

In The Cattle Markets

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Key Factors in 2015...

As is common for the start of each new year multiple analysts are sharing their views on what will be key factors impacting the meat and livestock markets in 2015. A nice summary of points I have been sharing and fully concur with are those provided on December 31st by the authors of CME's Daily Livestock Report.¹ The five key points outlined are:

1. The state of meat and poultry demand
2. The U.S. economy
3. Growth of the broiler sector
4. The number of pigs saved per litter
5. Pasture and range conditions

This list of issues largely reflects core supply and demand fundamental issues of central importance to the entire meat and livestock complex and I encourage a careful assessment of each issue. To this list, I would add a series of additional points for industry stakeholders to seriously contemplate and monitor including:

1. Industry infrastructure relative to herd sizes

As the cow-calf industry proceeds (weather permitting) to expand the breeding herd the immediate impact will be a further reduction in throughput of animals for the feedlot and packing segments which already operate in a state of excess capacity. Conversely in the hog industry, there is growing concern that the pending expansion will result in insufficient processing capacity. Monitoring these trends over the next two years will be important both in aggregate nationally and regionally as some geographic areas are likely to be impacted much more than others.

2. Price discovery

The ongoing concern of both fed cattle and market hog producers regarding price discovery may be elevated in 2015. Narrowly, the multi-year pattern of lower volumes of animals being sold via negotiated cash methods continues to concern segments of the industry. Changes in the relationship of herd sizes and infrastructure (see point #1) may further exacerbate these concerns.

3. Political issues including country of origin labeling (COOL) and checkoff funding

¹ This is available online at: <http://www.dailylivestockreport.com/documents/DLR%2012-31-2014.pdf>

There is a long history within the U.S. cattle industry of policies being met with notably mixed acceptance given divergent views on how to best lead the industry into the future. In 2014 two such issues included COOL and possible changes to checkoff funding and structure. In order for the collective cow-calf segment to best reap the economic rewards of astounding projected profit potential in 2015, it will be critical that these and related divisive issues do not result in producers losing sight of the fundamental market factors that largely are in their favor currently.

4. Public acceptance of current meat production practices

While the entire livestock sector is poised for likely expansion given favorable meat-to-feedstuffs price relationship projections, the exact magnitudes of expansion will be influenced by factors that may not have been heavily considered in the past. There are mixed views among producers regarding the growing tendency of segments of the public to ask more questions about meat production practices and at times require adjustment or additional documentation of these practices. To the extent producers are uncomfortable with this situation or the broader uncertainty they believe it poses to their business, individual interest in expansion may well be moderated resulting in lower aggregate expansion than some analysts may otherwise anticipate.

In summary, 2015 appears certain to be another interesting year offering profitable opportunities to many stakeholders in the beef-cattle industry. Regardless of your agreement with the specific issues raised here, I encourage everyone to stay informed and make use of available resources to guide decision making throughout the upcoming year.

I wish everyone a healthy, enjoyable, and prosperous 2015.

The Markets

Cattle prices last week increased notably from prior week, holiday-impacted levels. The 5-area fed cattle price for the week was up nearly \$4 while Nebraska yearlings traded higher at \$239.12. Corn prices were down for the week trading at \$3.74 in Omaha.

	Cattle or Meat Category <i>Data Source: USDA-AMS Market News</i>	Week of 1/9/15	Week of 1/2/15	Week of 1/10/14	% Chg Prev. Week	% Chg Prev. Year	Chg Prev. Week
5-Area Fed Steer Price	all grades, live weight, \$/cwt	\$169.67	\$165.94	\$139.68	2%	21%	\$3.73
	all grades, dressed weight, \$/cwt	\$270.26	\$264.87	\$221.03	2%	22%	\$5.39
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$252.76	\$247.40	\$210.00	2%	20%	\$5.36
	Choice-Select Spread, \$/cwt	\$9.53	\$9.61	\$3.47	-1%	174%	(\$0.09)
700-800 lb. Feeder Steer Price	Nebraska 7-market average, \$/cwt	\$239.12	\$227.84	\$176.19	5%	36%	\$11.29
	Oklahoma 8-market average, \$/cwt	\$232.30	--	\$169.72	--	37%	--
500-600 lb. Feeder Steer Price	Nebraska 7-market average, \$/cwt	\$308.66	\$287.63	\$218.10	7%	42%	\$21.03
	Oklahoma 8-market average, \$/cwt	\$284.50	--	\$200.97	--	42%	--
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.74	\$3.77	\$4.07	-1%	-8%	(\$0.03)
	DDGS Price, Nebraska, \$/ton	\$180.00	\$182.25	\$188.00	-1%	-4%	(\$2.25)
	MWDGS Price, Nebraska, \$/ton	\$79.50	\$79.25	\$87.50	0%	-9%	\$0.25