



# Demand & Weather

## Will Drive 2019 Calf Market

Hay prices expected to remain elevated.

by *Kindra Gordon*

“Fairly favorable” are the words CattleFax analyst Mike Murphy used in a mid-September webinar to forecast the 550-lb. calf market as 2018 comes to a close.

Murphy explains an El Niño weather pattern is forecasted for the fall and winter, which would be good for stocker grazing conditions across Kansas, Oklahoma and Texas. For 550-lb. calves this “creates supportive demand.”

If the winter wheat grazing scenario stays favorable, Murphy suggests feeder calf prices could see “supportive demand” in the \$165-\$170/cwt. price range. CattleFax is forecasting yearling steer prices at \$150-\$155/cwt. for the remainder of the year.

Meanwhile, CattleFax projects the fed-cattle market for the remainder of 2018 to be less favorable. “We are in the process of bottoming this market for the rest of the year at the low \$110 and teens/cwt.,” Murphy says. At the start of 2019, he forecasts the market to uptick slightly from mid-teens to \$120s/cwt.

This trend is occurring as trade tariffs and tension are impacting export numbers and putting a drag on the fed market. While exports for pork, beef and broilers were up for the year from January through July, exports have now slowed down significantly. As an example, the high tariffs on pork exports are resulting in lower pork exports and, according to CattleFax, the hog market is weighing on the cattle market.

The weather will also be a factor on the cattle market. Murphy explains, “With El Niño projected, which supports a wetter pattern through the Central Plains, that can [adversely] impact cattle performance [in the feedlot].”

However, African Swine Fever has been impacting Chinese hog producers — and is spreading quickly. That could affect their future pork supplies and may create opportunities for more U.S. pork exports, which then may bolster beef demand. It is a factor CattleFax suggests producers

monitor closely to determine its effect on the market.

### Looking further ahead

Murphy shares that a stable beef calf crop is anticipated for the next few years. The 2018 crop was 36.2 million head – in 2019 and 2020 that number is expected to increase to 36.5 and 36.6 million head respectively. “That is being driven by stable margins and means producers don’t plan to contract,” Murphy says.

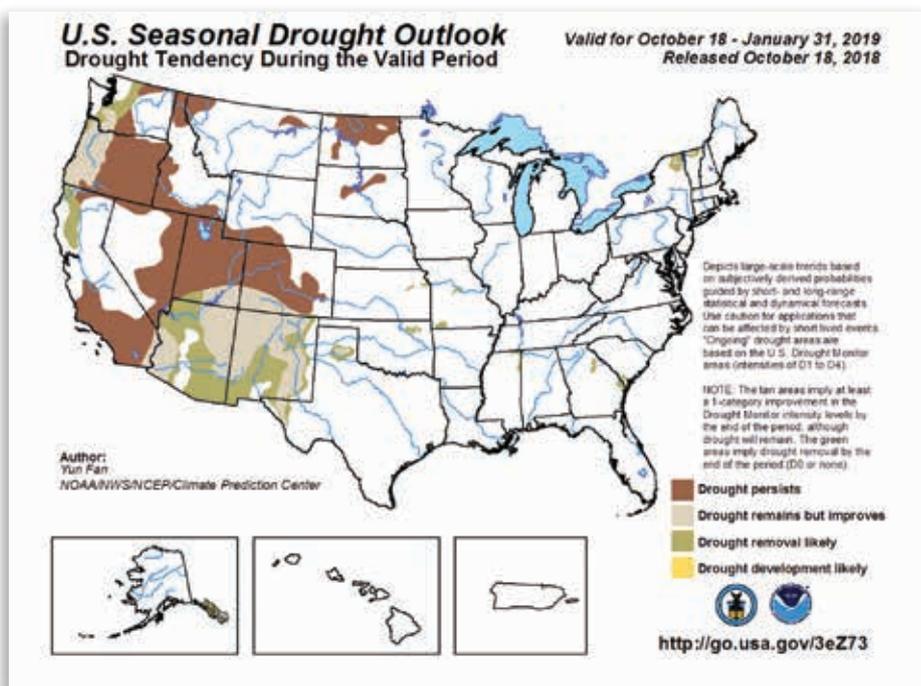
He indicates these supply levels could drag down values in the calf market, depending on several factors: if red ink in the cattle feeding sector continues, consumer demand for beef, and if a recessionary market sets in domestically or globally. Furthermore, if corn reaches \$5 per bushel, that could impact the value of calves.

He summarizes, “The underlying supply of calves from 2018 to 2022 is not going to change much. So demand is where we need to watch. Demand, high corn, extended period of feedlot losses, domestic or global recession – if one or all [of those] happen, it could mean the market goes back to \$125/cwt.”

Producers are advised to monitor outside influencers that affect costs. He notes, “Regional cow costs are going up [due to feed costs]. Interest rates will continue to go up the next 24 months. The feds have been clear on that, and it can have a huge impact on cost structure.”

Regarding prices for feedstuffs, CattleFax reports the United States Department of Agriculture (USDA) is estimating a record corn yield and a near record soybean yield from the 2018 growing season. That said, there is still strong demand for corn, and CattleFax projects support in the market for corn at \$3.50-\$3.85 per bu., with resistance at \$4.15.

Hay prices are projected to elevate because of limited supply due to drought last year and in



key regions through summer 2018. With hay supplies at their second-lowest level in nearly 30 years, CattleFax advises producers to expect prices at about \$155-\$160 per ton through spring 2019.

For perspective, U.S. hay prices have been at least 10 percent above year-ago levels for every month of 2018. Year to date, hay price increases have been even steeper in Kansas (+43.7 percent year to date),

Nebraska (+26.6 percent) and South Dakota (+16.5 percent).

Each of these factors will affect production costs and profit margins. Murphy notes one thing that could help overcome faltering market prices is expanding the global footprint and growing beef exports – which could support calf prices. But, he also cautions, “A global recession would not allow that to happen.” **HW**

## El Niño expected

The Climate Prediction Center (CPC) has issued an El Niño watch ahead of the upcoming 2018-19 winter season for the Northern Hemisphere. This means an El Niño Southern Oscillation — commonly referred to as ENSO — which is a periodic fluctuation of sea surface temperatures over the tropical eastern Pacific Ocean that subsequently affects weather patterns across the Northern Hemisphere — is likely. The warming phase of the sea temperature is known as El Niño, and the cooling phase as La Niña.

Last year was a La Niña winter which yielded a substantial decrease in snowpack across the West and Southwest, bringing about increasing drought conditions into the spring and summer of 2018.

With an El Niño winter, much of the country is forecast to see warmer than average temperatures through December with the South, Gulf Coast and East also experiencing above average precipitation. The Northwest is expected to see drier than normal weather, and drought conditions are expected to intensify across the Pacific Northwest, Southwest and northern Plains through December.

The CPC projects El Niño will be a weaker event, which can have implications on the positioning of the subtropical and polar jet streams and can lead to other weather patterns influencing climate trends. Thus, the weather forecast for 2019 is still somewhat of a wait-and-see situation. **HW**