada, there had not been a week since January 2000 when box beef prices had changed more than \$10 per cwt. Since May 17, 2003, there have been seven weeks when prices changed \$10 or more. The largest changes were \$27.47 and -\$21.42, or on a per carcass basis \$220 and -\$171.

It appears that this increased volatility in box beef prices has also been accompanied by increased volatility in fed cattle prices. The average change was \$1.15, \$1.21 and \$1.41 for 2001, 2002 and 2003 up to May 10, respectively. The largest weekly change was \$3.09 in 2001, \$3.44 in 2002 and \$3.18 in 2003 prior to the Canadian discovery of a BSE positive cow. Since May 17, the average weekly change in Nebraska fed cattle prices has been \$3.25 per cwt. on a live basis, more than \$40 per head. There have been eight weeks where the weekly change has been greater than \$5. In order of magnitude, those changes have been \$14.30, -\$12.81, -\$8.72, \$7.10, \$6.16, -\$5.84, -\$5.27 and -\$5.12. The largest two changes are \$179 and -\$160 per



head. On a percentage basis, price volatility has doubled in the Nebraska fed cattle market since May 17, 2003.

However, it does not appear that the feeder cattle market has become more volatile. On both a dollar per cwt. and on a percentage basis there is no difference in the volatility of Nebraska feeder cattle prices before and after May 17, 2003.

How long will this increased volatility be present in the market? It will likely remain at least until normal trade relationships are restored. As markets become increasingly internationally interdependent, increased volatility will likely remain. Not only are markets impacted by domestic events, but other international events also impact the markets. The recent changes to the CME live cattle contract, which increased the daily trading limit to \$3.00 per cwt. from the previous \$1.50 per cwt. is not the cause of this volatility, but is simply responding to this new level of volatility.

What action can producers take to manage this increased volatility? The futures market for live cattle has also experienced increased volatility and generally, option premiums have increased on live cattle contracts. However, there are still some opportunities to use the futures market to reduce price risk. Spreading marketings over more than one time period may also reduce some of the price volatility. Finally, for those producers with the financial ability and management capability, increased risk can often lead to increased opportunities. The present marketing environment is certainly not for the faint hearted, but then the faint hearted have never been in the cattle business.

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Average Weekly Price Changes for Choice Box Beef, Nebraska Fed Cattle (live) and Nebraska Feeder Cattle, January 2000 to Mid-March 2004

	Choice Box Beef		Nebraska Fed Cattle		Nebraska 750 # Steers	
	\$/cwt.	Percent	\$/cwt.	Percent	\$/cwt.	Percent
2000	\$1.99	1.7	\$0.84	1.2	\$1.95	2.2
2001	\$2.29	1.9	\$1.14	1.6	\$1.77	1.9
2002	\$2.25	1.9	\$1.21	1.8	\$1.42	1.7
2003 Pre-BSE	\$2.66	2.0	\$1.44	1.8	\$1.34	1.6
Post-BSE	\$5.71	3.7	\$3.25	3.7	\$1.71	1.8

CORRECTION TO THE 3/17/04 CORNHUSKER ECONOMICS: "Nebraska's Real Estate Market Heats Up" (Correction in shaded area)

Table 1. Average Reported Value of Nebraska Farmland for Different Types of Land by Agricultural Statistics District, Feb. 1, 2003 - Feb. 1, 2004.^a PRELIMINARY

Type of Land and Year	Agricultural Statistics District								
	Northwest	North	Northeast	Central	East	Southwest	South	Southeast	State ^c
----- Dollars Per Acre -----									
Dryland Cropland (No Irrigation Potential)									
Rptd. In 2004	328	416	1,231	758	1,717	473	800	1,190	862
Rptd. In 2003	319	360	1,107	710	1,585	453	748	1,059	788
% Change	2.8	15.6	11.2	6.8	8.3	4.4	7.0	12.4	9.4

My apologies to the author, Bruce Johnson and the many readers of the Nebraska Farm Real Estate Market Developments Report for any confusion or inconvenience this might have caused.