Beef Cattle Market Outlook and Strategies

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UK Agricultural Economics
Thoughts on Market

• Hard to justify summer slip in the market
  – Is this market that much weaker than last years?

• Market fundamentals
  – Flooding issues / slowing gains – overreaction, ASF, stable cow numbers, solid macroeconomy, trade issues, corn crop, non-meat competition

• I expected futures to have support this fall

• Then the Tyson fire…
CME© Feeder Futures
(Pre-Tyson Fire)
Nearby CME® Live Cattle Futures

$ per cwt

Jan-08 to Feb-19

Graph showing the price of live cattle futures from January 2008 to February 2019, with price points at $0, $20, $40, $60, $80, $100, $120, $140, $160, and $180, and months ranging from January 2008 to February 2019.
CME® Live Futures
(Pre-Tyson fire)
Since the Tyson Fire...

- Nearby futures hit hard
  - 2 limits on lives ($7.50), feeders down $11
- Plant accounted for 4.5-5% of fed cattle slaughter (Koontz)
  - $7-9 price impact in short run
- Impact should get smaller over time and be smaller on feeders
- Brings up questions about capacity
KY Feeder Steers M/L #1-2
550# Steers ($ per cwt)

Source: USDA-AMS, LMIC, and author calculations
Beef Cow Slaughter
(1,00 head)

Beef Cow Slaughter up 8% for 2018, 2% for 2019
KY Cull Cow Prices
Boning 80-85% ($ per cwt)

Source: USDA-AMS, LMIC, and author calculations
SLAUGHTER COW PRICES
Southern Plains, 85-90% Lean, Weekly

$ Per Cwt.

Data Source: USDA-AMS
Livestock Marketing Information Center
<table>
<thead>
<tr>
<th>Country</th>
<th>2017 (1,000 lbs)</th>
<th>2018 (1,000 lbs)</th>
<th>Change from 17’ to 18’</th>
<th>% of US Beef Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>826,004</td>
<td>880,665</td>
<td>+7%</td>
<td>3.3%</td>
</tr>
<tr>
<td>South Korea</td>
<td>472,729</td>
<td>638,186</td>
<td>+35%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Mexico</td>
<td>419,349</td>
<td>448,796</td>
<td>+7%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>335,705</td>
<td>307,270</td>
<td>-1%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Canada</td>
<td>309,138</td>
<td>299,880</td>
<td>-3%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Total Exports (includes others)</td>
<td>2,859,687</td>
<td>3,155,370</td>
<td>+10%</td>
<td>11.7%</td>
</tr>
</tbody>
</table>

Source: USDA-ERS, Livestock Marketing Information Center, and author calculations
### 2019 Exports by Country

<table>
<thead>
<tr>
<th>Destination</th>
<th>Change Through June 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>-15%</td>
</tr>
<tr>
<td>Japan</td>
<td>-6%</td>
</tr>
<tr>
<td>Mexico</td>
<td>+3%</td>
</tr>
<tr>
<td>South Korea</td>
<td>+12%</td>
</tr>
<tr>
<td>Total Exports</td>
<td>-3%</td>
</tr>
</tbody>
</table>
Jan Heifer Retention as % of Beef Cow Inventory
Heifer slaughter up 7% through June
Assumptions Behind Predictions

• Tyson fire impacts markets into the fall
• 2020 Beef cow herd is less than 0.5% larger than 2019
• 2020 on-feed numbers flat, but production increases on female slaughter (1%?)
• Competing meats: Pork +3%, poultry +1%
  – I see “per caps” going up
• Macroeconomy hits some bumps*
# Market Expectations

<table>
<thead>
<tr>
<th></th>
<th>Fall 2019</th>
<th>Spring 2020</th>
<th>Fall 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>550 lb Steer S. Plains</td>
<td>$150-$155</td>
<td>$160-$170</td>
<td>$150-$160</td>
</tr>
<tr>
<td>550 lb Steer Kentucky</td>
<td>$135-$140</td>
<td>$150-$160</td>
<td>$135-$140</td>
</tr>
<tr>
<td>750 lb Steer S. Plains</td>
<td>$145-$150</td>
<td>$145-$155</td>
<td>$140-$150</td>
</tr>
<tr>
<td>Choice Steer 5-Area</td>
<td>$102-$108</td>
<td>$115-$125</td>
<td>$110-$120</td>
</tr>
</tbody>
</table>
Cow-Calf Thoughts

• Avoid complacency due to calf prices
  – Weaning, steers, etc.
  – $25-$50 per cow makes big difference now

• Use culling as a tool
  – Open cows, late calvers, poor performers, etc.
  – Mature cow size vs. weaning weight

• Heifer development cost is low this year
  – Target a solid cow-herd in a few years!
Thoughts for Margin Operations

• Profit was on the table this spring
  – This fall could be very ugly!
• What percent of total costs are “sunk” at placement?
  – Should that percentage be priced at that time?
• Backgrounders can be opportunistic
  – Harder for feedlots are stocker operators
• Look for placement windows and strike
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