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In The Cattle Markets

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Election 2016 – What does it mean for the cattle markets?

Last Tuesday, Donald Trump became the President-elect. Although the US stock market initially declined, the losses were made up later that day and the market has continued to react positively. What will happen long-term is up for debate. The question for this report however is what immediate decisions President-elect Trump will make that will have long-term impacts on the cattle markets.

President-elect Trump will be making many policy decisions in the next four years however, in my opinion, the two that will have the largest direct impact on cattle markets will be 1) the decision to not partake in the Trans Pacific Partnership (TPP) and 2) the proposed moratorium on the Waters of the United States (WOTUS).

Following Trump's victory, Obama has given up on promoting TPP. The now-defunct TPP could have boosted U.S. beef exports as Japan is the leading market for U.S. beef. U.S. beef faces a Japanese import tariff of 38.5%, compared to Australia, which faces an import tariff of 28.5%. In 2015 U.S. shipments of beef to Japan totaled 538.551 billion pounds with a value of approximately \$1.3 billion, and in 2016 exports to Japan are up 14.3% year to date in volume but only 0.4% in value. Exports from Australia to Japan were up in 2015 but are down in 2016. Before one assumes that the Japanese tariffs don't affect trade, note that during 2016, U.S. beef production is expected to increase 3% from 2015, and will increase another 2.6% in 2016 and 2.1% in 2017, while Australian beef production is down 18.5% from 2015 and will likely decrease again in 2017 due to herd rebuilding. So what does all this mean for beef exports to Japan? Essentially, in spite of the high tariffs the U.S. is currently increasing exports to Japan; however, once Australia has rebuilt their herd, if history is any indication, U.S. beef will lose market share to Australian beef in Japan primarily due to the large discrepancy in import tariffs. Long-term (i.e., two years or more out), the loss of TPP could adversely affect cattle markets at a time when the U.S. needs strong international demand the most.

Trump has indicated he will propose a moratorium on new federal regulations not compelled by Congress. If true to his word, this would include eliminating WOTUS.

WOTUS is already in place, but there is a current legal stay on any regulation and Trump has the ability to make WOTUS go away. The elimination of WOTUS will have long-term impacts on the cattle markets due to the increased profitability potential by producers.

In the next four years, President-elect Trump will have the potential to impact cattle markets. Some of these decisions will improve cattle producer's profitability potential, while others will hurt. Time will tell which way the markets will lean more heavily.

The Markets

Strength in the Dow Jones last week spilled over into the cattle markets. Cash cattle markets were mostly steady to slightly lower last week and are still undeveloped as of this time on Monday; however it is expected that live cattle futures will still hold a premium. Although cattle supply is slightly limited, demand is lackluster with Choice values down \$1.56 week over week. As of Monday morning, feeder cattle markets are seeing significant increases. Additionally, increased cow slaughter is indicating that herd expansion may already be over.

<i>Data Source: USDA-AMS Market News</i>		Week of 11/11/16	Week of 11/4/16	Week of 11/13/15
5-Area Fed Steer	all grades, live weight, \$/cwt	\$103.70	\$104.31	\$127.04
	all grades, dressed weight, \$/cwt	\$162.15	\$162.24	\$199.29
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$185.47	\$187.03	\$213.79
	Choice-Select Spread, \$/cwt	\$15.26	\$13.60	\$10.32
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$117.94	\$118.13	\$168.46
	Nebraska 7-market, \$/cwt	\$130.81	\$128.20	\$185.59
	Oklahoma 8-market, \$/cwt	\$124.79	\$129.72	\$177.77
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$135.12	\$133.47	\$197.66
	Nebraska 7-market, \$/cwt	\$140.65	\$139.20	\$208.94
	Oklahoma 8-market, \$/cwt	\$136.39	\$132.86	\$201.08
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$2.96	\$3.02	\$3.41
	DDGS, Nebraska, \$/ton	\$105.63	\$107.00	\$127.25