



Cattle Market

Optimism Grows

Fundamentals suggest climbing prices for the next couple of years.

by *Wes Ishmael*

Cattle futures remained volatile through August, but cash prices and thinning cattle numbers continued to lift market hopes.

“August is a tough time for fed cattle markets to move higher, but the market seems poised to break out from the constraints of the first half of the year as we move into the last part of the third quarter,” explained Derrell Peel, Extension livestock marketing specialist at Oklahoma State University, in his late-August weekly market comments. “Meanwhile, auction calf and stocker prices have moved counter-seasonally higher in July-August, while feeder cattle markets, which typically increase through the summer, have shown a strong seasonal price increase.”

Reflecting on the August Cattle on Feed (COF) report, Peel noted feedlot inventories continue to fall, partly seasonally, but also reflecting the cleanup of the backlog of feedlot cattle from earlier in the year.

“August represents the sixth consecutive monthly decline in feedlot inventories from the February peak, a decrease of 1.03 million head or 8.5% over the six months. In the previous five years, the average feedlot inventory decline from the spring high to summer low has been 6.2%,” Peel said.

Lighter year-over-year carcass weights also suggested feedlots were getting more current in marketing. Heading into September, however, the packing pace was sluggish as cattle feeders battled to regain some market leverage.

“Carcass weights reached a seasonal low in June, a tad later than the normal May low and are rising seasonally into the last part of the year,” Peel explained.

Cattle numbers will contract

More broadly, during its Industry Outlook at the 2021 Cattle Industry Convention and National Cattlemen’s Beef Association (NCBA) Trade Show in August, CattleFax analysts said they expect the domestic feeder cattle and calf supply to decline roughly 1 million head from its peak during this contraction phase.

CattleFax projected next year’s average fed steer price to be \$135 per hundredweight (cwt.), up \$14 from this year. That’s with the forecast average carcass composite price at \$265 per cwt., up \$5 from this year.

Analysts with USDA’s Economic Research Service (ERS) are less bullish. In the August World Agricultural Supply and Demand Estimates, they increased the expected five-area direct average fed steer price next year by \$4 to \$126 per cwt. For the rest of this year, ERS increased the forecasted average fed steer price by \$4 to \$124 in the third quarter and to \$127 in the fourth quarter for an annual average of \$121.20.

Calf and stocker prospects improve

In the August Livestock, Dairy and Poultry Outlook, USDA increased the projected average feeder steer price (750-800 pounds, basis Oklahoma City) for the remainder of this year and the first half of next year, based on recent price strength and declining cattle numbers.

ERS projected average feeder steer prices \$7 higher than the prior month at \$153 per cwt. in the third quarter. Next year’s annual average feeder steer price was forecast \$5 higher at \$151.50. Prices were projected to average \$149 in the first quarter next year and \$147 in the second.

Once again, CattleFax projections were more optimistic, pegging feeder steer prices (850 pounds) \$20 higher next year at an average of \$165 per cwt. Steer calf (550 pounds) prices were projected to average \$200 per cwt., which would be \$30 more than this year.

CattleFax forecasts bred-cow prices next year to average \$1,750 per head, which would be \$125 more than this year. CattleFax sees utility cows averaging \$70 per cwt., up \$6.

Nearer term, analysts with the Livestock Marketing Information Center (LMIC) suggested in the late-August Livestock Monitor that this year’s calf crop might be smaller than estimated by USDA in the semiannual Cattle report.

“Steer calf prices in the Southern Plains have been robust in 2021. Calves weighing 500-600 pounds have averaged between 6% and 16% higher from June through mid-August,” explained LMIC analysts. Given elevated feed costs, they added, “Reports of droughts and liquidation would have implied early weaning was a given in 2021 but the data has shown little signs that is happening to a large degree.”

For instance, they pointed to the August COF report, which pegged 15% fewer July placements weighing less than 700 pounds, compared to the previous year.

“High feed costs should drive calf prices lower, reducing the incentive to place lighter weight cattle into feedlots. Drought-affected areas should have started early weaning and shipped more

small animals to feedlots,” according to LMIC analysts. “Given the limited forage and high hay costs, it would seem likely that more calves would be moving at these prices that are substantially higher than a year ago. These incongruent signals point toward a smaller calf crop (July 1 estimate). That would explain both the higher prices and limited number of placements seen in July. August might show greater movement of smaller feeders, and the timing may be slower than initially thought.”

— OSU Extension livestock marketing specialist

Although production costs were unknown in late August, especially the cost of wheat pasture, Peel said early budgets suggested decent return potential for fall stocker programs.

“Values of stocker gain are higher this year and reflect the increased feedlot cost of gain due to high feed grain prices,” Peel explained. “Stocker value of gain is expected to remain elevated in the coming months. The value of gain reflects the broad market environment for adding weight to feeder cattle. Actual profitability will, of course, depend on actual purchase and sale prices and production costs for stockers.”

Further, Peel pointed out March Feeder Cattle futures in late August were in the \$166-\$167 per cwt. range. For Oklahoma producers, where basis is about \$2 for 750-pound steers, the estimated average March price was \$168-\$169.

“Another question for stocker producers is the expected purchase price of stocker calves later in the fall. The price of 450-500-pound steers typically decreases seasonally from summer to an October low, dropping about 4.5% from August to October. This suggests a price of roughly \$177 per cwt., for 450-pound steers in October,” Peel said. “However, cattle markets are trending higher and may offset the seasonal price patterns. Current October feeder futures plus average basis for calves suggests a price for 450-pound steers of roughly \$196 per cwt. I suspect the most likely calf price for October will be between these values, perhaps in the range from \$180-\$190 per cwt.”

Peel pointed out multiple factors — including the size and timing of fall calf marketings — will determine actual calf prices.

Beef cow numbers are declining

CattleFax expects the beef cow herd to decline 400,000 head by Jan. 1 of next year, reaching 30.7 million head due in part to lingering drought.

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Art Douglas, professor emeritus at Creighton University, expects La Niña conditions to return this fall, intensifying drought in the West and Plains into early 2022.

According to Kevin Good, CattleFax vice president of industry relations and analysis, total cattle inventory peaked at 94.8 million head. He explained those numbers remain in the system due to the COVID-induced slowdown in harvest over the past year. So, fed cattle slaughter will remain elevated through 2021 as carryover from pandemic disruptions works through the processing sector, which remains hindered by labor issues.

The cyclical decline in cattle and calf numbers should start becoming more apparent in available fed cattle supplies heading into next year.

“While fed cattle slaughter nearly equals 2019 highs at 26.5 million head this year, we expect a 500,000-head decline in 2022,” Good said. “This, combined with plans for new packing plants and expansions, possibly adding near 25,000 head per week of slaughter capacity over the next few years, should restore leverage back to the producer.”

For his part, although there were no easy answers to the ultimate impact of drought on beef cow liquidation, Peel said his best guess was that the drought was adding one-half to 1% of additional beef herd liquidation this year.

Beef demand remains strong

Aftershocks from the pandemic continue to keep domestic demand at elevated levels not seen since 1988, according to CattleFax analysts.

“Customer traffic remained strong at restaurants and retail – even as those segments pushed on the higher costs, proving consumers are willing to pay more for beef,” Good explained. He noted the boxed beef cutout price peaked at \$336 per cwt. in June, while retail beef prices pushed to an annual high at \$7.11 per pound. Retail beef prices are expected to average \$6.80 per pound in 2021 and increase to \$6.85 per pound in 2022, he said.

At the same time, global U.S. beef export demand is on a record pace this year.

“Tightening global protein supplies will support stronger U.S. red meat exports in 2022,” according to Good. “U.S. beef exports are expected to grow 15% in 2021 and another 5% in 2022.”

U.S. red meat exports closed the first half of the year at record levels, according to data released by USDA and compiled by the U.S. Meat Export Federation (USMEF). Although volume and value eased from the enormous totals posted in April and May, export value was still the highest on record for the month of June, and first-half shipments established a record pace for both beef and pork exports.

June beef exports totaled 112,249 metric tons, up 42% from a year earlier when exports were still hampered by a COVID-related slowdown in production. Export value was \$804.4 million, up 68% from a year ago and the third highest on record after April and May of this year. First-half exports reached 700,087 metric tons, up 18% from a year ago, valued at \$4.64 billion (up 28%). Compared to 2018, the record year for U.S. beef exports, first-half results were up 6% in volume and 15% in value.

“USMEF had expected a continued strong performance in June for both beef and pork exports, despite significant headwinds,” said USMEF President and CEO Dan Halstrom. “2021 has presented many formidable challenges for the U.S. industry, including a very tight labor situation, logistical obstacles that slowed product movement and food service restrictions in many key markets. So the fact that first-half exports reached record levels speaks to the loyalty of our international customer base, strong consumer demand for high-quality, nutritious U.S. red meat and the U.S. industry’s ability to adapt to a challenging and rapidly changing business climate. We have also seen a welcome rebound in beef and pork variety meat volumes, which had been down last year.”

Beef export value equated to \$351.18 per head of fed slaughter in June, up 60% from last June’s COVID-impacted average. The first-half per-head average was \$359.49, up 20% from a year ago. **HW**