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In The Cattle Markets

Brian R. Williams, Assistant Extension Professor
Department of Agricultural Economics, Mississippi State University

U.S. Ships First Beef to China: What Does this Mean for Cattle Producers?

Negotiations with China regarding the details of an agreement to ship U.S. beef to China have been ongoing for the last few months, and were finalized early last week. It didn't take long for the Greater Omaha Packing Company to take advantage. Last week, the beef packing company sent the first shipment of U.S. beef to China in 14 years. This presents a tremendous opportunity for U.S. beef producers. China is the world's second largest economy, and has a rapidly growing middle class. As China's middle class grows, so will China's demand for animal proteins.

Despite gaining access to what will likely become one of the world's largest importers of beef, the trade deal does come with its caveats. Any beef that is shipped to China from the U.S. must meet a few requirements. First, all beef must be less than 30 months of age. That requirement isn't much of a problem, as the majority of beef coming out of U.S. feedlots easily falls under the age of 30 months. Second, the cattle must be traceable to its place of birth, and finally, the cattle must be free of growth promoters. These last two requirements are a bit more complicated. The U.S. does have an animal identification system in place in the form of the National Animal Identification System (NAIS), however according to a study conducted by the USDA's Economic Research Service, only about a quarter of beef producers nationally are participating in the NAIS. The USDA also has requirements in place related to animal traceability, but the rule only applies to cattle over the age of 18 months that are moved across state lines. In other words, a significant portion of the cattle moving through feedlots across the U.S. are not included in any sort of animal identification system.

The final obstacle that U.S. exporters need to overcome to ship beef to China is that the beef must be growth promotant free. According to the Foreign Agricultural Service (FAS), about 90% of feedlot cattle are given hormones, and close to 100% of the cattle on larger commercial feedlots are given growth promotants. This requirement, in addition to the age and source verification requirement, substantially cuts down on the amount of beef that qualifies for export to China. In the short term, this likely means that potential exports of U.S. beef to China will be somewhat limited. In the long term, prospects are much better. Now that we have our foot in the door, it is likely that a market will develop for beef specifically designated for export to China. The process will start at the top of the beef supply chain and work its way down, beginning with the beef packing industry offering a premium for cattle meeting all of the requirements from feedlots. Feedlots will then start offering a premium to cow-calf producers for feeder cattle that have been age and source verified. As the market for exports of U.S. beef to China grows and becomes established, the long term impact should provide a substantial boost to U.S. beef exports as well as a boost to cattle producers' profitability.

The Markets

The five-area fed steer price ended the week averaging \$130.12 for live sales, and \$205.94 for dressed; respectively, down \$5.95 and \$12.42. Nebraska feeder cattle were lower on the week with 500-600 pound steers down \$20.81 averaging \$171.28 and 700-800 pound steers down \$6.85 averaging \$156.28. Corn was down \$0.12 on the week trading at \$3.47/bu in Omaha on Thursday.

<i>Data Source: USDA-AMS Market News</i>		Week of 6/16/17	Week of 6/9/17	Week of 6/17/16
5-Area Fed Steer	all grades, live weight, \$/cwt	\$130.12	\$136.07	\$120.59
	all grades, dressed weight, \$/cwt	\$205.94	\$218.36	\$194.23
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$250.86	\$250.22	\$225.53
	Choice-Select Spread, \$/cwt	\$30.02	\$30.38	\$22.99
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	--	\$162.20	\$147.42
	Nebraska 7-market, \$/cwt	\$156.28	\$163.13	\$144.92
	Oklahoma 8-market, \$/cwt	\$152.47	\$160.06	\$143.05
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	--	\$186.24	\$158.00
	Nebraska 7-market, \$/cwt	\$171.28	\$192.09	\$171.13
	Oklahoma 8-market, \$/cwt	\$171.22	\$173.74	\$157.87
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.47	\$3.59	\$3.96
	DDGS, Nebraska, \$/ton	\$101.00	\$101.00	\$156.00