Big feeder cattle gain value

Cattle feeders liking bigger calves, creating opportunities for cow-calf and stocker operators to add weight.

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The value of heavy feeder cattle versus lighter feeders has been growing the past couple months for several reasons.

One reason is the desire by feedlots to turn over cattle more quickly, says Derrell Peel, Oklahoma State University extension livestock marketing specialist. He adds that higher value on heavier cattle suggest cow-calf operators may want to retain ownership through the stocker phase to add income.

Peel notes the August USDA Cattle on Feed report shows an August 1 on-feed inventory of 10.165 million head, 101.6% of last year. July marketings were 99.3% of one year ago while placements were 101.6% of last year. With two less business days this year compared to 2015, these numbers suggest a continued brisk pace of both placements and marketings. The desire to increase feedlot turnover means that feedlots continue to demonstrate a preference for heavy feeder cattle. Since placements began increasing in February, placements of feeders over 700 pounds have increased over 11%, year over year, while placements of cattle under 600 pounds are down nearly 6% compared with the same six months last year.

The current feeder cattle market is telling beef producers it wants to buy larger calves and pay a bonus for the extra weight.

"All else being equal, feedlots would generally rather feed bigger, older feeder cattle," Peel explains. "Especially with continued heavy discounts on deferred live cattle futures, feedlots are less interested in buying lighter weight feeders and take the risk of owning them for a longer period of time.

"This is true despite the fact that feedlot cost of gain is decreasing with abundant grain supplies and the prospects for record grain crops for the coming year. Wheat prices and large supplies of relatively poor-quality old crop wheat make wheat a ration alternative and the only reason it is not being used more is that corn is cheap and getting cheaper."

Peel explains that feedlots are constantly deciding whether to buy pounds by purchasing heavy feeder cattle or buy lighter feeders and put the pounds on in the feedlot. Lower feedlot cost of gain means that feedlots can afford to pay more for lighter feeders.

However, a growing supply of feeder cattle means that feedlots don’t have to buy lightweight placements as long as an ample supply of heavy feeders is available.

"This is a big part of the observed increase in heavy feeder cattle price relative to lightweight feeder cattle prices this summer," Peel explains.
For steers, this is revealed as smaller rollback in prices across weights ranging from about 500 to 750 pounds. In turn, the smaller rollback results in an increase in the value of gain for those middle weight ranges of feeder cattle.

"In other words, the relatively smaller feedlot demand for lighter weight feeder cattle translates into a stocker/backgrounding signal to put that weight on in the country," he says.

Peel also warns that beef producers should constantly monitor feeder cattle markets, including price levels and price relationships by weight, since they change frequently.