Price Patterns

Understanding seasonal price swings can help producers track higher prices.

by Troy Smith, field editor

Patterns are everywhere. That's a good thing, because people typically find a sense of stability or comfort when their lives follow certain patterns or routines.

It's perfectly natural. Life is all about patterns — the repeating events and recurrent structures, associations and relationships found at every turn. The earth and every creature that inhabits it experience cycles, rhythms and seasons.

Learning to recognize such patterns has helped inform decision-making throughout human history. Recognizing behavioral patterns of wild game animals allowed humans to become successful predators and avoid becoming prey.

Knowledge of seasonal and biological patterns brought advancement to domestic animal husbandry and the cultivation of crops. Further advancements in agriculture, medicine and engineering occur because clever people continue to make sense of patterns that are the foundations of every breakthrough technology.

Eyeing the market

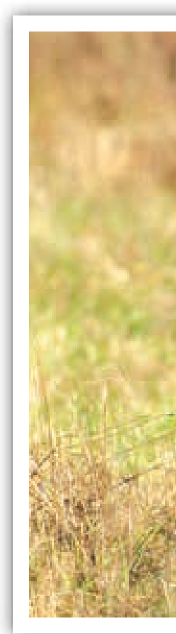
Even the markets have patterns. Savvy market-watchers look for patterns and cycles that may offer an edge in making successful buying and selling decisions. For cow-calf producers, an understanding of seasonal price patterns in cattle markets can help guide marketing and production management decisions.

Price is derived by the interaction of supply and demand. According to Mississippi State University Extension ag economist Josh Maples, however, supply probably is the biggest driver of feeder-calf price seasonality. Roughly 70% of U.S. cow-calf producers have spring-calving herds, and a majority of those producers sell calves in the fall at weaning or soon after.

Calves typically fetch the lowest prices of the calendar year during the fall because that's when they are most abundant. By contrast, prices are usually highest in the spring.

Exceptions

"It's mostly a supply story," states Maples. "The timing varies a bit by region, but the biggest runs of five-weight calves come in the fall months. Prices are lowest when the most calves are coming to market. Prices are highest when fewer calves are available. That's how it usually works, but where we are in the total cattle cycle also matters."



Historically, the U.S. beef cattle industry has undergone 10- to 12-year cycles, with each composed of an inventory expansion phase, followed by a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contraction phase. Favorable cattle prices stimulate the expansion of the nation's herd, and contraction begins after beef supply has increased such that prices decline enough to signal a reduction in cattle numbers.

Weather, particularly widespread drought, can and does influence the cattle cycle, hastening or delaying the shift from one phase to the other. Resulting effects to prices can disrupt the usual seasonal price patterns.

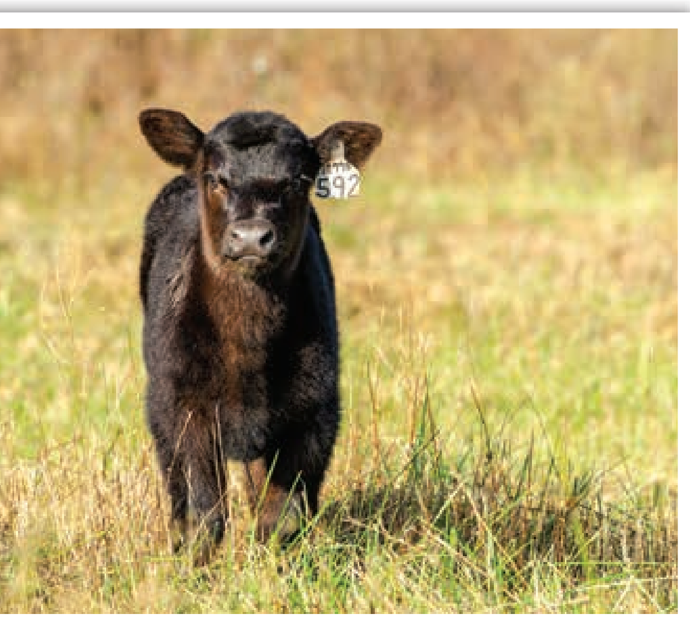
"2013 and 2014 are examples of when the typical seasonal low months were actually higher than the typical seasonal high months. Looking at the Oklahoma City data, prices for calves were higher in the fall than in the spring of those years. The cattle market was in a years-long upswing due mostly to tight supplies, which overshadowed some of the within-year seasonal patterns," explains Maples, noting how the opposite occurred in spring 2015 when the market was in a downswing. Calf prices for that spring were lower than in the previous fall.

"Due to current higher feed prices, we're in a time when producers able to make calves bigger outside the feedlot have an advantage." *— Wesley Tucker*

Maples says drought has been a significant factor this year, drying out grazing resources and pushing hay prices higher. Beef cow slaughter has remained high as producers across much of cow country reduce brood cow numbers.

"We'll have fewer calves going to market when fall comes around," offers Maples. "Prices could trend lower then, but I think we could see some counter-seasonal pressure. Prices should remain stronger than they would be otherwise."

While the pattern isn't perfect, it usually takes something pretty dramatic to alter the seasonality of calf prices.



PHOTOS BY SHAUNA HERMEL

Left: Producers must determine whether the higher feed costs often associated with fall-calving cows will offset the expected higher market value of fall-born calves sold in the spring in their respective situation.

Tracking higher prices

Can producers use the mostly predictable seasonal pattern to their advantage? Some do.

"There are a couple of options," says Maples. "Producers can calve in the fall and sell calves in the spring. Or they can change when they market their spring-born calves to take advantage of price seasonality."

Producers choosing the first option might breed cows to deliver calves in late summer or fall and market calves in the spring, when prices typically climb to seasonal highs. There may be other

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advantages, too, such as more favorable weather and lower demand for labor. Production environments offering forage and pasture for winter grazing may be well-suited to fall-calving herds, but calving in fall doesn't suit everyone.

Often it depends on the availability and costs of feed resources needed to support cows that are lactating during the winter. Cows with calves at side have significantly higher nutrient requirements — 25%-30% higher than dry, gestating cows. Especially for operations heavily dependent on harvested feedstuffs, nutrition costs are highest during the winter. Producers must determine whether the higher feed costs often associated with fall-calving cows will offset the expected higher market value of fall-born calves sold in the spring.

The market is screaming that if you have some kind of low-cost forage and you can add pounds to your calves, do it, says Josh Maples.

Hold them

When calving in the fall isn't a viable option, Wesley Tucker suggests that producers consider changing the marketing window for spring-born calves to take advantage of price seasonality. According to Tucker, a University of Missouri Extension field specialist in ag business, that means holding weaned calves and adding weight and value to them while targeting the more favorable spring marketing period. Of course there are costs associated with owning the calves longer. Again, it's a matter of economical feed resources.

"The producer needs a feed resource that will cheapen the cost of gain," says Tucker, explaining that along with seeking seasonally higher market prices, producers should strive to make money on the cost of gain.

"Almost everyone has some secret weapon available to them — some feed resource to tap that gives them an advantage," adds Tucker. "It might be stockpiled fescue, Bermuda grass or native pasture. It might be cover crops or crop residues — something that could be used to grow calves with a low cost of gain."

Many producers may have such resources, but think they have little or none to spare. Tucker says it's usually because their operations are overstocked with cows. Most cow-calf producers want to stock as many cows as their land base will support, and all or nearly all grazing resources go toward the cow herd. Tucker thinks more cow-calf producers should allocate a portion to growing animals.

"You may have to change part of your operation to do it, but adding a stocker enterprise to a cow-calf operation makes a lot of sense," Tucker states, noting that it also provides a drought-management strategy. "I think every farm or ranch should have some disposable animals. The key is to have a grazing platform that gives you the flexibility to add or subtract animals. Most years, you could grow calves on grazed forages cheaply. During drought, you graze fewer or none."

According to Tucker, one of the easiest ways to do this might be with heifers. Keep more heifer calves than needed for herd replacements — maybe even all heifer calves — while planning to market the excess on a more favorable market. Often, even females that fail to breed during a short breeding season are profitable when marketed as feeder heifers.

Producers are cautioned against assuming that it's always best to market calves during the time of year when prices are highest. It depends on what it costs to get cattle ready to sell at that time. The cost of gain must be less than the value of gain.

"Due to current higher feed prices, we're in a time when producers able to make calves bigger outside the feedlot have an advantage. The market rewards them financially for a bigger calf, provided they can keep the cost of gain low," says Tucker.

Mississippi's Josh Maples agrees, adding, "What the market is screaming is that if you have grass, or some kind of low-cost forage, and you can add pounds to your calves, do it."

Editor's note: Troy Smith is a freelance writer and cattleman from Sargent, Neb.