Markets

Higher
Money Ahead

Cattle markets appear poised for a long-awaited run.

by ***Wes Ishmael***

Whittling through front-end fed cattle supplies — wrought by the pandemic and other supply chain disruptions — proved only slightly more difficult than hog-tying a gnat. By mid-July, though, feedlot market currentness appeared to be within reach.

From February through June, feedlot inventories declined by 3.4%, the steepest decrease for that period since 2012, according to Derrell Peel, Extension livestock marketing specialist at Oklahoma State University. He notes the average change in feedlot inventories for those months was an increase of 0.3% from 2016-2020.

"Barring some new disruption, feedlot inventories should drop below 2020 and 2019 levels in the next month or two and remain at lower levels going forward," Peel says.

USDA's Economic Research Service (ERS) forecast the annual average five-area direct fed steer price at $117 per hundredweight (cwt.) in June's *World Agricultural Supply and Demand Estimates* (WASDE). Average prices were projected at $120 in the second quarter, $115 in the third quarter and $120 in the fourth quarter. Next year's forecast annual average price was $121.50.

That's with estimated total beef production this year of 27.90 billion pounds.

Next year, WASDE projects beef production to be 565 million pounds less at 27.33 billion pounds. That would be the first year-over-year decline in seven years.

"Live Cattle futures are pricing in a contra-seasonal market for the summer and really strong prices in the fourth quarter of 2021 and the first quarter of 2022," said Andrew P. Griffith, agricultural economist at the University of Tennessee, in his July 2 market comments. At the time, he pointed out the futures market expected Live Cattle to increase $10-$11 between August and September and then climb another $3-$4 by February.

Calf and feeder cattle prices should gain

As cattle supply fundamentals improve, Peel says, "In some sense, time is on our side. Be prepared to be flexible and have the ability to push marketing later."

Glynn Tonsor, agricultural economist at Kansas State University, believes fall-weaned, spring-born calves should be significantly higher this fall compared to last year.

Tonsor ran the numbers the middle of June, using *beefbasis.com*, for a 6-weight steer selling at auction in Salina, Kan., in the middle of October: $174/cwt.

"That would be a strong price, reflecting strong demand for beef and feedlots getting current slowly but surely," Tonsor says. Even so, he cautions elevated feed costs will likely continue to pressure profit potential for commodity feedlot operators.

Through May and the first week of June, ERS analysts noted feeder steer prices (750-800 pounds, basis Oklahoma City) were selling about $10/cwt. higher year over year.

In June's *Livestock, Dairy and Poultry Outlook*, ERS projected the annual average feeder steer price this year (basis Oklahoma City) at $139.33/cwt. Average prices were forecast at $141 in the third quarter and $143 in the fourth quarter. ERS pegged the average annual price for next year at $144.25.

Beef exports reach record levels

Price support from U.S. beef exports also appears to be increasing. They shattered volume and value records in May, according to data released by USDA and compiled by the U.S. Meat Export Federation (USMEF).

U.S. beef export volume soared to a record 133,440 metric tons for the month, up 68% from a year ago, while value increased 88% to $904.3 million. May was the third consecutive month of new value records for beef exports, which had never exceeded $800 million before March of this year.

For January through May, exports reached 587,838 metric tons, up 15% from a year ago, while value increased 22% to $3.84 billion.

Dan Halstrom, USMEF president and CEO cautions that U.S. labor availability remains a major concern and limitation for the industry. Exporters continue to face significant obstacles when shipping product overseas. Foodservice restrictions also continue to affect several key markets where dine-in service is either suspended or subject to capacity limits and shorter hours. Tourism has yet to return in many countries.

Cattle markets appear ready to turn the corner to the upside, buoyed by declining cattle numbers and increased feedlot currentness.

USDA projects U.S. beef exports this year to be record large for both volume and value at $7.6 billion, according to the latest quarterly *Outlook for U.S. Agricultural Trade*. That's $200 million more than forecasted three months earlier, based on both increased volume and unit values.

Wild cards, as usual

As always, there are plenty of caveats to the price outlook.

First, feed prices remain high and volatile.

"Feed costs are and will be an issue, but much of that impact is already priced into the feeder cattle market, so when fed cattle prices improve, feeder cattle prices can move with them." Peel says.

In the June WASDE, USDA pegged the season-average price for the new corn crop at $5.70 per bushel. That was before June's USDA *Acreage* report, which projected corn planted area for all purposes this year at 92.7 million acres. That would be 1.87 million acres more (+2%) than last year.

Still, projected corn carryout remains uncomfortably slim. In the aforementioned WASDE, USDA projected ending stocks for corn at 1.36 billion bushels. If carryout drifts below 1 billion bushels, then Peel says the market will get serious about rationing supply.

Inflation also poses corn price risk. "Watch inflation. Commodities are an inflation hedge and can take core commodity prices places they shouldn't go," Peel says.

Given feed price levels and volatility, Tonsor urges producers to consider protecting downside price risk. As an example, unlike hedging with a futures contract, he points out producers can use Livestock Risk Protection (LRP) insurance for any number of cattle. He adds that fairly recent changes to LRP make it more practical for some to use than it did in the past.

"It's more advantageous to sellers of feeder cattle today," Tonsor explains. "For instance, you could protect half of your herd with LRP and avoid a catastrophic outcome. Lock in singles and doubles. A lot of lenders like to hear you're doing that, by the way."

Beef cow slaughter up significantly

Unfolding drought (see Parched, page 38) impacts feed cost and need, of course. It also could force enough cattle to town earlier to create a market bulge. That would slow the pace toward reduced cattle numbers in the near term, but make supplies even snugger further down the road.

"Depending on how long the drought lasts and how much cow liquidation there is, it could impact markets beyond 2021," Peel says.

"Over the last three months, beef cow slaughter totaled 818,000 head, the most since the 837,000 during the same period in 2010," says David Anderson, livestock economist with Texas A&M AgriLife Extension Service. "Total cow slaughter over the same period is the largest since 2013. At that time, the industry was reducing the number of beef cows due mostly to low prices and then the drought in Texas and the Southwest."

More specifically, in the July 5 issue of *In the Cattle Markets*, Anderson explained beef cow slaughter for the previous three months was the most since 2011 in the region that includes Texas, New Mexico and Oklahoma. It was the most since 2013 for the region including Arizona, California and Nevada.

Even so, Anderson points out cull cow prices are higher year over year.

"Cull cow prices usually increase from the beginning of the year until mid-year," Anderson explains. "Southern Plains 85-90% lean cows increased at a normal seasonal rate to about $65/cwt. at the end of June, about $8 higher than last year. National cutter cow prices hit $67 (end of June), also about $8 above a year ago." **HW**