

Cloudy Forecast

Uncertainty abounds for the cattle market in 2013.

by Kindra Gordon

It's a cloudy forecast with regard to the outlook for the 2013 cattle market. The realities of 2012 — declining cattle supplies, a sluggish U.S. economy, high feed costs and widespread drought — make it difficult to predict how the market will play out.

The best hope is that the cloudy forecast brings rain — but even that is uncertain. Here's a glimpse of what's anticipated on the horizon.

The price picture

CattleFax analysts anticipate cattle prices to be high for 2013, but high feed prices and tight supplies will make it a tough situation for feeders.

In his comments this fall, Kevin Good, CattleFax senior market analyst, said that the tighter supply could end up paying off for some producers if they plan ahead. He suggests, "Especially if you're cow-calf side, not everybody can do it, but if you can prolong and keep that calf crop on into the first quarter of next year, I think that's going to pay some dividends as we think about because we do think prices trend higher as we go from this year to next."

That mentality may also hold true for the 2013 calf crop — the longer you can hold on to them, the more money there could be to be made, but there are more costs and risk as well.

At the retail level, tight beef supplies — and increased packer margins — have also driven up retail beef prices, which have climbed as high as \$5 per lb. (Choice beef).

While higher beef prices at retail can be good for the industry, the question remains of how it may affect consumer demand.

An interesting sidenote to the current beef situation is this: despite fewer cattle coming to market, overall beef production has held up relatively well — mostly due to heavier cattle weights (i.e. larger carcasses).

As one example, for the July-September period, steer slaughter per marketing day was on average 1.5% lower than a year ago, but beef production was up 0.3%. Economists report this difference exists because steer weights are currently running around 873 lb. per carcass, 2% higher than a year ago. This higher carcass weight has helped offset some of the slaughter reductions and keep beef prices in check.

Herd expansion needed

This fall, Oklahoma State University Extension Livestock Marketing Specialist Derrell Peel estimated that the 2013 U.S. calf crop will be the smallest since 1942. He noted that herd liquidation has been driven by the drought in 2011 and 2012 and anticipates, "If drought conditions improve, herd inventories will stabilize and some heifer retention may begin in 2013."

In November, CattleFax reported some hints of herd stabilization — and slight expansion — may be occurring. CattleFax analyst Lance Zimmerman reported this stabilization/expansion is indicated because beef cow slaughter is down 13% year-to-date and that percentage could grow by the end of the year. Zimmerman notes that there are

also fewer heifers in the current slaughter mix. Currently, heifers are about 36.4% of the mix.

Zimmerman says bred female prices have also improved in 2012. Bred cow prices are averaging \$1,340/head — 11% above 2011 prices — while bred heifer prices are averaging \$1,360/head — a 12% value increase over last year.

CattleFax notes that beef expansion likely won't take off until January 2015 — as long as it rains. Glynn Tonsor, Kansas State University ag economist, agrees with that timeline.

In his remarks during a *BEEF Magazine* webinar in November, Tonsor said of herd expansion, "I'm now looking out to 2015. The reason I'm pushing it forward two years instead of one is because I think a lot of cattlemen are conservative by nature and are particularly conservative coming out of a drought."

He explained that even if it does rain in 2013, most cattlemen will want to see pastures recover before they expand their herds.

Manage the risk

Most agree that the best advice for the uncertain market ahead is this: Prepare to manage the risk.

Scott Stewart, CEO and president of the commodity marketing firm Stewart-Peterson Inc., notes that no one really knows where the price for corn (or cattle) will land. Instead price predictions are couched around words like 'could possibly' or 'more than likely' or 'potentially.'

So, rather than focus on the possible price predictions, Stewart, who has 30 years of tenure working with ag commodities, advises there is one certainty to bank on and prepare for: Volatility will continue and it can be managed by preparing for the "likely," "potential" and "possible" events.

As the 2013 scenario unfolds, Stewart says producers' focus should not be solely on what might happen with prices; rather it should be in preparing for volatility. He says, "In this new world of price volatility, an advisor's role should be to

paint possible price scenarios, not predict price levels. It's so important to look at all the possibilities. Otherwise, you will be scrambling to adjust when a price level you hadn't envisioned comes along."

Stewart also says it is important to become familiar with risk marketing strategies and tools before decisions are needed. He adds, "In this kind of high-price, high-risk environment, advanced option strategies or combinations of both futures and options will be necessary to keep marketing costs low while protecting a price range."

Going forward, Stewart says, when he describes the extremely volatile new world, reactions usually fall into two camps:

- There are those who believe the world "is what it is" and occasional random events come along to mess things up. They feel little, if any, control over their destiny.
- There are those who believe that catastrophic events will happen with some regularity, and they can anticipate them and position themselves to weather them rather than to accept a devastating equity drain.

Stewart says, "If you haven't guessed, I am in the second camp. I believe that the complacent will be overwhelmed and swallowed up."

He concludes, "I also know from experience that volatile prices will bring out many analysts with opinions and reasons why their opinions are right. The wise marketer will listen to expert opinions and then use them to paint possibilities of what could happen. Imagine how your operation will fare in each scenario. Then you can begin to create the strategies that will have you fully prepared and confident in the age of uncertainty." **HW**



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