No 'Normal' Seen for Beef Sector

A return to typical market patterns is not expected for the second half of 2015.

*by **Krissa Welshans**, feedstuffsfoodlink.com*

During the U.S. financial crisis that started several years ago, many markets experienced abnormal activity and irregular market patterns.

While market norms have not exactly returned, Oklahoma State University department of agricultural economics assistant professor John Michael Riley notes that more normal patterns have resumed — with the exception of agricultural markets.

In addition to the "awkward" state of the grain markets, Riley says beef cattle futures and cash prices are also out of line with their "norms."

"As prices heated up in the second half of 2014, seasonality went out the window," Riley explains. "Since that time, prices have steadied quite a bit but are still not showing their typical price patterns that have historically been in place. This has led many to ask: 'When will seasonality return to cattle markets?'"

This is a tough call, according to Riley, because the events of the past 12-18 months in the current cattle market are still not at all a common occurrence. Also, a return to "normal" seasonal patterns does not appear to be on the horizon for calves or feeders through the remainder of 2015 due to several factors, he says.

"Heifer retention has been ramped up since at least mid-2014, which has limited the available feeder volume. Herd rebuilding will likely continue for the short term, especially given the recent rains in much-needed areas where pasture capacity is available," he says.

Riley pointed out that the high market price levels have led to earlier marketing of calves and feeders, which will limit off-farm supplies moving forward.

Additionally, feedlot capacities, despite shrinking over the past number of years, still indicate available space, he says.

"A look at fed cattle prices since the start of 2015 indicates tendencies of moving in this direction, but a consistent pattern has not fully developed," Riley explains. "Carcass and beef primal prices have been moving in more typical fashion. However, over the past two weeks, high-valued middle cuts (rib and loin primals) have weakened quite a bit, and this has filtered through upstream markets."

Riley says it would be foolish to think that unusual patterns won't linger as buyers and sellers continue to adjust to the "new normal" in cattle market prices.

Looking ahead

Despite abnormal market behavior, Kansas State University agricultural economist Glynn Tonsor thinks the second half of 2015 is positioned to be one of the best on record.

"While feeder cattle prices may not exceed those realized in late 2014, they very likely will remain among the highest observed by most cattle producers," he says.

According to Tonsor, supportive factors include "sound overall beef demand, limited aggregate feeder cattle supplies and growing confirmation of heifer retention, which further reduces cattle availability in the short term."

Tonsor says some things to monitor that may alter the generally positive feeder cattle price situation include adverse developments regarding exchange rates, trade deals or broader geopolitical events that individually or collectively could lead to reduced derived demand for feeder cattle.

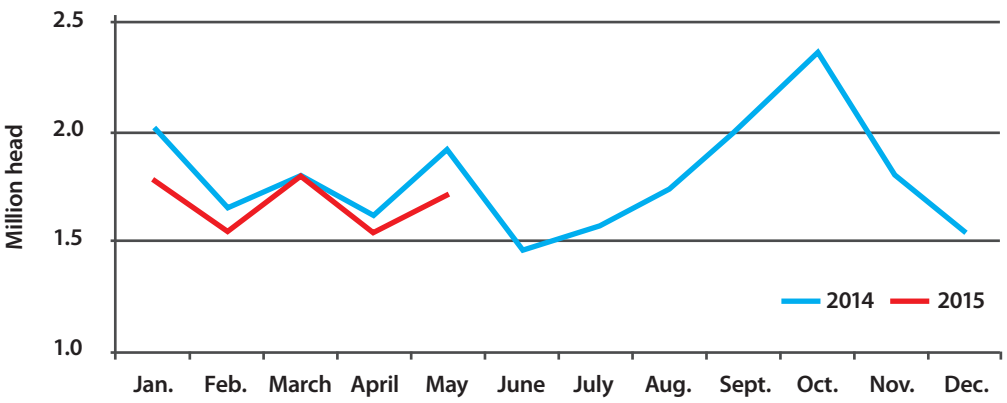
The U.S. Department of Agriculture's (USDA) June "Livestock, Dairy & Poultry Outlook" projected that falling beef prices and improved pasture conditions will intensify cattle producers' summer grazing intentions.

"Improved pasture conditions will provide forage for the already low cow numbers, and fewer cows will be slaughtered," USDA says.

With an already tight supply, a decrease in the number of cows going to slaughter will only exacerbate the situation. Improved pasture conditions will also provide a longer grazing season for feeder cattle, which will leave fewer cattle for placement in feedlots until the end of the grazing season this fall (Figure 1), USDA says.

"With feeder cattle prices at relatively high levels, reflecting the relative scarcity of placement-weight feeder cattle, cattle feeders continue to experience negative margins as they find themselves sandwiched between high feeder cattle prices and fed cattle prices that have declined sharply," the report notes. **HW**

Figure 1: Number of cattle placed on 1,000-plus capacity feedlots, U.S.



Source: *U.S. Department of Agriculture*