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In The Cattle Markets

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The Cure to Record Prices

I think all marketing economist have, at some point, been told the saying that *nothing cures high prices like high prices*. I attempted a quick search for whom to attribute this line to with no answer (FYI: the search terms “cure”, “high”, “prices”, and “quote” will fill your results with stock market quotes for the Direxion Daily Healthcare Bull 3X Exchange Traded Fund). Many might argue that live and feeder cattle futures, and more recently cash feds and feeders, have been “cured”. The catalyst, of course, was the sanctions imposed by Russia late on Wednesday, August 6, 2014. Given that cattle markets remain at levels that are outside the norms of our data, it is no surprise that a news event such as this will be received in such a negative fashion. Prior to this, a sporadic three- to four-day sell-off in early July seemed to have provided a “cure” but that was short lived and most futures contracts recovered over the course of the next two weeks with very minimal damage to cash prices experienced. Will a resurgence like this occur again?

I will refrain from restating what has already been thoroughly covered (and with respect to many of the articles I read from both livestock and mass media outlets, for the most part, accurately covered!). However, I feel compelled to provide some perspective and commentary for *In the Cattle Markets*. In no disrespect to those who use it, but technical analysis is not my strong point since I tend to veer away from those beliefs. However, clear levels of support can bee seen from most all live and feeder cattle futures contracts (there are slight variations for the many different contract expiration months available). This is supported, *pun intended*, by the fundamental factors currently in place in the beef cattle production system – largely centered on reduced supplies and strong demand – all of which have been covered at length in previous *In the Cattle Markets* writings.

I will reinforce that of the United States’ annual beef production approximately 10 percent is consumed in the export market. This is in contrast to pork and poultry exports, which are about 22 and 19 percent of annual domestic production in recent years, respectively. Granted, even for beef this is no small amount with 2.59 billion pounds exported in 2013, 2.62 billion projected for export in 2014, and 2.53 billion pounds forecasted for export in 2015 (according to the August *World Agricultural Supply and Demand Estimates* report). However, with respect to U.S. beef, pork, and broiler exports to Russia, the significance has fallen in recent years. For the five-year period from 2009 to 2013, 3.1 percent, 3.9 percent, and 11.4 percent of total U.S. beef, pork, and broiler exports landed in Russia[1].

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[1] Data used is from USDA’s Economic Research Service and compiled by the Livestock Marketing Information Center, and from the noted WASDE report via USDA’s World Agricultural Outlook Board.

So, will a second coming – or third, or fourth, or… I have lost count – of record cattle prices occur? Given the strength in the domestic market and since the importance of Russian meat imports has lost traction in recent years the clear "in the vacuum" fundamental answer is yes. In the short time since Thursday of last week, it appears that this is happening. Unfortunately, nothing operates in a vacuum in today's marketplace. So much influence from outside sources spills over into other sectors. Further, the high price levels continue to have cash market participants, futures traders, analyst, and so many random by-standers looking for the bears mingled in amongst the bulls. These two factors combined remove the forcefulness from the fundamental "yes".

The Markets

USDA's World Agricultural Outlook Board released their monthly projections for agricultural commodity supplies and use. Projected commercial beef production was lowered to 24.561 and 24.325 billion pounds, respectively, for 2014 and 2015; however, third quarter 2014 and second quarter 2015 production estimates were raised. The news of the day from the report was the lower than expected corn yield and resulting total production. Yield is currently forecasted at 167.4 bushels per acre versus an average expectation of 170.1 (and lower than the smallest expectation). Even so, at these levels production would still be a record at 14.032 billion bushels and the stocks-to-use ratio would be 13.5 percent. Corn used for feed was raised 50 million bushels to 5.25 billion.

Fed steers were $5.00 and $7.38 per hundredweight lower for live and dressed, respectively. Wholesale boxed beef prices pulled back from record levels, with Choice boxes at $257.35 and Select at $250.25. Heavy and lightweight feeders were lower across most markets. Feedgrains have found some footing lately and were supported by the favorable supply/demand report early last week. Corn in Omaha was 8 cents per bushel higher compared to the previous week.

Data Source: USDA-AMS Market News		**Week of 8/15/14**	**Week of 8/8/14**	**Week of 8/16/13**
5-Area Fed Steer	all grades, live weight, $/cwt	$154.92	$159.92	$124.12
	all grades, dressed weight, $/cwt	$243.65	$251.03	$198.00
Boxed Beef	Choice Price, 600-900 lb., $/cwt	$257.35	$262.26	$192.13
	Choice-Select Spread, $/cwt	$7.10	$6.50	$7.54
700-800 lb. Feeder Steer	Nebraska 7-market average, $/cwt	$237.91	$246.00	$159.27
	Oklahoma 8-market average, $/cwt	$219.97	$227.72	$156.62
500-600 lb. Feeder Steer	Nebraska 7-market average, $/cwt	$276.35	$287.50	$188.35
	Oklahoma 8-market average, $/cwt	$254.78	$261.54	$169.85
Feed Grains	Corn, Omaha, NE, $/bu (Thursday)	$3.54	$3.46	$6.04
	DDGS Price, Nebraska, $/ton	$95.80	$101.10	$217.50