Beef Cattle Market Outlook

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2020

NOT MUCH WENT SMOOTHLY
High Risk. Chaos. What works?

Sorting through this year's Challenges
- Expect the Unexpected: Everything is on the table.
- Survive, develop a written plan, absolutely critical.
- Maintain cash flow, absolutely critical.
- Debt payments, family living expenses, savings, working expenses, reinvestment - expansion (Grow Slowly)

Demand

State of the U.S. Restaurant Industry
- U.S. consumer beef demand remains strong...
- Yet, the U.S. lost 110,000 restaurants in 2020,... that's a lot of restaurants that aren't selling beef anymore...

Beef Cattle Market Thoughts
- Increased beef, pork, and poultry supplies available...
- CFAP payments and a recovery in feeder cattle prices have produced significant profits for some...
  - CFAP provided support for summer 2020 feeder calf sales
- What will consumer discretionary spending look like going forward?"
- Decline in food service outlets...
- Corn "to the moon"?

Economic Market Thoughts
- Unemployment remains elevated and inflation is high...
- Stimulus measures and the price of stock markets around the world mask the serious impacts of the pandemic.

The Ball is in the Consumers Court
- Consumer demand for U.S. beef will determine if packers bring more inventory to the grocery store shelf.
- For live cattle prices to increase in the near term, consumers must demand more beef at higher prices.
- Where will consumers find more discretionary income?
- Will consumers balk at higher prices?
Severity of the Drought in the Western United States

Risk Concerns

- COVID-19
- Global Recession
- African Swine Fever
- China
- Supply Chain Disruptions
- Meat Packing Plant Fires
- Trade Agreements
- Record Meat Production
- Export Markets
- WEATHER (Blizzards/Floods/Drought)
- Domestic Consumer Demand
- Competing “Meats”
- Corn Prices

January 2021 U.S. Cattle Inventory Report

- U.S. Beef Production and Cattle Numbers are now beginning to TIGHTEN.
- Inventory numbers confirm that herd expansion for the current U.S. cattle cycle has ended.
- Peaked in 2019 @ 94.8 million head

July 2021 Mid-Year U.S. Cattle Inventory Report

- U.S. Beef Production and Cattle Numbers are now beginning to TIGHTEN.
- All Cattle and Calves: 1.3% ↓
- Beef Cows: ~2% ↓
  - Largest mid-year decline since 2012
  - Beef Cow herd 3% below the 2018 high

MARKET PRICE RISK

Markets are reflections of all sorts of things

Supply and Demand Fundamentals
from human emotions to herd behavior
to changes in the underlying status quo (how stuff gets done, made, distributed, paid for, etc.)

“Outside Market Forces”
Futures Traders are Bullish on Feeders

Premium on Future Contract Months:
- Lock in Optimism in Futures?
- Don’t always anticipate the cash market to trade up to Futures.
- Sometimes Futures will erode the premium and trade down to Cash.

CME Feeder Cattle Futures

May 17, 2021

CME Feeder Cattle Futures

July 7, 2021
CME Feeder Cattle Futures
August 5, 2021

CME Feeder Cattle Futures
September 2, 2021

August Feeder Cattle Futures Prices (CME)

$/cwt.
$110 $120 $130 $140 $150 $160 $170

Making a Profit is not generally frowned upon.

December 2020 Feedlot Cost of Gain:
Steers: $0.78/lb.
Heifers: $0.84/lb.
Corn: $4.72/bu.

Moving forward, every kernel that is consumed must now be replaced by another at a significantly higher price.
May 2021 Feedlot Cost of Gain:
Steers: $0.99/lb.
Heifers: $1.09/lb.
Corn: $6.45/bu.

Moving forward, every kernel that is consumed must now be replaced by another at a significantly higher price.

Cattle Feeders Continue to Bleed
High Feed Costs
High Feeder Cattle Prices
Low Fat Cattle Prices

WON’T WORK.

One or more of these factors will eventually change abruptly.

The Easiest Way for the Cattle Feeders to Fix this:

Is To Pay Less for Feeder Cattle
Long-Term Beef Projections
U.S. Beef Exports

Source: Food and Agricultural Policy Research Institute (FAPRI)

Long-Term Price Projections
600-650 lb. Feeder Steers, Oklahoma City, OK

Source: Food and Agricultural Policy Research Institute (FAPRI)

Have a Plan

“With inflation running persistently below 2%, we will aim to achieve inflation moderately above 2% for some time so that inflation average is 2% over time and longer-term inflation expectations remain well-anchored at 2%.”
- Federal Reserve

At Some Point, Have a Plan for Inflation

At that point, it will be critical for producers to consider the needs of your business moving forward.
- Feed
- Land Rent
- Animal Inventory
- Labor
- Interest Rates

Planning ahead will impact your bottom line.

Five Things I’m Thinking About RIGHT NOW

• 1) The Cost of EVERYTHING
• 2) What are you gonna feed? And at what price?
• 3) Wintering Your Cowherd – DO THE MATH
• 4) Could processing speeds at meat packing facilities be inhibited further by COVID protocols or mandates?
• 5) Price Fluctuations
There is no telling what may transpire between now and the end of the pandemic.

- Develop a marketing plan, work on it weekly.
  - Identify your marketing window
- Stay Flexible... include risk management strategies in your marketing plan.
- Develop a relationship with your lender/broker/insurance agent/etc.
- Maintain the working capital needed to complete your marketing scenario.
- Evaluate your Cash Flow, Potential for Liquidity

WORDS ARE JUST WORDS.

What to focus on?

Only two numbers matter:

THE BOTTOM LINE
What you spend and what you receive...

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