

CattleFax Market Outlook: Forecasting for the Future

Cattlemen and women flocked to the 2019 CattleFax Outlook Seminar during the Cattle Industry Convention and NCBA Trade Show in New Orleans.

Cattle producers have been faced with harsh weather, uncertainty regarding policy decisions and a plethora of other challenges over the last year. Even so, many remain optimistic for this fiscal year. Marketing experts from CattleFax provided an all-encompassing look at the market outlook for cattlemen and women during the 2019 Cattle Industry Convention and National Cattlemen's Beef Association (NCBA) Trade Show earlier this year.

Goodbye, El Niño

Weather has been on the forefront of cattle producers' minds lately, as many have experienced record-breaking low temperatures and moisture coming out of winter. Art Douglas, Ph.D., Creighton University, Omaha, Neb., predicts weather patterns will shift away from El Niño as a strong ridge builds off the West Coast and a trough becomes established in the Great Lakes.

Douglas notes as the high-pressure ridge moves into the Rockies this spring with a split jet favoring moisture in the Northwest and Southern Plains, the eastern third of the country will turn drier.

"After a cooler February, the United States will mostly enjoy a relatively mild spring with a reduced threat of delayed planting," Douglas says.

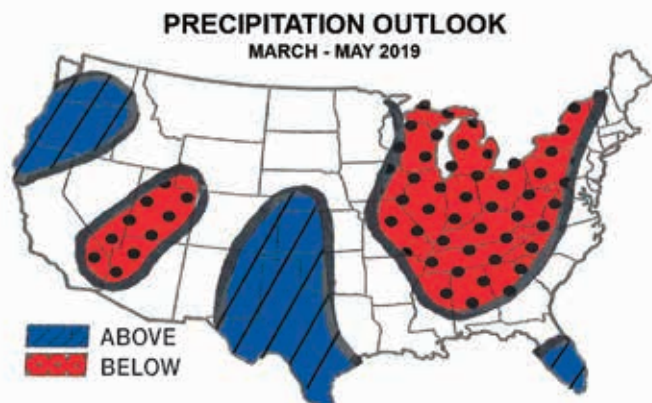
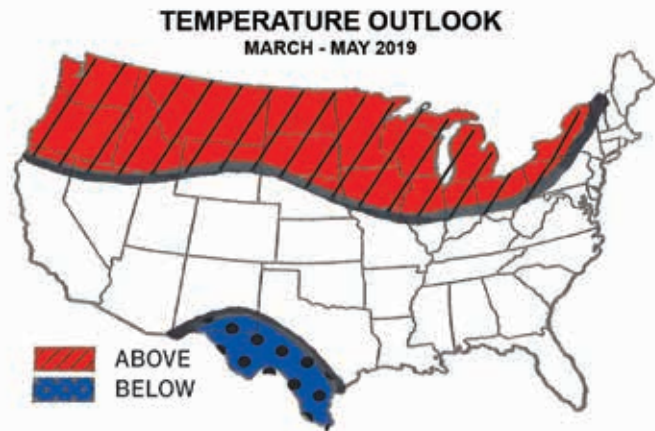
Summer conditions are highly dependent on how abruptly El Niño fades. Douglas predicts La Niña conditions are unlikely to occur in the next eight months because the

equatorial current is showing slow cooling only.

"The residual warmth along the equator will lead to a wetter summer in the southern half of the U.S., while warm waters off the coast of Mexico will favor an active monsoon season in the Southwest," Douglas explains. This enhanced summer monsoon is forecasted to promote a strong ridge of high pressure along the Canadian border — leading to warm, dry weather and a spotty drought forecast for the Corn Belt by late summer.



Art Douglas, Ph.D., shares a weather update indicating El Niño is soon to be in the rearview mirror.





Kevin Good enlightens attendees on what to expect from the markets in 2019 and beyond.

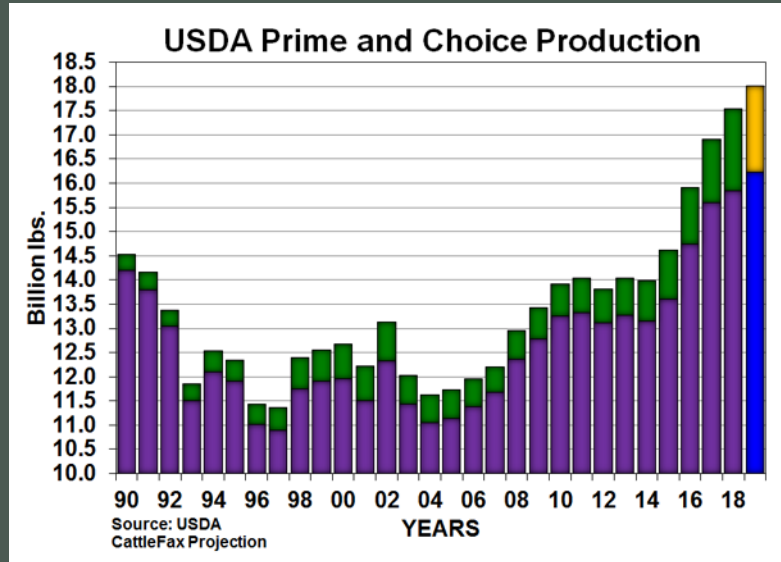
Coffee shop talk: cattle reports

Regarding the market outlook, CattleFax analyst Kevin Good is optimistic prices and demand will remain strong. “We’ve been on one heck of a good run for a few years, and I expect that to continue into 2019,” Good says. “However, we expect to see margins begin to compress and leverage to shift from the cow-calf and stocker sectors to the feeder as we expand the supply of cattle.”

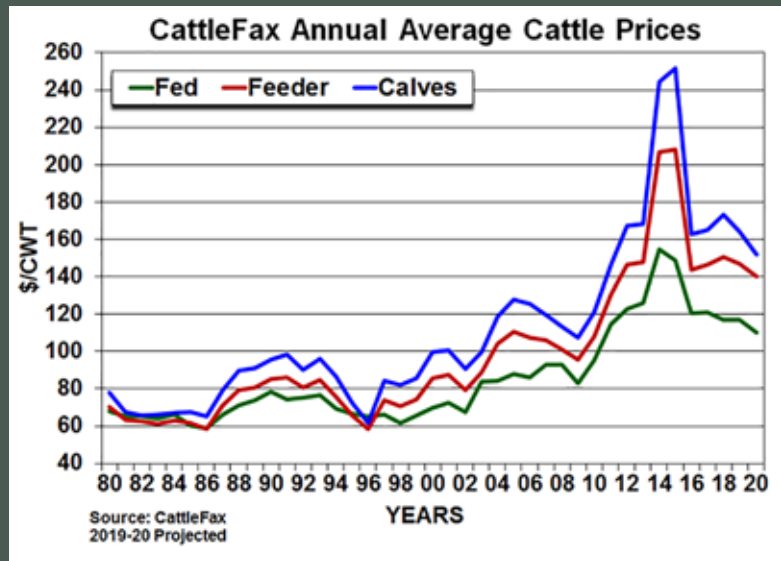
The beef cow herd has expanded over the last five years, and this cycle is expected to be completed within the next two years. Therefore, Good says, price risk remains apparent — cattle producers will receive a smaller percentage of the retail beef dollar as supply increases. In tandem, a healthy economy, with higher wages and job growth, supports prices and domestic demand. CattleFax projects the all-fresh retail beef price to average \$5.73 per pound, up \$.06 from last year, while the composite cutout will rise \$4 to an average \$216 per hundredweight (cwt.) during 2019.

Fed cattle prices are expected to be steady during 2019, averaging \$117 per cwt., with market resistance at the \$130 level and downside risk to \$100 per cwt. at the low end of the trading range. Good attributes a larger supply of cattle outside of feedlots, coupled with limited profitability in the feeding sector, will hinder demand and pressure feeder cattle prices. CattleFax projects 750-pound steer prices will range from \$130-\$160 per cwt. with an average at \$147 per cwt. for the year ahead.

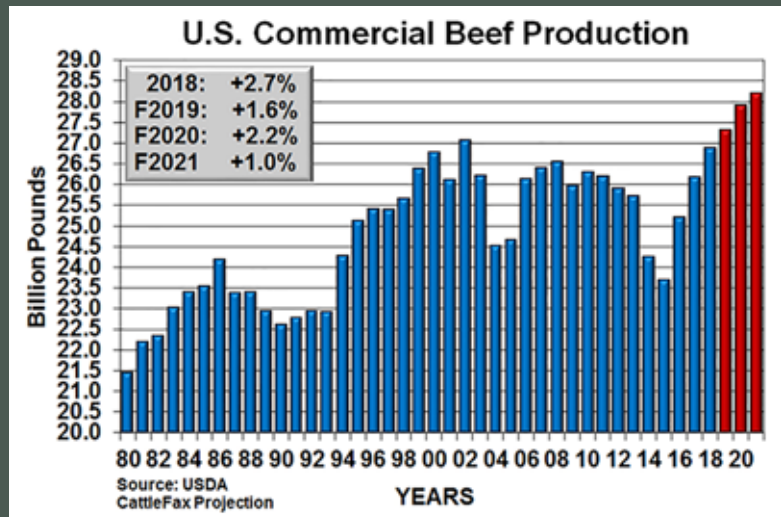
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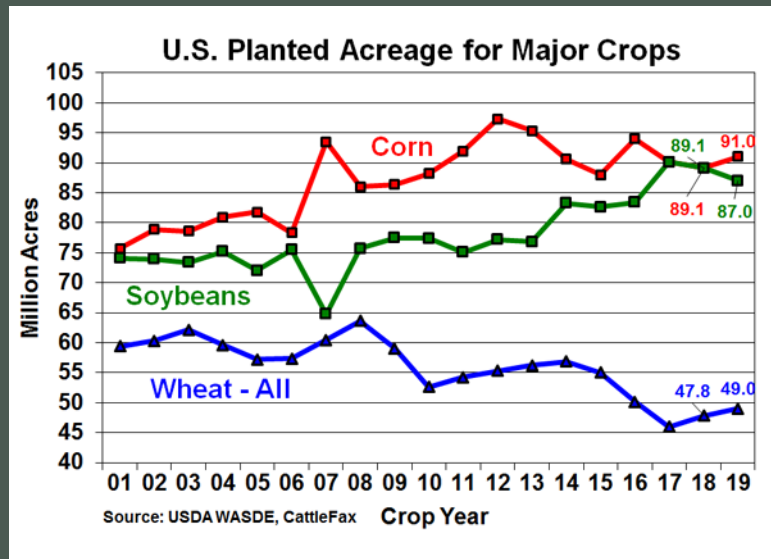
Each year cattle producers have consistently increased the quality of U.S. beef.



As cattle numbers continue to increase, demand and prices may be hindered.



Price risk remains apparent as beef supply increases.



Livestock expansion is supporting the increase in corn and wheat acres; however, soybeans are experiencing a decline.

“The relatively strong calf market we saw in 2018 will be under pressure this year,” Good says. “However, values in the spring should have the potential to reach the mid-\$180s. On the other hand, a larger calf crop and softer demand have the potential to erode prices to the \$140-level next fall, so there is certainly more price risk in feeder cattle and calves than in the fed cattle markets in 2019.”

During the year ahead, Good notes cull cow prices will have additional downside risk. “Years

of expansion and poor operating margins in the dairy sector are generating more cull cows, which weighs on the markets,” he explains. “The additional supply and the limited packing capacity for non-fed cattle will result in a market which averages approximately \$55 per cwt. during 2019, with a spring-high near \$60 per cwt., and a fall-low in the lower \$40s.”

On the feed and grain side, prices are expected to remain stable during the year ahead, as the last several years of livestock

expansion have supported demand. Corn and wheat acreage is expected to increase — corn by 2 million (91 million acres total) and wheat by 1 million (49 million acres total). However, soybeans are projected to decline by 2.2 million acres to 87 million total acres.

Collectively, a glimpse into a crystal ball suggests price risk maintains throughout 2019 and into 2020. With record-breaking beef production projected for the next few years, the supply chain may undergo a burden. While the increase in production and improved grazing conditions is encouraging, it is also a double-edged sword. This increase is projected to weaken bargaining power for cattle producers into the next decade.

In contrast, beef exports are on pace to increase and to hold domestic beef supplies flat. Per usual, conversations with trade in other countries, such as Japan and China, remain critical to U.S. protein exports. CattleFax CEO Randy Blach stresses trade is of utmost importance to cattle producers moving forward. “Long-term, the profitability of our industry is tied to trade,” he notes. “We must have open markets and science-based trade standards for our products if we’re going to continue the run of profitability we’ve experienced in recent years.”

The big picture indicates trends will remain positive and profit opportunities will remain, so long as focus stays on adding value, minimizing costs and managing market risk. **HW**

Editor’s Note: Content for this article is adapted from the NCBA press release for the session. To view the full release, please visit BeefUSA.org.



Randy Blach stresses the ever-growing importance of international trade and its role in the profitability of the U.S. beef industry.