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In The Cattle Markets

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What about Trade?

On Friday, February 10, 2017, Japanese Prime Minister Shinzo Abe met with President Trump on several issues including potentially laying the groundwork for a bilateral trade agreement. With the withdrawal from the Trans Pacific Partnership, a bilateral agreement with Japan is important to the US cattle industry.

US beef exports are expected to grow 5.6 percent in 2017 and the US is expected to retain the position of 4th largest exporter in the world, behind Brazil, India and Australia. In 2016, almost 26 percent of total US exports went to Japan, 18 percent to South Korea, 15 percent to Mexico and 12 percent to Canada. Uncertainty regarding trade policy exposes the beef and cattle industry to less favorable trade policies and potentially a loss of market share in some of these most profitable markets.

The US gained market share in Japan, South Korea and Mexico in 2016 partially due to the lower exports from Australia. US exports to Japan were valued at almost \$1.5 billion, while exports to South Korea and Mexico were valued at \$1 billion and \$790 million, respectively. Total beef and hide exports added almost \$240 of value to the finished animal in 2016; while almost \$96 of that value came from beef exports to only Japan, Mexico and Canada. I mention these three countries not only because they are where a large percentage of US beef exports go, but also because these three countries will be impacted directly by changes in trade policy.

The US faces a 38.5% tariff on fresh and frozen beef going into Japan, as compared to the 9% tariff that Australia faces. The cattle industry needs to be concerned about whether that market share can be maintained once Australia's beef herd has increased. With the withdrawal of the US from the Trans Pacific Partnership, a bilateral agreement with Japan would help to secure a critical market for US beef and increase overall beef demand. Any agreement to lower the tariff the US faces on beef going into Japan will benefit cattle producers in the long-run.

Renegotiation of the North American Free Trade Agreement (NAFTA) will expose the US cattle industry to uncertainty in two of our major beef export markets, Mexico and Canada. And let's face it, recent conversations with Mexican President Enrique Pena Nieto have not necessarily built good will. Pena Nieto has sworn to walk away from NAFTA than accept a new deal that is worse than the current one. That situation that would not benefit US cattle producers.

The Markets

Futures ended last week down. April live cattle prices were down \$2.47, while March feeder cattle contract was down \$1.50. Technical signals for the live cattle futures appear to indicate a significant decrease in price is looming. Cash markets were firmer at \$120, up \$1 based on tight supplies of market-ready cattle. Weaker boxed beef prices (down \$3.49 from the previous week) and firmer cash market prices continue to erode packer margins. Look for lower cash market prices this week as packers will likely limit buying.

While Omaha cash price was \$0.02 lower last week, the December futures price was up and hit the highest level since June 2016. This price increase will likely only last a few weeks more until the March planting intentions at the end of March are released.

<i>Data Source: USDA-AMS Market News</i>		Week of 2/10/17	Week of 2/3/17	Week of 2/12/16
5-Area Fed Steer	all grades, live weight, \$/cwt	\$119.75	\$118.76	\$131.56
	all grades, dressed weight, \$/cwt	\$190.05	\$189.78	\$205.92
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$189.39	\$192.88	\$217.63
	Choice-Select Spread, \$/cwt	\$2.11	\$3.02	\$3.51
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$128.96	\$129.64	\$153.59
	Nebraska 7-market, \$/cwt	\$135.75	\$132.78	\$160.17
	Oklahoma 8-market, \$/cwt	\$131.30	\$127.29	\$154.97
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$156.32	\$149.36	\$194.13
	Nebraska 7-market, \$/cwt	\$165.16	\$161.53	\$199.88
	Oklahoma 8-market, \$/cwt	\$156.79	\$151.65	\$189.57
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.42	\$3.44	\$3.50
	DDGS, Nebraska, \$/ton	\$105.00	\$106.50	\$131.70