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NEED TO KNOW: The new National Weekly Fed Cattle Comprehensive Report provides stakeholders a more complete picture of the cattle market, including alternative marketing arrangements, in one convenient report.

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Watch how the market responds to changes in marketing methods and pricing.

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Nuances in the fed cattle market always bear watching, especially with regard to alternative marketing methods and prices. The cattle industry has seen a significant shift from traditional negotiated transactions to alternative marketing arrangements, such as formula pricing. Two new or revised USDA reports can help producers better understand market trends.

On July 25, USDA's Agricultural Marketing Service launched the new National Weekly Fed Cattle Comprehensive Report. AMS issued its first revised National Weekly Direct Slaughter Cattle — Prior Week Slaughter and Contract Purchases Report on July 31. These reports are provided through the Livestock Mandatory Reporting program. The full announcement is available online. The new National Weekly Fed Cattle Comprehensive Report can be found at USDA AMS web page National Direct Slaughter Cattle Reports .

More complete picture of cattle market

The new National Weekly Fed Cattle Comprehensive Report provides stakeholders a more complete picture of the cattle market, including alternative marketing arrangements, in one convenient report.

The new report shows week-to-week and year-over-year differences (spreads) between beef type and dairy-bred cattle. With fed cattle supplies rising, packers have less interest in dairy beef. The result, as the report shows, is a widening discount on dairy animals. The report also highlights price differences between specific purchase types of transactions. This includes dressed and live sales and alternative marketing methods. Here are some definitions of these methods:

• **Negotiated.** A cash deal is negotiated between buyer and seller, where the price is established at the time the deal is struck and will not change regardless of how the cattle perform.

• **Grid net.** It is the final price paid to the producer after premiums and discounts have been applied to the negotiated grid base.

• **Formula base.** The base price is not negotiated, but is based on some other price (such as plant average or weighted average price) or value-determining mechanism that may or may not be known at the time the deal is struck. Final net price is determined after application of premiums and discounts.

• **Formula net.** It is the final price paid to the producer after premiums and discounts have been applied to the formula base.

• **Forward-contract net.** It is the final net price paid to the producer after any adjustments have been made to the forward contract base (mostly basis contracts).

No "best" pricing method exists for all producers. But understanding how liveweight, dressed weight, negotiated and formula prices are related can help cattle producers decide which form of fed cattle pricing may be most profitable for them.

Recognize that in some cases the cost of producing and marketing cattle with certain specifications is higher. That accounts for the higher prices producers receive under some pricing methods.

New report works across variables

This new report should pair with the customary National Weekly Direct Slaughter Cattle – Premiums and Discounts report. This report provides the range across packers, the simple average, and weekly change of premiums and discounts that were paid for various quality grade (with Choice being the base), cutability (yield grade, fat/inches), certified programs (CAB, All Natural, NHTC), dairy-type, bullock/stag, hardbone, dark cutter, over 30 months of age and weight.

Differences among the various prices — say negotiated vs. formula net, or formula base vs. formula net — can be partially explained by considering the premiums and discounts. For instance, for week of July 31, packers paid an average of $13.54 per cwt more for cattle grading Prime than they paid for those grading Choice. This was up 15 cents from the previous week.

The new comprehensive report provides the percentage of formula net, contract net and grid net beef-type carcasses grading USDA Choice or higher and the carcass weight of all grades. Seasonally, cattle weights drift lower in May and June and are highest in October and November. Week-to-week changes can show turning points in seasonal slaughter pattern and can signal if cattle are being pulled forward or if feedlots are falling behind in marketings.

Choice-Select spread is a seasonal pattern

Just like weights, the Choice-Select spread has a seasonal pattern. A primary reason for the normal summer rally in the spread is the seasonal decline in percentage of cattle that grade Choice. One underlying feature is when the percentage of carcasses graded Choice rises, the percentage of Select almost always drops. Lower Choice supply typically means higher Choice prices. At the same time, Select supplies grow driving Select prices lower.

An increase in Choice-Select spread would be an indication of stronger demand if the percent of cattle grading choice or higher also increases. Further, in this report, the percent grading Choice or higher is for formula net, contract net and grid net cattle, which could be compared to their negotiated trade counterparts.

Lastly, the daily head count of formula base purchases for the week, the composition of cattle sales (negotiated net, formula net, forward net, grid net) over the last 52-week period, and the weekly negotiated head by delivery period (one to 14 days, 15 to 30 days) over the last 52-week period are provided in the new report.

Thin negotiated market a concern

One beef industry concern is cattle marketed through negotiated trade may not accurately reflect market supply-and-demand fundamentals, particularly if negotiated cattle trade is thinning. Many formula pricing agreements have a base price tied to a negotiated trade price. Understanding the trend in negotiated trade is important for the degree of confidence when inferring a computed weighted average net price from purchase prices.

An increasing share of negotiated transactions increases confidence in the reported weighted average price, and a decreasing share of negotiated transaction reduces confidence in the reported weighted average price. For the last full week in July, negotiated transactions represented 26.26% of the national market, 61.30% formula net, 8.07% forward net and 4.37% grid net.

As part of this enhanced livestock mandatory reporting for cattle, Section D: Basis Distribution, in the National Weekly Direct Slaughter Cattle — Prior Week Slaughter and Contract Purchases report has been revised.

Specifically, per USDA, “The negotiated cattle delivering beyond 30 days will no longer be represented as forward contracts with a “0.00” basis level, but instead will be identified with a blank basis level. This reporting change is in response to industry concerns of differentiating these types of purchases from other transactions.”

While negotiated cattle delivering beyond 30 days is a relatively small share of the overall trade, this change provides a more accurate number of cattle forward contracted at a 0.00 basis level for a particular delivery month and basis month. Knowing basis distribution can help feedlots as they evaluate new offers from packers.

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