

## Cattle Market Strength Growing

Supply and demand fundamentals fuel optimism.



Wes Ishmael is the executive editor of *Hereford World*. He can be reached at wishmael@hereford.org.

Boom, just like that.

Negotiated cash fed cattle prices busted beyond their months-long rut to the highest levels in more than four years.

Fed steer prices were \$30.69 per hundredweight (cwt.) higher than a year earlier the first week of December at \$140.44 on a live basis. Dressed steer prices were \$47.68 higher at \$219.97 (see Market Tracks, Page 26).

“As 2021 winds to a close, cattle markets seem to finally be able to move out from under the specter of the pandemic impacts that began 18 months ago,” explained Derrell Peel, Extension livestock economist at Oklahoma State University, in his late-November market comments.

Those impacts included disrupted packer production, which deepened and extended burdensome front-end fed cattle supplies that began in August 2019 with the fire that shuttered Tyson’s Holcomb, Kan., plant for several months. Cyclically peak cattle numbers added even more pressure.

In December’s World Agricultural Supply and Demand Estimates (WASDE), USDA’s Economic Research Service (ERS) forecast the 2022 annual average five-area direct fed steer price at \$135 per cwt. The projected annual average for 2021 was \$122.56. Prices were forecast at \$138 in the first quarter, \$134 in the second quarter and \$132 in the third quarter.

Despite higher feed costs, calf and feeder cattle prices continued to gain momentum at the end of the year and are projected to continue higher.

In the November Livestock, Dairy and Poultry Outlook, ERS projected the annual average feeder steer prices (basis 750-800 pounds, Oklahoma City) in 2022 to be \$155.50 per cwt., compared to the projected average price of \$145.55 in 2021. ERS forecast the average feeder steer price at \$153 in the first quarter, \$151 in the second quarter and \$156 in the third quarter.

Plus, supply fundamentals continue to improve cyclically and might tighten further depending on the trajectory of beef cow herd liquidation. Anemic returns and drought have been driving contraction.

“Many beef cattle operations have already made significant adjustments and will have very little flexibility if the current drought extends into 2022. This could result in another severe round of cow liquidation in the first half of next year,” Peel explained in December. “A decade ago, severe drought caused the unplanned liquidation of some 2 million beef cows and affected cattle markets for several years, arguably up to the current time. It is possible it could happen again.”

Based on the U.S. Drought Monitor at the end of November, 69% of the U.S. was abnormally dry or worse with more than 53% in some degree

of drought (D1-D4). At the same time a year earlier, 67% of the nation was abnormally dry or worse and 48% was in some degree of drought.

“The annual Cattle report, due out Jan. 31, 2022, will reveal exactly where and how much beef cow inventories changed along with other cattle inventory data,” Peel said.

### Rising input costs and inflation

Margins could still be challenged despite the welcome increase in cattle prices.

Animal protein supply chains face across-the-board cost inflation with the most significant increases coming in four key areas — animal feed, labor, energy and freight, according to the Rabobank Global Animal Protein Outlook 2022.

Don Close, Rabobank senior animal protein analyst, noted North American feed costs are expected to remain at high levels. “Producers will need to be vigilant in finding opportunities to lock in profitable margins,” he said.

Between January and November of 2021 analysts with the Livestock Marketing Information Center (LMIC) explained average cost of gain for steers was up 32.8% (\$27 per cwt.) and heifer cost of gain was up 37.2% (\$32 per cwt.). That was based on Kansas State University’s Focus on Feedlots data.

ERS projected the 2021-22 U.S. season-average corn price at \$5.45 per bushel in the December WASDE.

Perhaps fertilizer prices provide the most glaring example of rampaging input cost.

Everything from surging global natural gas prices to weather-idled production have more than doubled some prices.

“This next year has the potential to accelerate structural change as a result of escalating costs,” said Christine McCracken, senior animal protein analyst for Rabobank. “Success will most likely go to the players that adapt to the changing business environment, embracing consumer preferences for sustainability and preparing for a surge in demand as economies continue to reopen and adjust following COVID-19-induced lockdowns.”

### Economic recovery still uncertain

More broadly, global economic recovery is continuing, but its momentum has eased and is becoming increasingly imbalanced according to the latest Economic Outlook from the Organization for Economic Cooperation and Development (OECD).

“The strong rebound we have seen is now easing and supply bottlenecks, rising inflation and the continuing impact of the pandemic are clouding the horizon,” said OECD Secretary-General Mathias Cormann. “The risks and uncertainties are large, as is being seen with the emergence of the Omicron

variant, aggravating the imbalances and threatening the recovery. Keeping the recovery strong and on track will entail addressing a number of imbalances, but above all, it will mean managing the health crisis through better international coordination, improving health systems and massively stepping up vaccination programs worldwide.”

OECD projects real global gross domestic product (GDP) growth at 5.6% this year, 4.5% next year and 3.2% in 2023.

For the U.S., OECD projects real GDP at 5.6% this year, 3.7% next year and 2.4% in 2023.

### U.S. beef exports continue record pace

U.S. beef export value soared in October (most recent data available), up 48% year over year to \$956.9 million, the second highest monthly level on record, according to data released by USDA and compiled by the U.S. Meat Export Federation (USMEF). Beef export volume was 7.5% more at 115,709 metric tons.

Through the first 10 months of the year, beef export volume totaled 1.19 million metric tons, up 17% from a year earlier. Export value increased 38% to \$8.53 billion, surpassing the full-year record of \$8.33 billion established in 2018.

Beef export value per head of fed slaughter equated to \$439.46 in October, up 55% from the same time a year earlier. The January-October average was \$394.14, up 34%.

“USMEF has always prioritized market diversification, and this is more critical than ever now that the red meat industry faces unprecedented transportation challenges and rising input costs,” explained Dan Halstrom, USMEF president and CEO. “Exports [U.S. red meat] will likely reach about \$18 billion in 2021, which is a remarkable achievement. While global demand is tremendous and we are cautiously optimistic about further growth in 2022, supply chain pressures are not easy to overcome and are a growing concern for exporters and their international customers.”

Still, domestic and international demand for U.S. beef is so strong that it could encourage cow herd expansion sooner than later.

“The beef cow herd has been declining since 2019 and declined even faster in 2021. It will decline again in 2022 and likely in 2023,” Peel said. “However, strong domestic beef demand bolstered by even stronger demand and potential in international markets suggests that cyclical expansion could resume in the not-too-distant future. Exactly what the future path will be remains to be determined but producers should consider strategic and tactical plans for industry outcomes.” **HW**