

September 4, 2018

In The Cattle Markets

Brenda Boetel, Professor and Extension Economist

Department of Agricultural Economics, University of Wisconsin-River Falls

Market Implications

Seasonal beef production increases are expected in the latter half of the year. Although the supply increases may be lower due to recently lower than expected slaughter weights there will still be year-over-year beef production increases of 3.3 percent (down from expectations of 3.7%). This supply pressure will continue to put long-term downward pressure on prices.

This increase in beef production will be occurring simultaneously with the increase in pork production. Export markets have until recently absorbed large amounts of our increased animal protein production. Higher tariffs and weaker demand is putting pressure on those exports. USDA's Economic Research Service released its quarterly Situation and Outlook report last week, in which they forecast exports of beef, pork, dairy, poultry and other livestock products to be down \$300 million in FY 2019. Beef exports are projected down \$100 million due to lower prices, while pork is forecasted down \$300 million due to weaker demand and retaliatory tariffs.

Beef trade has been supportive of beef prices. The bigger trade concern for cattle is the indirect effects from decreased trade opportunities for pork. Futures markets will react quickly and aggressively to political announcements that may or may not materialize into market changes. Increasing/decreasing the market export opportunities is similar to increasing/decreasing the size of the cattle herd. It takes a long time to increase the number, but we can lose our markets very quickly. The short-term excitement over the U.S.-Mexico agreement has worn off as people realize the agreement isn't finalized or ratified.

Getting NAFTA finalized however would free up trade negotiators for more discussions with China. Beginning those negotiations with China now may possibly have fortuitous timing impacts as China will start needing U.S. soybeans in the next few months, as well as U.S. pork. The Chinese demand for U.S. soybeans and pork will depend on trade as well as impacts felt from the African Swine Fever, a highly contagious disease with no known vaccine.

The Markets

Labor Day is over and time marches on. The short trading week will likely be volatile. Grains and oilseeds will likely decrease slightly as speculators are growing more bearish and gains from short-coverings have been realized.

Retailers will be looking to restock meat products after their Labor Day sales. After light trade leading up to Labor Day, cattle buyers this week will be needing to secure cattle for slaughter.

Given the strong processor margins, this may allow a slight short-term bump in cash prices this week.

<i>Data Source: USDA-AMS Market News</i>		Week of 8/31/18	Week of 8/24/18	Week of 9/1/17
5-Area Fed Steer	all grades, live weight, \$/cwt	\$107.18	\$109.02	\$104.66
	all grades, dressed weight, \$/cwt	\$169.59	\$172.78	\$165.71
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$212.03	\$213.99	\$191.65
	Choice-Select Spread, \$/cwt	\$8.79	\$10.41	\$1.15
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$150.50	\$153.93	\$155.46
	Nebraska 7-market, \$/cwt	\$157.01	\$166.81	\$154.75
	Oklahoma 8-market, \$/cwt	\$151.88	\$152.77	\$148.86
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$162.50	--	\$163.85
	Nebraska 7-market, \$/cwt	\$182.46	\$180.00	\$174.53
	Oklahoma 8-market, \$/cwt	\$161.82	\$160.99	\$160.74
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.18	\$3.23	\$3.19
	DDGS, Nebraska, \$/ton	\$139.00	\$121.50	\$105.80