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## In The Cattle Markets

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### 2018 to date

Steer and heifer slaughter levels for the year to date have been slightly lower than forecasted, but up almost 2.3% over 2017. Slaughter will continue to have year-over-year increases but the year-over-year increases will be smaller. September slaughter will likely be smaller than July. Live weights are up on average for 2018 almost 6 pounds. Beef production was previously anticipated to be up approximately 3.7% but the year-to-date increase will be closer to 4%. First quarter beef production was up 2.6% from 2017, whereas second quarter beef production was up just over 5%.

Cash market prices topped out for the year in February when the weekly 5-market average was \$129.75 per cwt. (live basis) and prices eroded only to rebound slightly in May to \$124.81. By the last week of June the price had fallen to \$106.87 per cwt. In the half of this year, the 5-market price was 8.3% below 2017's. The first quarter of 2018 saw prices that were 2.8% above 2017, but April-June prices have been 12% below the same 2017 time period. Given the expected increase in beef production, prices were anticipated to be lower in 2018. Where prices go from here will depend a lot on the trade situation.

Trade with China currently dominates the market news; and from an agricultural perspective, it is a daunting situation. April saw tariff increases on US pork and soybeans, and effective July 6, China's duty rate on US beef went from 12% to 37%. Note that Australia faces only a 7.2% duty on their beef. Should the US be concerned about the tariff: yes, but the futures market likely overcompensated last week. Approximately 16% of our beef and veal exports went to Taiwan/Hong Kong in 2017; mainland China took less than 1%. This increased tariff will likely make it difficult to promote US beef in China, especially since it is already priced at a premium to other imports. US beef producers need to be concerned though about the 25% tariff implemented by China on US pork products.

April 2018 saw a 25% tariff on US pork to China. Since April pork exports to China are well below 2017 levels. May 2018 saw a 31% decline in pork exports to China and Hong Kong. Given that the US exports about 23% of their pork production, of which mainland China/Hong Kong account for about 11% of our exports this tariff increase will likely bring even more US pork on domestic retail shelves this fall, further creating price pressure for beef. Additionally, pork production typically peaks in the 4<sup>th</sup> quarter and this year will see record pork production.

Where will prices go? Prior to any trade war, expectations were that finished cattle prices would be approximately 5% lower in 2018 than 2017. Given the current trade situation, lower wholesale beef prices, and large pork production prices may dip even lower but the year-over-

year decreases should not be at the levels seen in the second quarter of 2018. The markets should correct themselves for the overreaction last week. Packers still have profitability and cash trade will strengthen soon and going into fall. Nonetheless year-over-year decreases in prices will likely be in the 5-6% lower given the large number of cattle.

## The Markets

Technical signals drove the futures market at the beginning of last week. Toward the end of the week though trade concerns had waned and prices rebounded slightly. Feedlots are current on marketings. Cash prices will trend lower in the next month as we continue to have large supplies and demand hits the summer weaknesses before Labor Day.

Corn and soybeans had mixed news from the USDA WASDE report on July 12. Corn news was slightly bullish as demand is stronger than trade expected, while the soybean data was bearish off of a 250 million cut to exports.

<i>Data Source: USDA-AMS Market News</i>		<b>Week of 7/13/18</b>	<b>Week of 7/6/18</b>	<b>Week of 7/14/17</b>
<b>5-Area Fed Steer</b>	all grades, live weight, \$/cwt	\$110.50	\$112.63	\$119.51
	all grades, dressed weight, \$/cwt	\$174.05	\$178.77	\$190.06
<b>Boxed Beef</b>	Choice Price, 600-900 lb., \$/cwt	\$206.48	\$209.65	\$212.93
	Choice-Select Spread, \$/cwt	\$8.97	\$10.68	\$14.02
<b>700-800 lb. Feeder Steer</b>	Montana 3-market, \$/cwt	--	--	--
	Nebraska 7-market, \$/cwt	\$165.81	\$150.00	\$166.44
	Oklahoma 8-market, \$/cwt	\$149.86	\$150.21	\$153.42
<b>500-600 lb. Feeder Steer</b>	Montana 3-market, \$/cwt	--	--	--
	Nebraska 7-market, \$/cwt	\$188.24	--	\$184.36
	Oklahoma 8-market, \$/cwt	\$165.41	\$166.77	\$159.66
<b>Feed Grains</b>	Corn, Omaha, NE, \$/bu (Thursday)	\$3.29	\$3.32	\$3.34
	DDGS, Nebraska, \$/ton	\$106.00	\$107.50	\$104.40