Cow Country Reporter

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News from your CEO

HAPPY NEW YEAR! May the year 2018 be a healthy and prosperous one for all.

The year 2017 is over and as I reflect back, our cattle industry faired pretty well especially price wise. The "predictors" started the year painting a pretty dismal year, however, we faired much better than they thought. Prices started higher in April and continued to rise, even the end of the year prices were higher than the same time in 2016. Two major factors helped us in the cow/calf states, one, demand for wheat pasture calves started early (August) and two, the feedlots kept their marketing's current. Our Louisiana auctions saw an increase in the number of cattle sold compared to 2016. Now, what can we expect for 2018? The USDA Cattle Inventory Report issued the end of January will have an effect as we begin this year. Also, wheat pasture conditions will be a factor in demand for calves/yearlings. As I stated last month, it would be wise to meet with your marketing rep (sale barn manager, order buyer, video rep) to discuss your marketing plans for 2018. Start by telling them how many calves you have for sale and then proceed from there. Your marketing rep should hear from you regularly and not just on sale day. Your bottom line depends on it. There will be plenty of meetings held in the next two months so stay tuned and informed. The year 2018 will be different, filled with changes, so keep current! CPL is committed to assisting you throughout the year! Let us know your thoughts and concerns.

Dave Foster, CEO

What to Watch and What to Manage in 2018

Derrell S. Peel, Oklahoma State University Extension Livestock Marketing Specialist

Continued growth in beef production in 2018 is likely to pressure cattle and beef prices. Cattle producers have a number of economic conditions to watch that will indicate the impact of factors they cannot control and that will have implications for those factors they do control.

Domestic and international beef demand will continue to be critical factors affecting cattle and beef prices in 2018. The U.S. economy is currently strong with low unemployment and a stock market supported by lots of cash from earlier Federal Reserve stimulus. Economic growth has been rather plodding but steady over the past few years. Though inflationary fears have not yet materialized, the Federal Reserve began raising interest rates in 2017 as the economy gained strength. The recent tax cuts and proposed infrastructure investments could provide additional fiscal stimulus that adds to inflation concerns. This may pressure the Federal Reserve to raise interest rates more and faster in 2018 and beyond. Though no major change is expected at this time, macroeconomic conditions are a factor to watch in 2018.

Record beef production is expected to combine with growing pork and poultry production to result in record total meat supplies in 2018. Wholesale and retail beef prices held up well to growing meat production in 2017, indicating strong beef demand and there is no indication it is changing going into 2018. However, ample meat supplies will continue to be a demand challenge for beef in the coming year. Pork and poultry production and trade are factors to watch this year.

Beef trade provided much support for cattle and beef markets in 2017, led by growth in beef exports. Modest beef export growth is expected to continue in 2018 assuming no change in trade policy. However, the cloud of uncertainty due to NAFTA renegotiations continues to hang over meat markets. Beef, pork and poultry exports to Mexico and Canada represented

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What to watch and what to manage in 2018

31 percent of total U.S. meat exports and included 26 percent of total beef exports for the first ten months of 2017. Both the U.S. and South Korea have suggested a possible renegotiation of KORUS-FTA, which could impact the number two beef export market. International beef markets and trade policy are also factors to watch in 2018.

Domestic and international beef demand will determine cattle and beef price pressure relative to increasing beef production. Modest price pressure is expected at this time but any threat to demand would quickly result in additional price weakness. Larger down-side price risk means that risk management takes on an added importance in 2018. While cattle producers cannot have much impact on overall market price levels, they may be able to reduce the risk of lower individual prices with risk management tools.

Producers will have challenges to maintain profitability in 2018. Lower prices increase the likelihood of lower revenue and puts additional emphasis on production and cost management in the coming year. The beginning of a new year is a good time to evaluate all aspects of cattle operations for the coming year including major budget items such as forage management and use; harvested and supplemental feed use; and machinery costs. Overall production costs are expected to remain stable in 2018, though rising interest rates may impact debt management at some point. Maintaining profitability this year in the face of lower prices will require increased production and/or reduced costs.

Cattle producers are watching a variety of external factors that may impact cattle and beef markets this year while focusing management on resource use and cost of production. Profitability will likely be squeezed but decent returns are possible in 2018.

Best wishes for a happy and prosperous new year!

2017 in review: Retailers kept beef moving

The amount of beef that grocery stores moved this year by using it as a loss leader is the number one factor in this year's market.

By: Burt Rutherford

It's a pretty safe bet that cattle producers will wave goodbye to 2017 with sadness. But they won't be sorry to see it go because they got beat up in the cattle market. Quite the contrary.

Usually, says Jim Robb with the Livestock Marketing Information Center, when cyclically larger cattle supplies are the dominant factor in the cattle complex, the fourth quarter almost always posts the lowest prices of the year.

Almost always. And that's why we'll be sorry to see 2017 slip into the annals of history.

Speaking during the recent Range Beef Cow Symposium in Cheyenne, Wy., Robb stepped through the drivers that made 2017 such an unusual year for cattle markets. "What we essentially have, for the first time since 2003 and the first time ever through the whole year, is the market pulled animals through the production system," he said.

Carcass weights have been below year-ago levels for most of the year as feedyards sold cattle as quickly as possible into a generally strong market. That helped. But the main driver, Robb contends, has been retailers.

He showed a picture of a supermarket newspaper ad from 10 years ago that touted steaks at $5.99 per pound. Then he held up a supermarket newspaper ad in the Denver market from the week before Thanksgiving this year—New York bone-in steaks at $4.99 per pound. "And right next to that ad, smaller on the page, spend $100 and get a free turkey. How many years has it been since beef was on the front page and beef was on top of turkey at turkey time? It's been a long time."

That, he says, reflects a significant change in how consumers shop and how traditional grocery stores must compete in order to survive. Internet shopping is on the rise and will only continue to gain market share over traditional retailers.

"How do you compete with that as a traditional grocery store? What do you have to offer? You have the fresh meat case, you have fruits and vegetables and you've got milk and yogurt. And that's all you've got," Robb says.

Brussel sprouts as an incentive to get people into the store? Not hardly.

Indeed, beef featuring has long been a staple in the retailers' war chest when they want to get people into the store. And in the past, cattle producers have grumbled at the low price retailers peddled their product for.

Grumble no more. The amount of beef that grocery stores moved this year by using it as a loss leader is the number one factor in this year's market, Robb contends. In fact, he estimates that it has added at least $13 per cwt to fed steer prices.

And it will continue. "This is a sea change," he says. "The market for consumers has never been like this. Are they [retailers] going to keep doing this? If they want people in their stores, they're going to do it."

Second on the demand side that has made 2017 a surprisingly good year has been exports, Robb says. "Number three has been domestic demand holding together."

Looking ahead at the market, Robb predicts we'll see lower prices the next two years, but says they may not drop back to what we saw in 2016. And it's possible the fourth quarter of 2019 could be a repeat of the fourth quarter this year.

"We have a lot to get through the next two years and we expect lower prices the next two years. But as we get out to 2019, 20, 21, you can probably have some stronger cattle markets," he predicts.

But for now, enjoy the ride. "The U.S. economy is growing. Consumer sentiment is as good as it's been since 2003 and 2004. Unemployment in this country is as low as it's been in years. Consumer incomes are up in this country. This is an economic environment where overall, this has been supportive of the beef market."

Consumer demand, market resiliency highlight fed cattle market

The cattle market throughout 2017 held many surprises for beef producers. December closed the year in similar fashion.

By: Nevil Speer

December brought some unexpected Christmas cheer to the cattle market. Fed trade started the month at $120-121 per cwt. However, holiday pressure appeared the following week; the market subsequently stepped back a few dollars. Normally, some negative follow-through would be expected in the weeks to come. But this market proves resilient; just when it appears there could be some tough weeks ahead, the market fight backs.

Following the setback to $117, cattle feeders fought back to $120 and ultimately captured $122-123 to close out the month. That's a significant accomplishment. Consider last December, weekly beef production averaged about 480 million pounds – while fed trade average $113.50. Meanwhile, this year's average weekly output during December was 3.5% bigger compared to 2016 at 496 million pounds, with corresponding fed trade averaging nearly 6% better year-over-year at $120.

Bigger production and better prices. Therein we find the enduring themes for the beef complex in the coming year. That is, the market will be mandated to absorb bigger supply. Meanwhile, beef demand appears to be negating the supply impact, and then some. With that in mind, those themes merit some discussion to set the stage for 2018.

First, bigger numbers are nothing new. That's been a recurring theme during the past year. Figure 1 depicts the 13-week moving average for weekly beef production. Throughput in late 2017 encroached 520 million pounds – that's the biggest throughput the industry has experienced since August 2008.

That trend will likely continue. Cattle feeders have been resoundingly aggressive in placing cattle during 2017. And November was no exception as placements surprised to the upside. USDA's Cattle on Feed report had cattle feeders taking delivery of 2.1 million head; the busiest November placement action since 2007.

But most important is the five month placement trend, with the earliest arrivals now being marketed. Through November, the five month total equals 10.2 million head – 825,000 head bigger versus 2016.

In other words, the fed market will have to work through an additional 825,000 head of cattle in the months of December through April. And all the while, there's enduring pressure from competing protein sources. Aggregate beef, pork, chicken and turkey production totaled 213 pounds per capita in 2016; that increased to 214 pounds in 2017 and forecast to break through 217 pounds and encroach 220 pounds in 2018 and 2019, respectively (Figure 2).

But second, there's also the issue of demand. And that is playing out favorably for the beef industry, at least for now. And as alluded above, that's underpinning the fed cattle market. To that end, the Livestock Marketing Information Center explains the fed market like this:

Slaughter steer prices this fall have posted the biggest increase from September of any year in the last 11… The average change for that two-month span [September to November] during the prior 11 years was up by $1.42 per cwt. This year the price increase was $14.26. The biggest September-November price change since 2005 before this year was in 2014, which posted a gain of $9.82. In 2015, fed steer prices recorded the biggest September-November price drop in the last 11 years of $8.21. In 2016, November cattle markets started a rebound that continued into 2017.

The indicators of favorable beef demand are two-fold. One, the Prime and branded market continues to grab market share from the lower end of the market. Figure 3 represents the 12-week moving average for market percentage comprised by Prime and branded versus Select, respectively. The trend is formidable. Moreover, the week prior to Christmas marked a new market share record for Prime and branded sales, comprising over 24% of value for the wholesale market.

Two, this week's Industry At A Glance highlights an emerging divergence of middle meats versus end meats. In combination, it appears that consumers are increasingly focused on a high quality, consistent eating experience and willing to pay accordingly.

That's not surprising. Included in last month's column and worthy of repeating here, the Daily Livestock Report (Dec. 4) recently noted that, "…all year long we have seen beef demand defy expectations. The economy is in good shape, unemployment is low and the consumer appears willing and able to pay for beef."

To that end, Industry At A Glance recently highlighted several key economic indicators – all trending in a favorable direction: 1) employment, 2) consumer sentiment, and 3) SP500 projected earnings. Given that reality, the beef industry should find some tailwinds to help underpin beef demand – at least through the first half of 2017.

All that said, this column is always focused on the importance of risk management. That consideration takes on two sides. First, there's the concern of protection, and second, there's also the need to ensure against missed opportunities. That's not an easy line to walk – and one's inherent bias of which side to walk depends upon many factors, including size of the operation, other business interests, relative debt, age, etc.…

Accordingly, it's always important to fully understand the business environment. Producers are encouraged to be aggressive about obtaining and analyzing meaningful information. Doing so helps to ensure making successful business decisions going forward – within the framework of one's respective risk profile. And on that note, here's wishing everyone great success and prosperity in 2018!

Nevil Speer is based in Bowling Green, Ky., and serves as vice president of U.S. operations for AgriClear, Inc. – a wholly-owned subsidiary of TMX Group Limited. The views and opinions of the author expressed herein do not necessarily state or reflect those of the TMX Group Limited and Natural Gas Exchange Inc.

Consumers are clamoring for high-quality beef

It's clear that consumers want quality beef. And that's good news for ranchers.

By: Nevil Speer

There's something important going on in the beef market—namely, the relative contribution of middle versus end meats to the overall cutout is diverging.

First, some quick review for context. Around 90% of the cutout is comprised of the four major primals: round, loin, rib and chuck. USDA explains that, "The boxed beef cutout represents the estimated gross value of a beef carcass based on FOB prices paid for individual beef items derived from the carcass."

In other words, packers report individual item wholesale values based on their respective sales to customers. Those prices are then aggregated by USDA into an index for each primal and then subsequently compiled into an overall cutout value.

This week's illustration highlights the strong surge in the contribution of the middle meats (rib and loin) that started in early-January 2015. The graph reflects 26-week moving averages to remove some of the weekly noise. That surge peaked late summer 2016. However, as the relative middle-meat contribution waned, the new low marks are almost equal to the longer-running resistance points – hence reflecting the divergence over time.

Based on this data, it appears the rib and loin are finding new pricing power in the marketplace. Stated another way, consumers are clamoring for quality and high-end beef cuts.

As a result, the rib and loin has consistently been deriving a greater portion of carcass value versus the chuck and round. That's a favorable sign for beef demand and underscores the importance of de-commoditizing beef versus pork and poultry.

How do you perceive this trend? Do you foresee the relative contribution of middle meats versus end meats going back to the longer-run pattern? Or is this a new dynamic in the meat market? Leave your thoughts in the comment section below.

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