**Fall Cattle Markets with Matt Dierson**

**Season 1 Episode 3**

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**Kiernan Brandt:** Hello and welcome everyone to another episode of Cattle HQ brought to you by South Dakota State University Extension. My name is Kiernan Brandt Cow/Calf field specialists out of Watertown. Joined today by Olivia Amundson our field specialist from the Sioux Falls office who is in Brookings visiting with ag economists Matt Dierson.

**Kiernan Brandt:** Matt, if you want to take a few minutes and just kind of talk about what you do, and give a little bit of background about yourself, and yeah, then we'll, we'll dive right in.

**Matt Dierson:** All right.

**Matt Dierson:** I’m the Extension Risk and Business Management Specialist at SDSU. I've been covering the cattle markets on and off during my career here. So, I cover some of the risk management aspects, the livestock insurance aspects, and I also teach our commodity trading class on campus.

So that just got started here, the fall semester, we take some futures options positions, and we can include capital positions as part of that.

**Olivia Amundson:** And what I didn't mention is that in his free time, he is a radio host, because he has the best radio voice in the whole state of South Dakota.

**Matt Dierson:** [Laughs] Mom says I have a face for radio.

**Olivia Amundson:** So his mom says he has a face for radio. So we're lucky to have Matt here with us and something that Matt does, and I guess I don't know how often you do it, Matt, but you write an input, I guess for the lmdc that goes up on the SDSU Extension website. And where else can you give us a little background on that? Give us some background about how that works?

**Matt Dierson:** Yeah, so SDSU supports the livestock marketing Information Center, which is housed in outside of Denver, Colorado. And that's a nationwide group or consortium of states where the different extension groups are interested in the livestock market.

So, they help financially support that, and then some of us contribute to a weekly newsletter that they put out called in the capital markets.

So, about every five weeks or so, I write an article for a more national audience, and then I usually try to recast it in some way, shape or form for a local, local audience. So if it can be brought back down to say, the state level.

**Olivia Amundson:** Yeah, and so really, that's kind of what we wanted to have Matt here for us today is to really kind of bring in that whole aspect of, of what he does with the LMIC into this podcast, because it is really unique, a unique aspect that he brings to the table.

So, we're excited to talk to you today, Matt, about what's going on in the cattle and the cattle world.

**Kiernan Brandt:** Well, one thing that I really enjoy about talking with with market, market gurus and analysts Is that it? I mean, no matter no matter how, I mean, no even no matter how well they work together, no, no matter how much they overlap, I mean, everyone's a little bit different. And everyone's opinion and outlook on the future. No matter what the signs on the wall are, I mean, everyone's just a little bit different and adjusted. And I think that brings such a valuable perspective, from all the different angles to really kind of just help, help people form their own decisions and thoughts as we as we proceed down this route. I mean, everyone wants to know what's going on. Everyone wants to be right all the time.

**Matt Dierson:** Well, we try and we bring in. So, like about a week and a half ago, they had the Extension Outlook conference was located up in Fargo, North Dakota, right before Dakotafest.

So, I was able to participate and hear what some of the other specialists around the country are looking at and thinking about where the markets might be headed this fall.

**Olivia Amundson:** So, I think that leads into a really good first question, where are some of these markets leading into?

**Matt Dierson:** Yeah, so if you look at the at the broad markets, you've got the live cattle price, so that would be your, your live cow/calf and futures prices have also been trending up really since the beginning of the year.

That gives some optimism to the derived markets from that then you get your feeder cattle market that's been steadily higher probably since about May.

So live cattle help drive feeder cattle prices higher and they have to say what's happened to corn corns been very volatile a lot of ups and downs so that corn market with corn has continued to kind of settle in new crop looking at like $5.50 a bushel on the future side of things. So that has led to the feeder cattle price being higher now than earlier in the year and that carries over to the cash markets.

So probably the biggest cash market for the cow/calf operation, the five to six weight steer price, South Dakota and surrounding areas. You know we're coming off the time of year where there's very low volumes, you can't really draw too many conclusions from, from sale barn prices, but the prices we have observed have been around $185 for that five to six, wait, steer in most of the forward markets.

So the video auction markets and such with delivery dates, say in October, November, those four or five to six weeks have been around that $185 area that really kind of, you know, to two indicators, the current spot price and where the forward markets looking for that calf price for the fall.

**Kiernan Brandt:** Where does that match up to say like a year ago?

**Matt Dierson:** Yeah, the 185 would be about $15 higher than a year ago at this time.

**Kiernan Brandt:** I was gonna say that's a pretty solid up higher.

**Matt Dierson:** Yes, yes. And the futures prices as well sharply higher. So if you're looking at that backgrounding, or looking at what is the what is the value of this calf, once the background and get it into 2022, well, the futures markets higher as well.

So that's sitting out around 174, most of those deferred feeder cattle contracts are right now. So up sharply.

**Kiernan Brandt:** How much of that has been driven by like higher corn prices and stuff?

I mean, just from I mean, here in South Dakota, we're with most of these counties being declared for severe and advanced drought, is that gonna is that going to have any kind of lasting impact going into next year and beyond?

**Matt Dierson:** Well, generally speaking, the higher the price of corn, the lower the price of feeder cattle.

So, it really doesn't have much of a direct relationship with fed cattle. But because feeder cattle plus corn equals fed cattle.

Higher corn prices generally mean lower feeder cattle prices. So, it's the fact that the live cattle have risen a lot. That's compensating for the fact that corn is also more expensive. So, if, if, corn were to fall in value substantially between now and say, the larger runs in November, that would certainly boost the price for calves.

**Kiernan Brandt:** I think throughout I mean, throughout the I can't remember if it was an I surely was not paying as close attention back pre COVID. But I mean, throughout COVID. And through definitely through the reopening and resurgence of I guess, life as we somewhat know it, demand has just been insane throughout, right? And is that is that going to be maintained or…?

**Matt Dierson:** Well, two things are happening, sort of at the if you think about the aggregate, the beef market, where the calves ultimately end up, you're still suffering from some of the disruptions from COVID. In terms of redirecting where beef would go, you know, it's not as much restaurants, more food service, less food service grocery stores. So, you've redirected some things.

But you've also now got a combination of higher corn has meant lower slaughter weight. So we're pulling some cattle forward a little bit marketing a little bit sooner. collar cows are being marketed at slightly lighter weights.

So, in the short run, you've cut down on the amount of beef going into the market, which has been somewhat supportive of price. You also have a large competing meat, pork that hasn't been adding. We haven't added the hog inventories at quite the pace that was expected. somewhat surprising the market so somewhat less competing pork that helps support beef prices, higher beef prices mean higher calf/cattle prices and higher calf prices. It’s easy.

**Oliva Amundson:** Yep easy.

**Matt Dierson:** So it’s easy to explain.

**Olivia Amundson**: Sure, it's easy. Yeah, yep. Easy. Easy to explain and, and what does that mean going forward?

**Matt Dierson:** That, that's where it gets to be tough because then you have to say.

**Kiernan Brandt:** Well, if all this stuff holds, is that mean that price will be even higher next year or something like that. Right?

**Matt Dierson:** Right. And I think that's what a lot of guys out here are asking themselves right now especially with, with feed prices as high as they are right now. Looking at looking at cattle coming off coming off of grass and coming off a mom here at weaning time that are going to be going into backgrounding yard backgrounding lots and feedlots. I mean, cost gains are surely looking a little pricier than they were a year ago. They are but the so related to backgrounding two things are happening one even with.

So, I've been using $1.85 here so far, we use $1.85 value for a five-week calf, weaned calf, everyone to think about it. And then compare that to currently 170 feeder cattle futures, so March or April 2022, feeder cattle futures, that, that pencils out per head to be the widest feeder margin, or backgrounding margin that I've seen in 25 years. It's been a long time.

**Kiernan:** Wow.

**Matt Dierson:** So that means there's a lot of profit potential or a lot of revenue to be added to a calf to get it to a feeder weight. So that gives a lot of incentive for a lot of producers around the country. If they have access to feed, everybody in the eastern half the United States, we're not going to be racing to sell calves cheaply in any way, shape, or form, they have feedstuffs available and they see a very large revenue projection there saying, I should hang on to my calves and feed them something, put some weight on them myself, I certainly don't want to send them to a feedlot, that's going to be paying a high rate for expensive corn and, and forage to feed them that way.

So, in the eastern part of the United States, they're going to be trying to hang on to that calf crop, or they're going to be looking west and saying, oh, can we buy some calves, we have some feed? Let's go out there and bid those calves up.

So, I think that's what's happening.

**Olivia Amundson:** Some optimism in the midst of all this.

**Matt Dierson:** Yeah, at the moment, because that because that feeder cattle price is looking good on the board. And we're seeing those early forward prices at that the levels they are so good, good information there.

Yeah, that is good.

I imagine I imagine with some of the some of the weather we've had this summer, there's going to be no shortage of people looking to sell calves with the lack… lack of feed out west. We get into some of these later months this year.

**Matt Dierson:** But it also explains why you have you know, even with over $5 corn, you know, that that, hey, anywhere from 151,75 to 100.

It's still pencils out to, you know, in a feeding program to add some weight to the animals. So, yeah, so that tells you that or that justifies why some of those feed prices might be as high as they are, or you can use that margin as some indication of what is the value of say silage this fall as a pizza off to be I think I think with Mr. maintained some maintained optimism with from what it sounded like in the markets.

**Kiernan Brandt:** I mean, that's that kind of takes a little bit of staying off of the guys that have been worried about drought for, for several months now. I mean, at least at least there'll be some, some, semblance of value in those calves.

So, I guess along those lines, were some opportunities there for sold calves. Do you see any kind of any kind of shift with guys taking advantage of that, not keeping their replacements, maybe trying to just sell those as, as bed heifers, and some stuff like that, especially with drought conditions, a little increase feed prices, some guys wanting to minimize risk there and take advantage of a strong market and just any kind of inventory reduction there?

**Matt Dierson:** At the moment it's too early to see anything that would be a measured response to that at the local level. You are starting to see a lot of that happen at the national level. So, looking nationwide, the, the, mid-year cattle inventories say that cattle numbers are down and we've got fewer feeder cattle outside of feedlots as of July one so fewer beef replacement heifers at the middle of the year.

That gets coupled with the fact that we've seen higher cow slaughter beef cow slaughter all year. So, cattle out west, broadly speaking western United States, they've had drought conditions for about a year and a half now much longer than than the Dakotas. Those cows have come to market and they're not being replaced or they're not scheduled to be replaced based on the inventories. So that really points to smaller cow inventories for 2022 smaller calf crop 2022 higher calf price.

CES 2022, then this year, so you know, I'm seeing the LMIS, I see, for example, pegs next year's feeder, and stocker level price levels five to $10 to 100, way higher than this year.

**Olivia Amundson:** So, is this is this going to be a replay of like, 2014?

**Matt Dierson:** No, it's different because feed prices are so much different, okay. So, it is going to the, the early indications and visiting with the other analysts, it sounded more like you were kind of two years away from high enough cow/calf returns to give you the profit needed to encourage expansion. And then I look at the western half the United States and say, well, and you also need to feed the grass to make that happen.

So, so, we could be in for a longer stretch here. So how do you how do you bring that back to South Dakota? Well, maybe it's a year, depending on your feed supplies to think about next year?

And you know, do you let some of the calves weaned some of the calves early, sell some of the calves off at the front end of this and still tried to turn out a calf crop of some kind next year, even if it's reduced a little bit? Because the market signals right now are that you'd have perhaps a little better profit a year from now to, to justify that or to cover that.

So… and maybe it's too early to think about supplying, say, the replacements market or something like that, because it's, it's maybe, maybe, next year is too soon.

So just some things to consider and think about.

**Kiernan Brandt:** You know, that's really interesting. I've had that conversation with a couple different producers, both of which were on the western side of the state.

But yeah, I mean, just based on, on what I've been reading, I mean, it seems like even from like a slaughter cow perspective, some… some value hanging in there, that's going to make those at least somewhat profitable if guys are in really hard-up spots, and I mean, telling guys to not be emotional when it comes to they're cow herds, like telling a snake not to slither, it's just not gonna happen, you know.

But I mean, like, being able to take an objective, look at the situation capture value, where where there's some value to be captured, I mean, take as much emotion as a person can stand to take out of it and and hold out for, for a better situation down the road, especially when, when given the opportunity to make some, some stricter culling decisions and still not lose out on a ton of value from sending those, those girls to town.

**Matt Dierson:** There are others, you know, you do have to think bigger picture too, it's like the we have a tight hay supply situation, both nationally and locally. So, so feed is… roughage feedstuffs, are hard to come by.

I would not be surprised if hay moves into South Dakota in aggregate this year, which hasn't really happened in South Dakota since 1976.

But that's how tight the hay supply situation is. And the pasture conditions are in really tough, really tough shape. And that takes time to recover from not the plus side.

Yes, it's bad to talk about corn in poor shape or poor condition. But if that does lead to silage and if we look at the raw number of acres in South Dakota, you know, close to 6 million acres of corn. That's a lot of acres that may be available for silage may be available for aftermath grazing that stretches things out quite a bit.

And it's readily used by, by both the cow herd and to some extent, maybe less so for developing the calves, or growing the calves a little bit, but certainly would factor in.

**Kiernan Brandt:** I'd love to see some producers go to a more forage-based aftermath grazing, especially on their replacement animals.

But I think there's probably a take more than there used to be in that realm just because of various grass-fed value-added programs and people trying to capture some of that, but maybe, maybe, you know, drastic weather and drastic events like this, they really do drive some change and force people to make, make more drastic changes then then they could or that they could afford to get away with in a lush year.

So maybe we'll see some more at some more systemic growth out of some producers and people starting to explore other options like that.

**Matt Dierson:** Who knows, all we can do is help. Just try to help with the not to not to redirect too much. But you know a couple things that are sort of out there to be monitored or sorry to keep an eye on if you move forward, there was talk of, you know, are we going to see lighter placements in terms of cattle on feed, so there was a big push to wean early and send, send calves to feed lots early is that going to show up?

Well, that would show up in the placement way data in cattle on feed report. So, if you're looking for something to kind of keep an eye on, you know, probably next month's cattle on feed report would be probably the first time that would really show up, do you want to watch the weather La Nina if that happens, or continues to materialize, that's not good news for the southern plains states.

So, you know, that's that would be another leading indicator to kind of keep an eye on sort of those two things kind of come to mind. As well as if if the moisture situation would improve in the southern plains, and up with a lot of winter wheat seeding, and winter wheat grazing that that would take a lot of cattle destined for the feedlot, directly to a feedlot, and might give them a place to grow and not consume corn for a while. As they built the frame, or added some pounds.

So certainly, the, the feeding margin incentive is there to sort of encourage that or, you know, encourage folks to take a look at that. But again, the weather has to the weather has to cooperate. We're right at the front end of those different indicators or, or leading factors happening.

**Kiernan Brandt:** Sure, well, does that have any implications on any livestock risk protection or anything like that?

**Matt Dierson:** Not directly on, but if you'll look at, at how wide that feeding margin is, right now, if you're, if you're in a backgrounding situation, that wouldn't like to mention livestock risk protection from, from two aspects. One is if you already bought livestock risk protection or LRP, it was downside price insurance, so you're thinking I'm protected, if the price moves lower, well, the price has moved higher. So, you may not be in a situation to be collecting on insurance right now. That's okay, prices have moved up.

The two things with that.

One is a change to that program in the last six months, they added a 60-day window. So, if you were to sell your calves a little bit early, if it's within 60-days of your coverage, end date, you don't need to do anything with your coverage stays in place.

So, if there would be I sold my calves September 15, or October 1, and my insurance didn't expire for 60 days after that, you just sit on the insurance and then if the price were to fall, you would still be able to collect on that. So, the fact that the prices are higher and you have coverage in place, this is not a not a bad thing, just be aware of the 60-day window.

The other thing with livestock risk protection given the fact you've got this wide feeding margin or large feeding margin available. That is a lot of dollars at risk if you push corn, and, and forages through to grow that calf to eight or 900 pounds into 2022.

So there to livestock purchase protection, they've greatly increased the subsidy over the last couple of years. So, you might be able to pencil out a positive profit. At least, you know, something near above breaks even after paying for the subsidized insurance. So, minimize your risk leave your upside open to additional returns that would be something to take a look at before making the decision to you know load up on a lot of feed or taking a lot of feed risk and hang on to those cattle because the markets shown over the last few years that that feeder cattle futures price, whatever it starts at in November, it can change a lot before March or April comes around.

**Kiernan Brandt:** Yeah, it can it can get north or south pretty drastically depending on that.

**Matt Dierson:** $20-$100 weight comes to mind up or down. So yeah, I'm on an eight weight, that's, that's a lot of that's a lot of money in my book.

**Kiernan Brandt:** Yeah, that's your whole margin, maybe plus some. Maybe this is a great time to just take a couple of minutes if you want and go into some of the intricacies the broader requirements of LRP. I mean I I know that personally I wasn't even aware of that program for a long time. In terms of size requirements, stuff like that. I think I'm done.

Love to hear your opinion on it?

**Matt Dierson:** I personally think it's probably a pretty underutilized program in terms of the potential that it can provide in terms of protection. Well, LRP has received a lot of publicity and received a lot of attention from both the cattle industry but also the the insurance agents side of it, that they're out selling the product.

So, so volume is way up over this last year and the high volatility that COVID brought to the feeder in live cattle market certainly added I think, to the the interest or the willingness to look at ways to lay off price risk, you know, a couple of high points for LRP, you can cover any number of head with it. So even the smallest operation or you own some, some of the calves on shares with with the parents or the kids, you can you can ensure your share of them and stuff like that. And there is a size limitation.

So once you get up to 1000s of head, then you're you're kind of stopped out of that, but then you might be in a different financial situation anyway. So. So it has some advantages, it is just price insurance. So something happens to those calves where they don't, they don't gain or something else happens to their physical well being but it's not casualty insurance or something.

It's, it's just price, you just looking at the Do I have price risk? Do I want to lay that off into the marketplace? And you'd work with an insurance agent to do that. And you can do the same thing with a commodity broker using put options and such on to do it directly in the exchange as well.

**Olivia Amundson:** So, is there a specific time that guys should be jumping into an LRP?

**Matt Dierson:** Nothing like nothing too prescriptive. But if you're going to background and you're in South Dakota, you're probably saying I have to get from October, November into, say March and April. So then before you were as you make that decision to background, that's when you could go in.

And especially if the markets rallied like it has recently, now this would be a better time than when the price is much lower.

**Olivia Amundson:** Sure.

**Matt Dierson:** So, do it when the note when the profits are high, or the, or the markets are high. And when the volatility is low, and before it's too late.

**Kiernan Brandt:** Great. What uh, I mean, just thinking real, real big picture here, what, what have you been hearing about exports long term is ag exports look strong as we as we roll into the second half of 2021 and 2022?

**Matt Dierson:** Um, nothing like overly particular for the beef side of things. Probably a more direct route would be if if the export demand for corn went back off a little bit, and then the corn price would fall a little bit that might do as much to boost feeder and calf prices as, as anything. There has been good export demand or export volume for beef to a lot of them. Regular markets say Mexico for example. It also to some extent, China and Southeast Asian markets, but nothing, nothing glaring, that would be a big mover in the short run on on the beef export side of

Sure. We've been hearing I mean, it's one of the one of the popular buzzwords of the of the

era we're living in now.

**Kiernan Brandt:** But I was curious just to hear your thoughts on from a larger perspective and standpoint, how inflation is going to impact some of the some of these things in terms of commodity prices moving forward the capital markets as a whole? What is the impact that that inflation and the rate of inflation plays on some of these things?

**Matt Dierson:** There have been dramatic or sharp price increases in a lot of different goods and services over the last year.

How much of the increase in beef prices is inflation? And how much are is that tied to other factors. That's where it gets a little. That's where it gets more difficult or tricky. The most of the measures of core inflation which can exclude at different times, gas, fuel, and sometimes food that hasn't gone crazy high that has had its moments where I start to get nervous about it.

But the consensus is, and the consensus can certainly be wrong, but the consensus is that some of the inflation we're seeing should be relatively short lived and shouldn't like feed on itself. So, yes, gas prices, for example, have shockingly jumped from $2, or close to $2 a gallon to $3 a gallon. So all of a sudden, it's $30, or $40, or $50, to fill up a reasonably small car, let alone a pickup truck.

And, you know, so that's a shock, is that going to continue?

No, I don't see the price of gas going to $4 a gallon next week or something.

So, some of it is the fact that we're comparing to how unusually shockingly low some of the prices were a year ago. So, as we move through that thing, I think things will sort of calm down a little bit.

But inflation over the longer run would just mean a slow, hopefully a slow and steady increase in prices.

And then you have to hope that that trickles down to ultimately to say, the farmer rancher, the producer of the raw commodity.

**Kiernan Brandt:** Right. Yeah.

**Matt Dierson:** if you're on a fixed, you're on a fixed income, you're going to be more concerned than if you're somehow tied to the other markets, that's not much different than, say, being a rancher and seeing inflation because of higher, higher processor or higher retailer labor costs, leading to higher prices for beef, but not necessarily higher prices for cattle. And that can be very frustrating to kind of sit and observe, you know, and wonder why. Hopefully that is not the case.

**Olivia Amundson:** Yeah. Hopefully.

**Kiernan Brandt**: Hopefully not.

**Olivia Amundson:** So, I don't have any other questions. Kiernan?

**Kiernan Brandt:** You know, I think we've I think we've done a pretty good, pretty good little market overview. So, the general consensus is, I mean, prices are higher, but things are more or less looking okay.

**Matt Dierson:** Yeah, prices are, I'd say, probably, from a producer standpoint, that calf prices or, or cattle prices would be looking very good at the moment. And with some cause for optimism, especially as we get into next year. And I think the wild card sort of this fall is, you know, will that that feeding margin being wide now, that can move a couple of directions between now and and later in the calf marketing here. So between now and November, that can move around a lot, either in the producers favor or perhaps against them, or moves against them, then they got to take a hard look at what feed is available out there and what they might be willing or able to pay to, to move into that space.

**Kiernan Brandt:** And especially I mean, at the beginning of this year with, with corn where it was there, there was really no, no time in my mind early on before the drought really set in where I thought that that going to confinement, feeding stock bales or grazing crop residue or putting up silos was going to be the the economical option at choice, I mean that typically there's other options to explore stockpiling forage some late grazing later into the year, but I mean, it forces guys to constantly be adapting and ready to make a switch and implement a new strategy to, to maintain profitability, I mean, it can be really, really rapid.

**Matt Dierson:** And keep an eye on you know, going forward, keep an eye on distillers prices, that's going to be it appears like the ethanol demand is going to stay there or that looks to be stable.

So that means that ethanol production remains stable at a pretty high level. And that means that the distillers keep coming out, or keep getting produced as well. So that, you know, at the South Dakota level looks like the corn bushels aggregate production is going to be there to facilitate the ethanol production to continue.

They'll, so they'll pay for the corn, but they'll also be supplying or producing distillers unlike the shutdown occasions from a couple of years ago, where they just physically weren't the bushels. So be thinking about taking your corn to town and in coming back with what the Steelers are looking at that distiller as, you know, its place in in the feed ration background ration if you would.

**Kiernan Brandt:** Oh, yeah, absolutely. Even for range cows out on pasture still or grazing residue or anything like that. Yeah, distillers, given the right set of circumstances can become a very, very reliable and efficient supplement for a whole variety of situation, so definitely something to keep an eye on. Any, any other any other caveats you'd like to toss in before we wrap things up?

**Matt Dierson:** I know, I probably talked too long. Oh, this was great. This was great. Well, thank you. Thank you, a bunch for joining us and we'll, we will leave things here for the week and we'll have you on again soon.

**Olivia Amundson:** All right, thanks. So, for more information on cattle markets and commodities, visit the SDSU Extension website, and search for the in the cattle markets. For any questions or topic ideas on future podcast email, Kiernan Brandt. His email will be up on the SDSU Extension website link to our direct podcast.

**Kiernan Brandt:** Once again this has been Cattle HQ brought to you be South Dakota State University Extnesion. Visit extension.sdstate.edu for the latest beef information. Thanks.

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