Ready for the Climb

Market lows should be behind us, CattleFax reports.

by ***Kindra Gordon***

Representing CattleFax, Lance Zimmerman projects the cattle market has seen the lows in 2020, and he says, "Barring a catastrophic event, market prices should be moving forward." And that's not just through the end of the year. CattleFax data suggests the industry has reached the peak on expansion, and tighter supplies over the next three to four years will favor higher cattle prices.

Zimmerman spoke Nov. 12, 2020, during the Stockmanship & Stewardship Virtual Conference hosted by the National Cattlemen's Beef Association producer educational team.

Zimmerman explained to the listening audience, "The cattle price cycle is not broken." While the 2010 market "moonshot higher," in Zimmerman's words, when looking at average cattle prices decade-by-decade, the 10-year span of highs and lows is still evident and "dependable."

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>
> **— Tanner Aherin**

Thus, current price data suggests 2018 through 2020 has brought the market to the valley. "We recognize the industry just went through two of the most challenging years," Zimmerman says. Still, he encourages producers to hold on, have some hope and be prepared for the uptick ahead.

Inventory status

Looking at current cattle inventories, the U.S. currently has 6.5 million more cattle in 2020 than in 2010. By sector, that is 3 million more beef cows, 2 million more feeder cattle and 1.5 million more cattle in feedyards.

Zimmerman says data from the cyclical market suggests this is the peak for inventory. In fact, he reports the cow herd inventory peaked in January 2019, and the tough winter and other market factors prompted culling at the cow-calf level that has stretched across the past two years. Zimmerman acknowledges, "We're going to see culling continue into 2023 and 2024."

CattleFax projects the national cow herd will bottom to about 30 or 30.5 million head, which is down nearly a million head from the Jan. 1, 2020, inventory of 31.3 million head. From this projection, Zimmerman offers two key takeaways.

Number one: Smaller calf crops will result in tighter supplies, which should mean better live cattle prices. CattleFax suggests lows for calves "no worse than $140/cwt. and feeders higher than $130/cwt." Zimmerman reminds producers, "Cyclical price risk still exists, but domestic and global demand growth could delay concerns."

Number two: Zimmerman recommends producers prepare. "Hopefully, when the U.S. cattle industry is at supply lows in 2024, you can be prepared for expansion... Start thinking about the opportunities to be growing; you have to have a plan in mind."

He cautions producers, "Don't react by buying at highs. Watch the futures. That's the best indicator."

He advises, "Don't throw caution to the wind, but manage so you can prepare to capture the next five years... We are still going to have a market that reacts to weather, price and profitability, and we need to be savvier as we react."

CattleFax analyst Tanner Aherin also shared remarks during the presentation, noting CattleFax data on high return producers has shown there are three major things they do to set themselves up for success. "High-return producers do not compromise on nutrition, health or genetics within their cow herds," he notes. "Then, combining that with risk management and marketing, they are able to net the highest return on investment for their calf crop."

Aherin points out the well-traveled path to cow-calf profitability includes these five strategies: develop a plan, manage fixed costs, know your customer, navigate market seasonality and maintain discipline." That said, he adds, "It's all irrelevant if you don't know your breakeven costs."

Run the bases

Looking ahead, Zimmerman advises cattle producers to monitor what he dubs "Three Cardinal Rules for Cow-Calf and Stocker Operators."

He suggests operators answer these questions:

1) Are the downstream segments profitable (i.e. stocker, feedyard, packer and retailer)?
2) Are cattle, hog and broiler numbers expanding or contracting?
3) Are out-front market prices at a premium or a discount?

Gauging the status of these three questions can be a good indicator of what the market is going to do.

Lastly, Zimmerman uses a baseball analogy to encourage cattlemen to stay in the cattle game. "The market is not always home runs," he says. "Sometimes we need to string singles and doubles together to minimize strike outs.

"As producers you need discipline to make business decisions on sound information so you can take opportunities when presented." HW