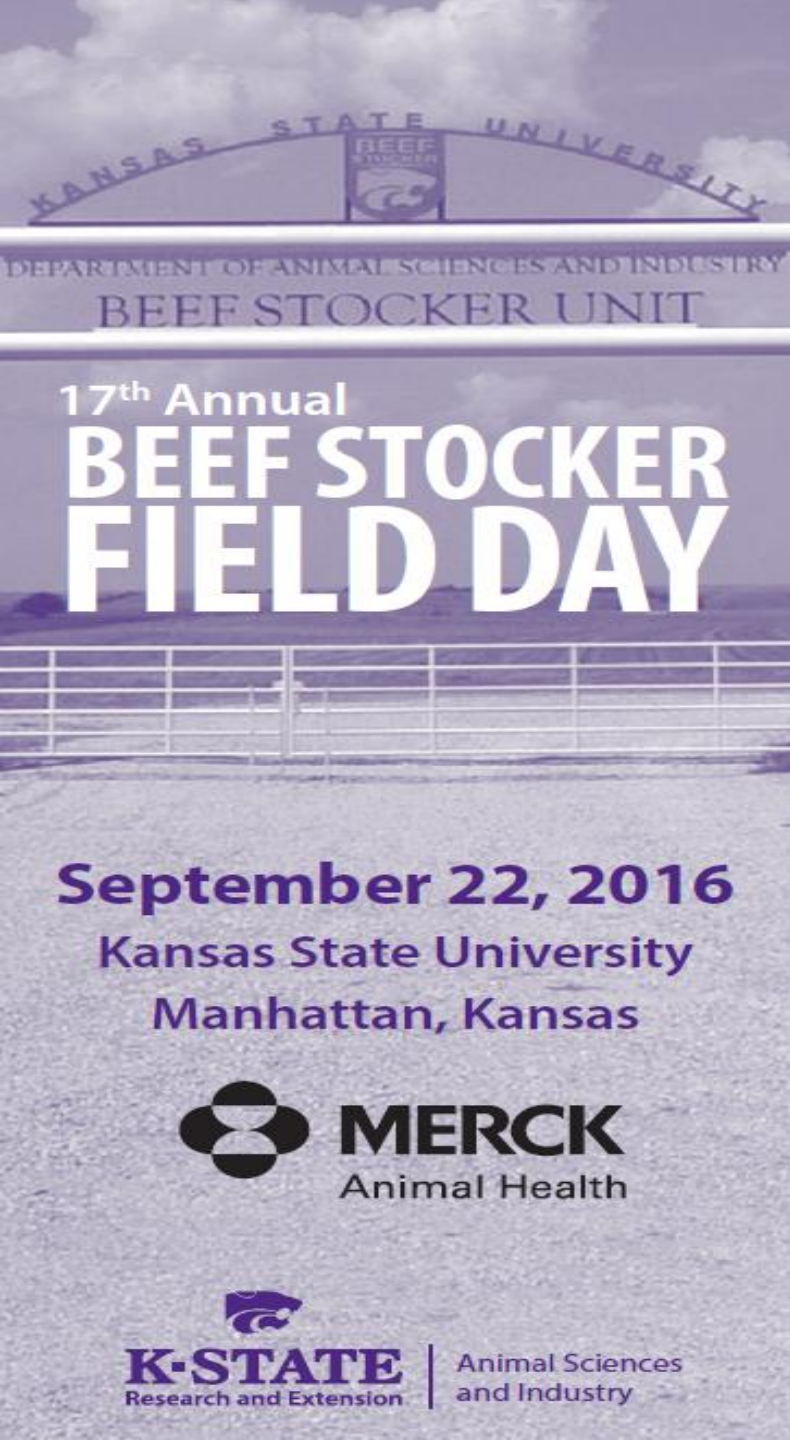




Beef Cattle Outlook

Glynn Tonsor
Dept. of Agricultural Economics
Kansas State University



AgManager
.info

“Interesting Times” in the Beef Industry

BREXIT

***IMPORTS
FROM
BRAZIL***

TPP/TTIP & US Election

**In China Beef Trade, U.S. Gain May
Mean Australia Pain**

“Interesting Times” in the Beef Industry

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**TPP/TTIP &
US Election**

JULY JOBS: +255k (vs. 180 exp)
AUG JOBS: +151k (vs. 180 exp)

**DEC CORN:
-\$1/bu Since mid-June**

In China Beef Trade, U.S. Gain May
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“Interesting Times” in the Beef Industry

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US Election**

In China Beef Trade, U.S. Gain May
Mean Australia Pain

**CATTLE
MARKETS
“BROKEN”**

**CME LC
CONTRACT
CHANGES**

**CME FC
INDEX
CHANGES**

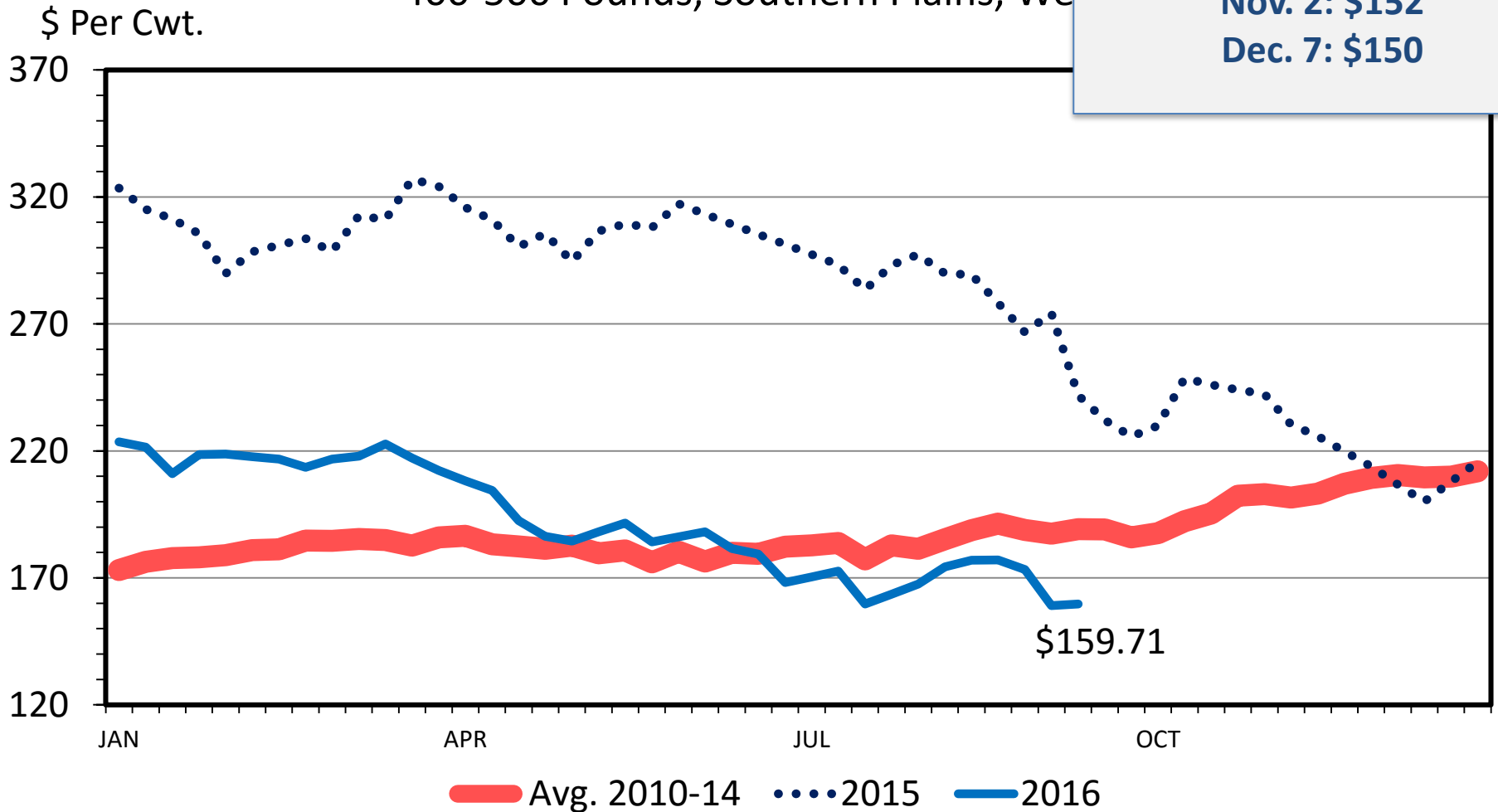
**NO JULY CATTLE
INVENTORY
REPORT**

Overarching Beef Industry Economic Outlook

- Supplies
 - Growing across all proteins
 - Herd expansion stalled or stopped?
- Demand
 - Confusing & slowing in 2016
- Combined
 - “*opportunity or challenge*” depends on perspective...

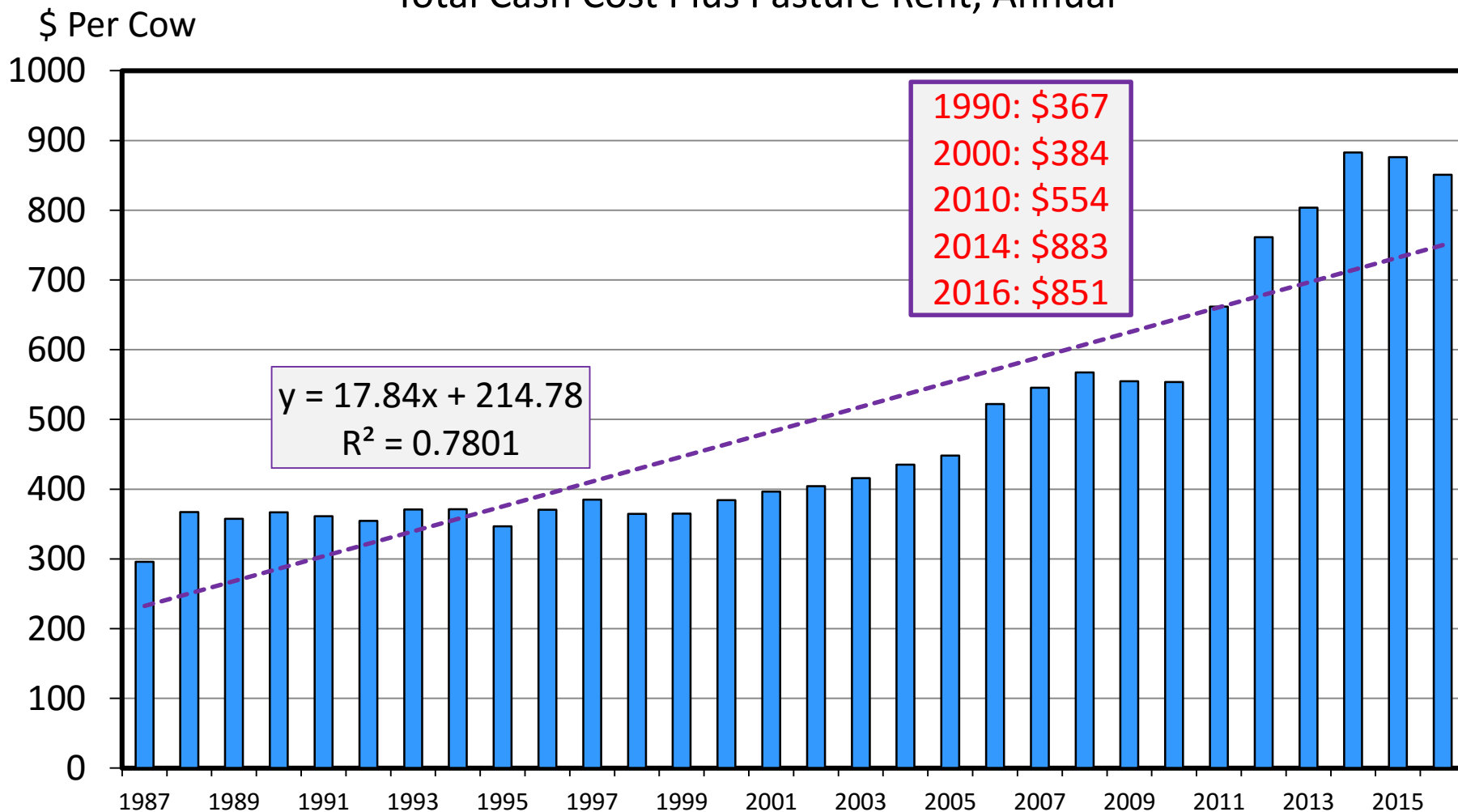
MED. & LRG. #1 STEER CALF PR 400-500 Pounds, Southern Plains, We

Beef Basis, Salina KS
Projections (as of 9/22):
 Oct. 5: \$154
 Nov. 2: \$152
 Dec. 7: \$150



ESTIMATED AVERAGE COW CALF COSTS

Total Cash Cost Plus Pasture Rent, Annual



Data Source: USDA & LMIC, Compiled by LMIC

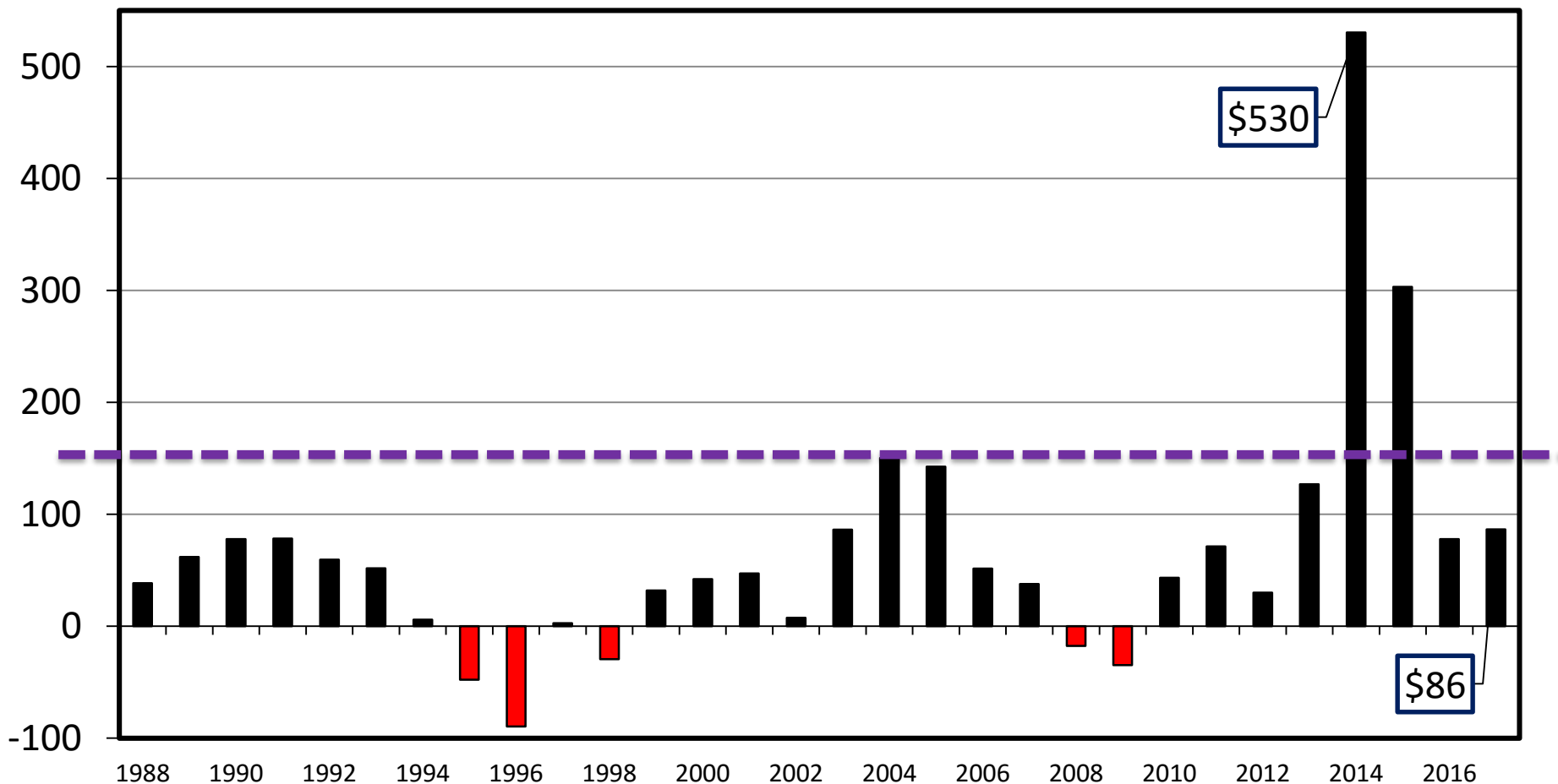
Livestock Marketing Information Center

08/02/16

ESTIMATED AVERAGE COW CALF RETURNS

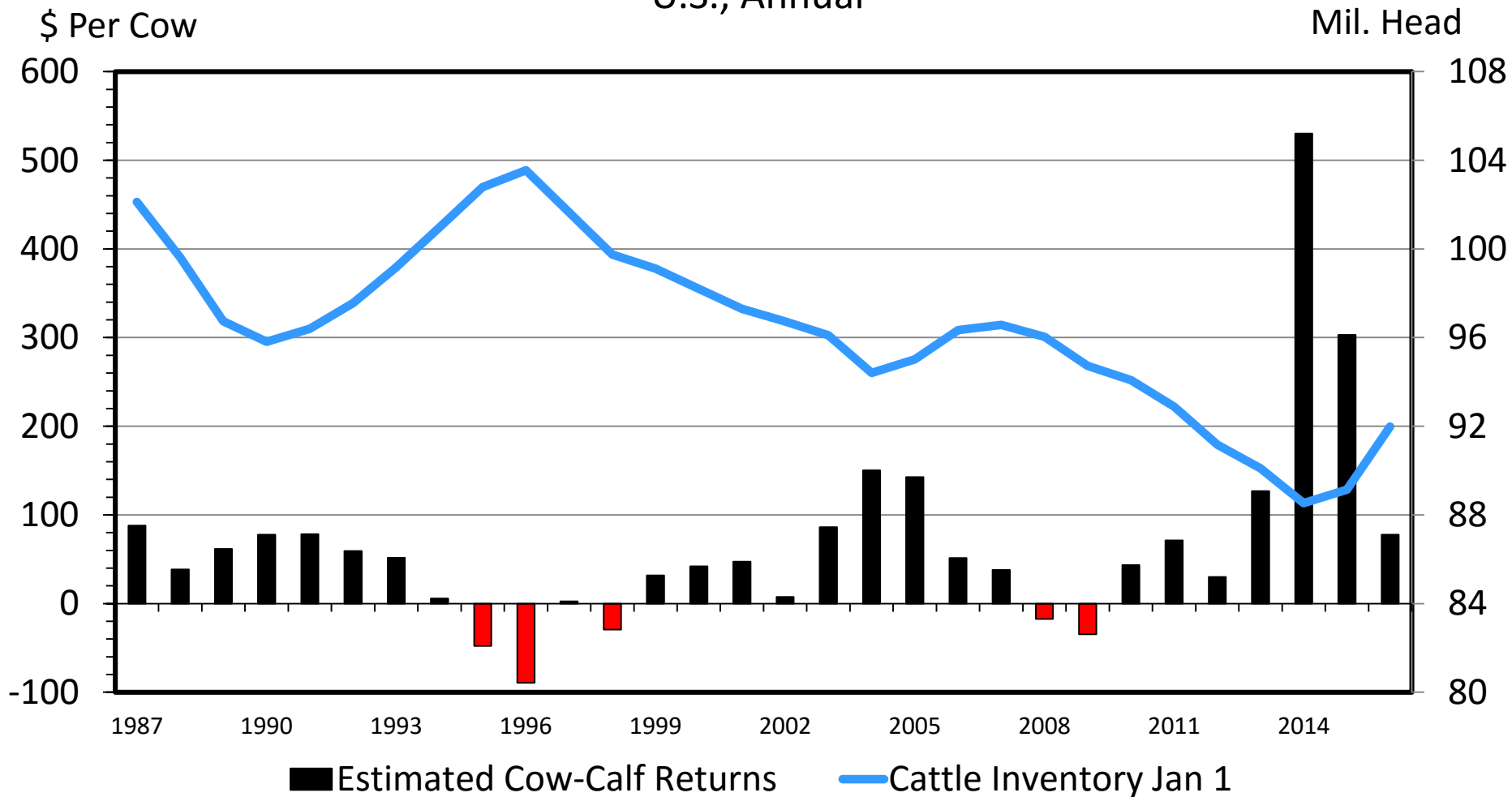
Returns Over Cash Cost (Includes Pasture Rent), Annual

\$ Per Cow



COW-CALF RETURNS AND CATTLE INVENTORY

U.S., Annual



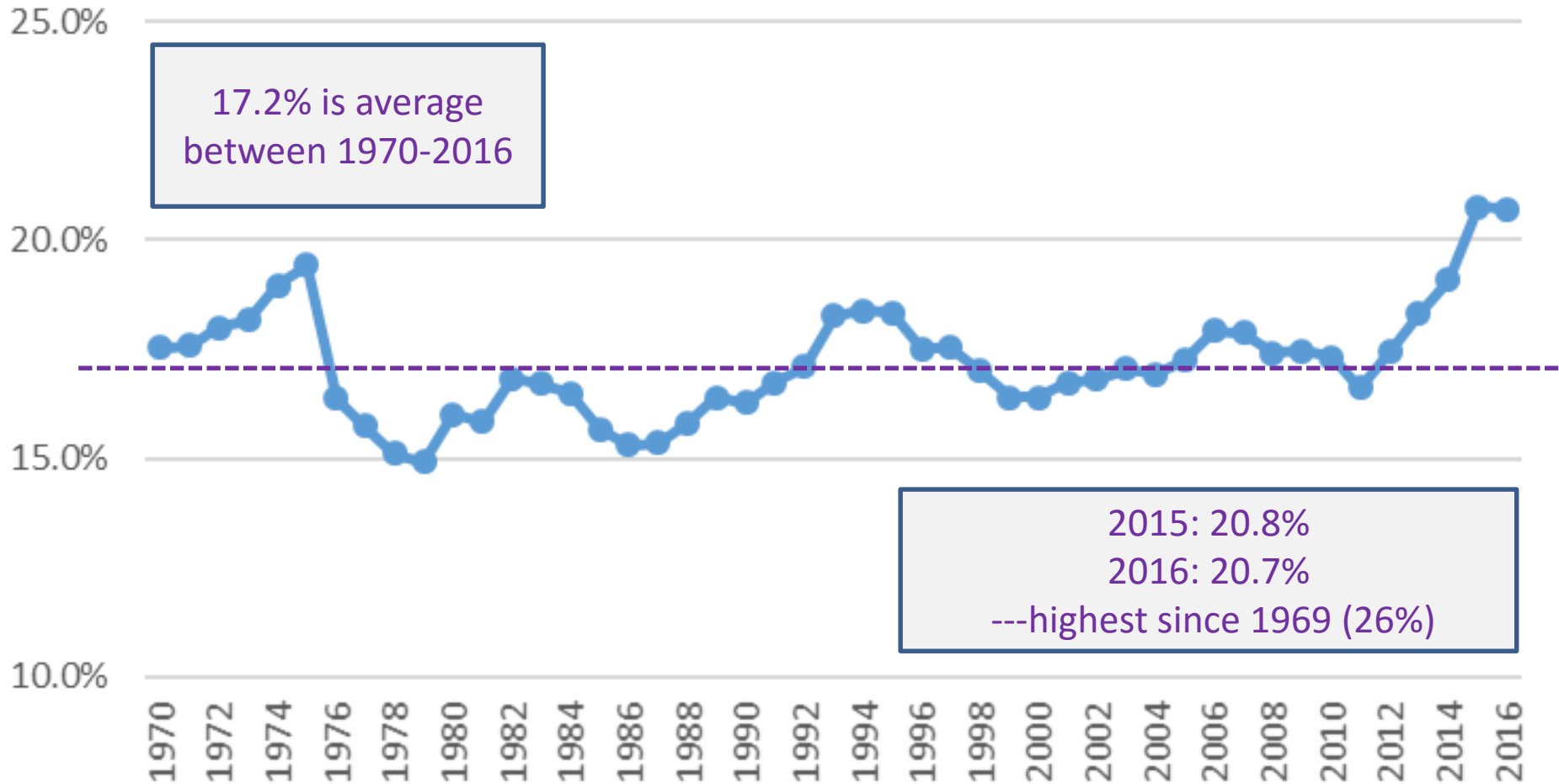
Data Source: USDA-AMS & USDA-NASS, Compiled and Analysis by LMIC

Livestock Marketing Information Center

C-P-67
09/02/16

Heifer Retention as % of Total Beef Cows

17.2% is average
between 1970-2016

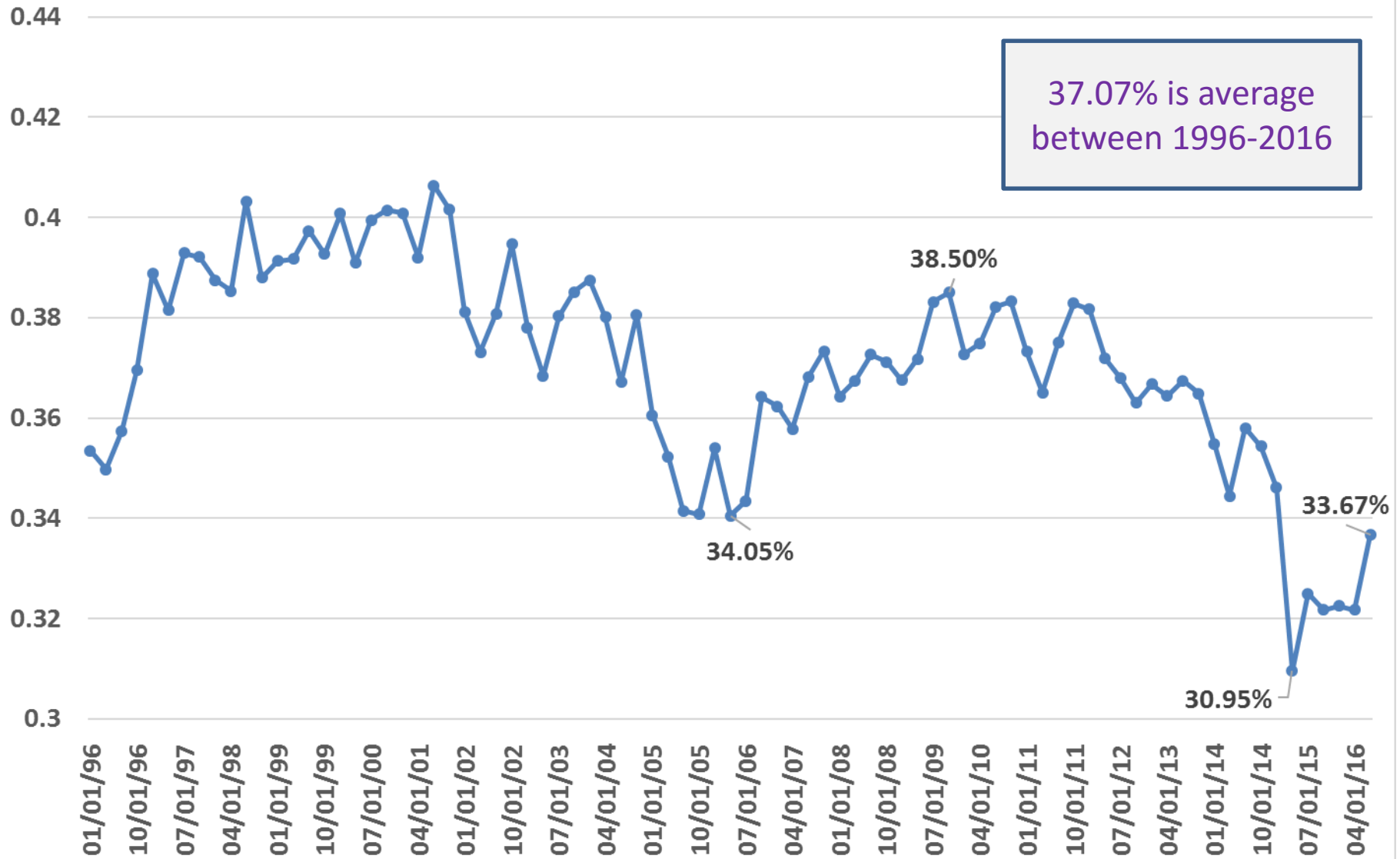


Data Source: USDA-NASS

Livestock Marketing Information Center

COF Quarterly Placements Heifers as % of Total Steers & Heifers

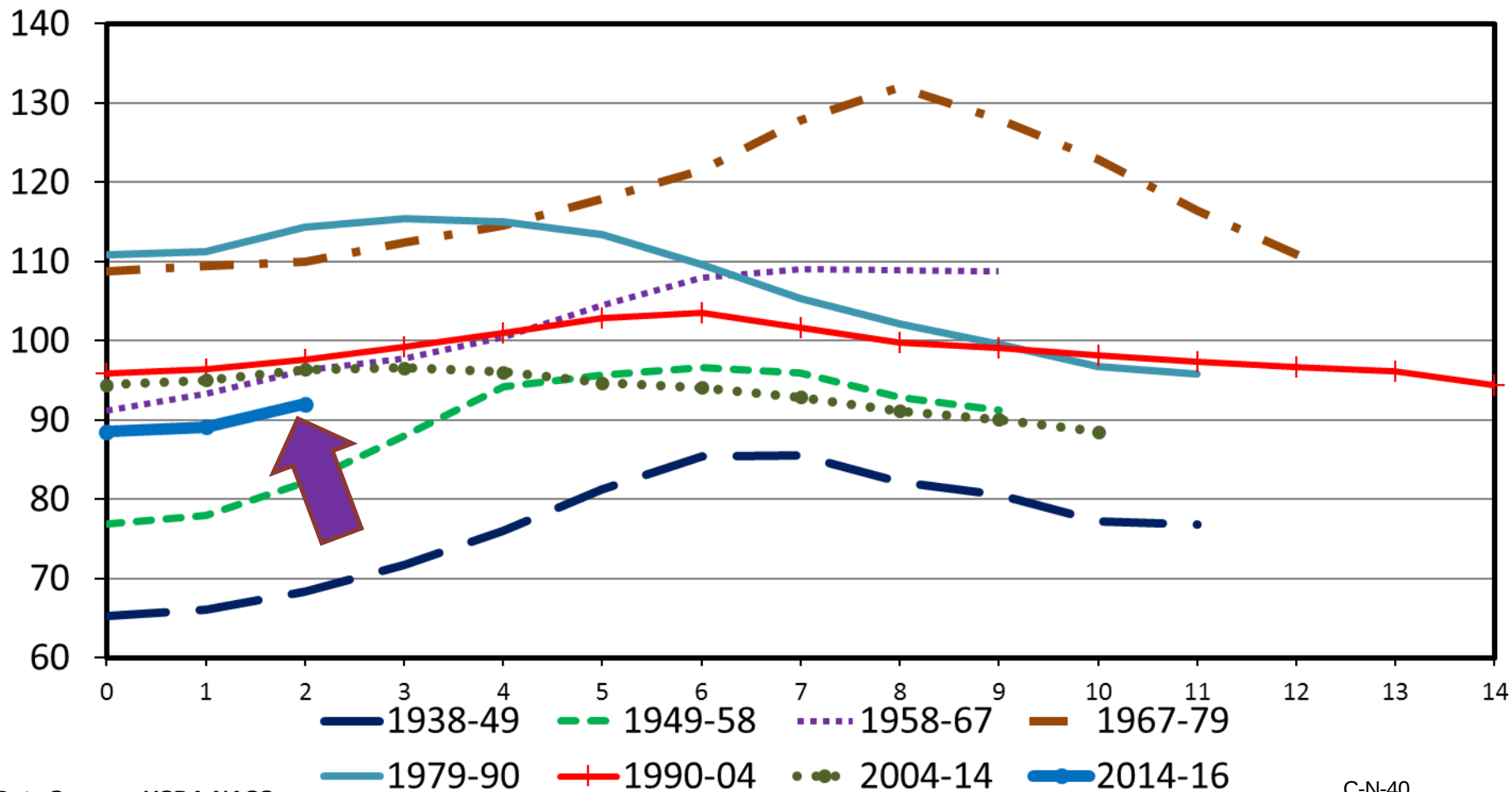
37.07% is average
between 1996-2016



TOTAL CATTLE INVENTORY BY CYCLE

U.S., January 1

Mil. Head



Data Source: USDA-NASS

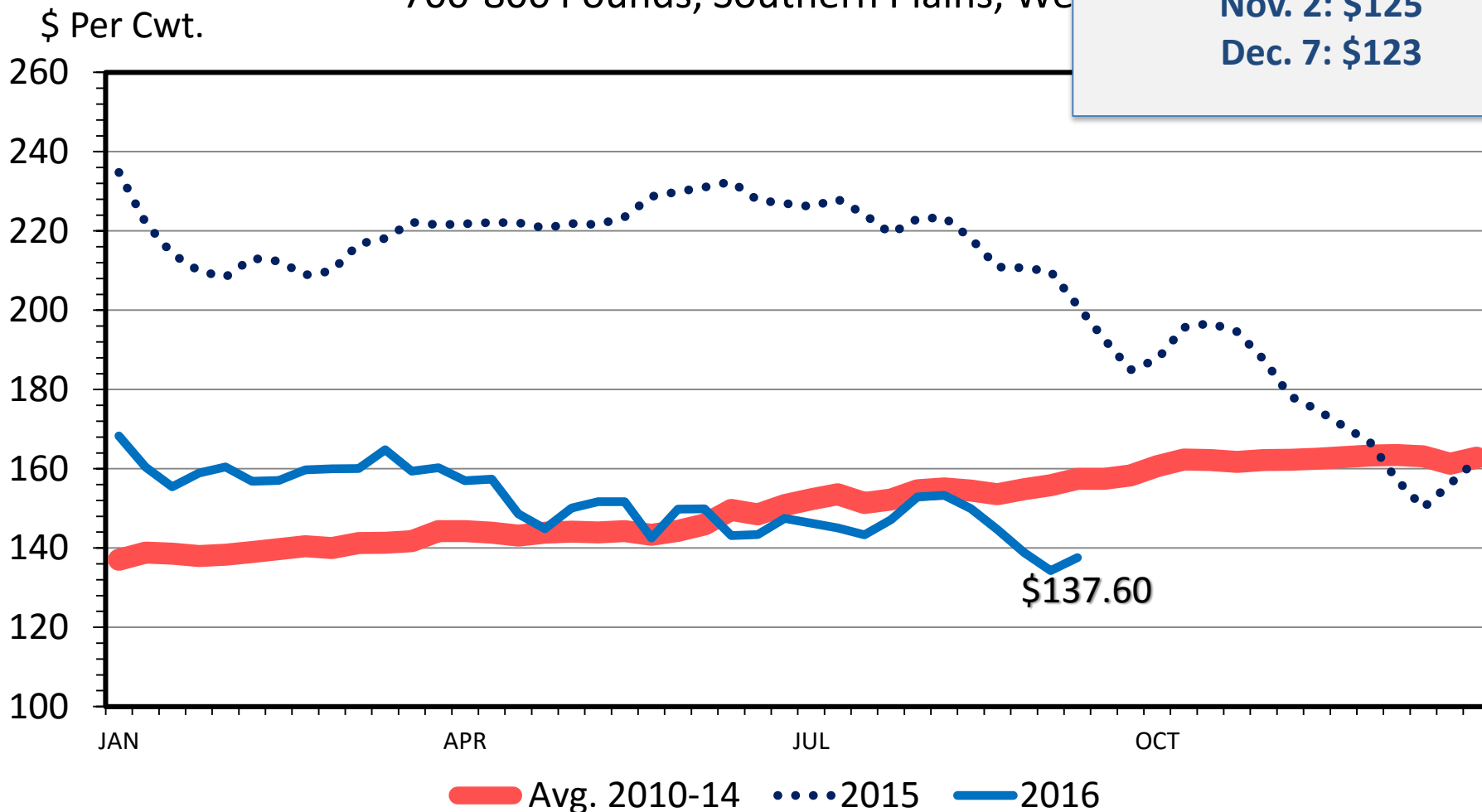
Livestock Marketing Information Center

C-N-40
02/01/16

MED. & LRG. #1 FEEDER STEER P

700-800 Pounds, Southern Plains, We

Beef Basis, Salina KS
Projections (as of 9/22):
Oct. 5: \$128
Nov. 2: \$125
Dec. 7: \$123



Projecting Stocker/Backgrounder VOG

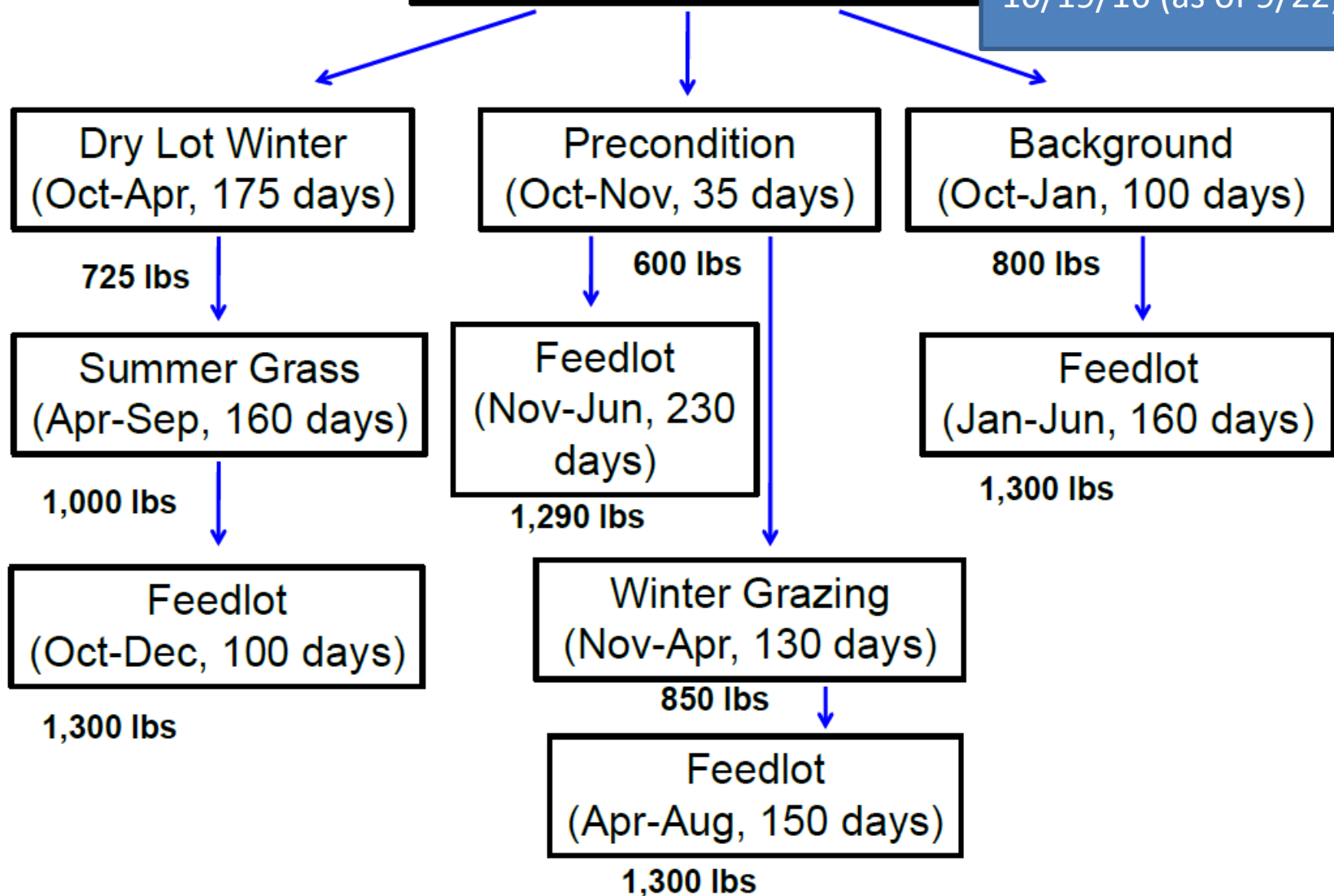
- Should we use current cash market's implied VOG?
 - Dodge City, KS Sept 19th report:
 - 521 lbs @ \$160.43 & 761 lbs @ \$136.36
 - Implies VOG of \$202/hd; \$0.84/cwt

Projecting Stocker/Backgrounder VOG

- Should we use current cash market's implied VOG?
 - Dodge City, KS Sept 19th report:
 - 521 lbs @ \$160.43 & 761 lbs @ \$136.36
 - Implies VOG of \$202/hd; \$0.84/cwt
- Current cash market implied VOG vs. forward-looking, historical basis/CME VOG forecasts
 - KS, Sept 550 lb calves – April 725 lbs / 1995-2015 placements
 - 67% of time basis-adjusted, futures implied VOG forecast is more accurate
 - Average & Range in VOG forecasting errors (actual-realized)
 - Current Cash Mkt Approach: -\$15.26/hd (-\$349 Apr 2016, \$201 Apr 2011)
 - Hist. Basis + CME Approach: \$7.86/hd (-\$214 Apr 2016, \$160 Apr 2011)

Fall Weaned 550# Calf

Salina, KS 550 lb Steer on
10/19/16 (as of 9/22): \$142



CattleFax | THE
DECIDING
FACTOR

VOG Projections: <http://www.beefbasis.com/VOG.aspx>

Production Chart: <http://www.beefusa.org/CMDocs/BeefUSA/resources/CC2011-Cattle-Fax-All-Slides.pdf>

Economic Outlook Overview: Stockers

<http://www.beefbasis.com/ForecastingTools/ValueofGain/tabid/1132/Default.aspx>

- Salina, KS 9/22/16 Preconditioning, 35 DOF Case:
 - Buy 550 lb steer on 10/19/16 (\$141.71)
 - Sell 600 lb steer on 11/21/16 (\$131.66) {ADG 1.5}
 - VOG: \$21/cwt
 - *NOTE THIS DOES NOT REFLECT ANY
“PRECONDITIONED” CLAIM PREMIUM*

Fall Weaned 550# Calf

Salina, KS 550 lb Steer on
10/19/16 (as of 9/22): \$142

VOG: \$70

Dry Lot Winter

(Oct-Apr, 175 days)

725 lbs

Summer Grass

(Apr-Sep, 160 days)

1,000 lbs

Feedlot

(Oct-Dec, 100 days)

1,300 lbs

VOG: \$21

Precondition

(Oct-Nov, 35 days)

600 lbs

Feedlot

(Nov-Jun, 230
days)

1,290 lbs

Winter Grazing

(Nov-Apr, 130 days)

850 lbs

Feedlot

(Apr-Aug, 150 days)

1,300 lbs

VOG: \$67

Background

(Oct-Jan, 100 days)

800 lbs

Feedlot

(Jan-Jun, 160 days)

1,300 lbs

VOG: \$73

CattleFax

THE
DECIDING
FACTOR

VOG Projections: <http://www.beefbasis.com/VOG.aspx>

Production Chart: <http://www.beefusa.org/CMDocs/BeefUSA/resources/CC2011-Cattle-Fax-All-Slides.pdf>

CME FC Index Change

- Nov FC Contract
 - Settle against 700-899 lbs (vs 650-849 lbs) wtd avg
- *BeefBasis.com* Initial Assessment
 - New Index ~\$3.18 lower (avg over 2011-2015)

Nov FC Futures	\$ 130.00
"Old" 550 lb, Nov. 2nd KS Basis Expectation	\$ 8.81
Implied Nov Cash Price Forecast	\$ 138.81
"New" 550 lb, Nov. 2nd KS Basis Expectation	\$ 11.99
Implied Nov Cash Price Forecast	\$ 141.99

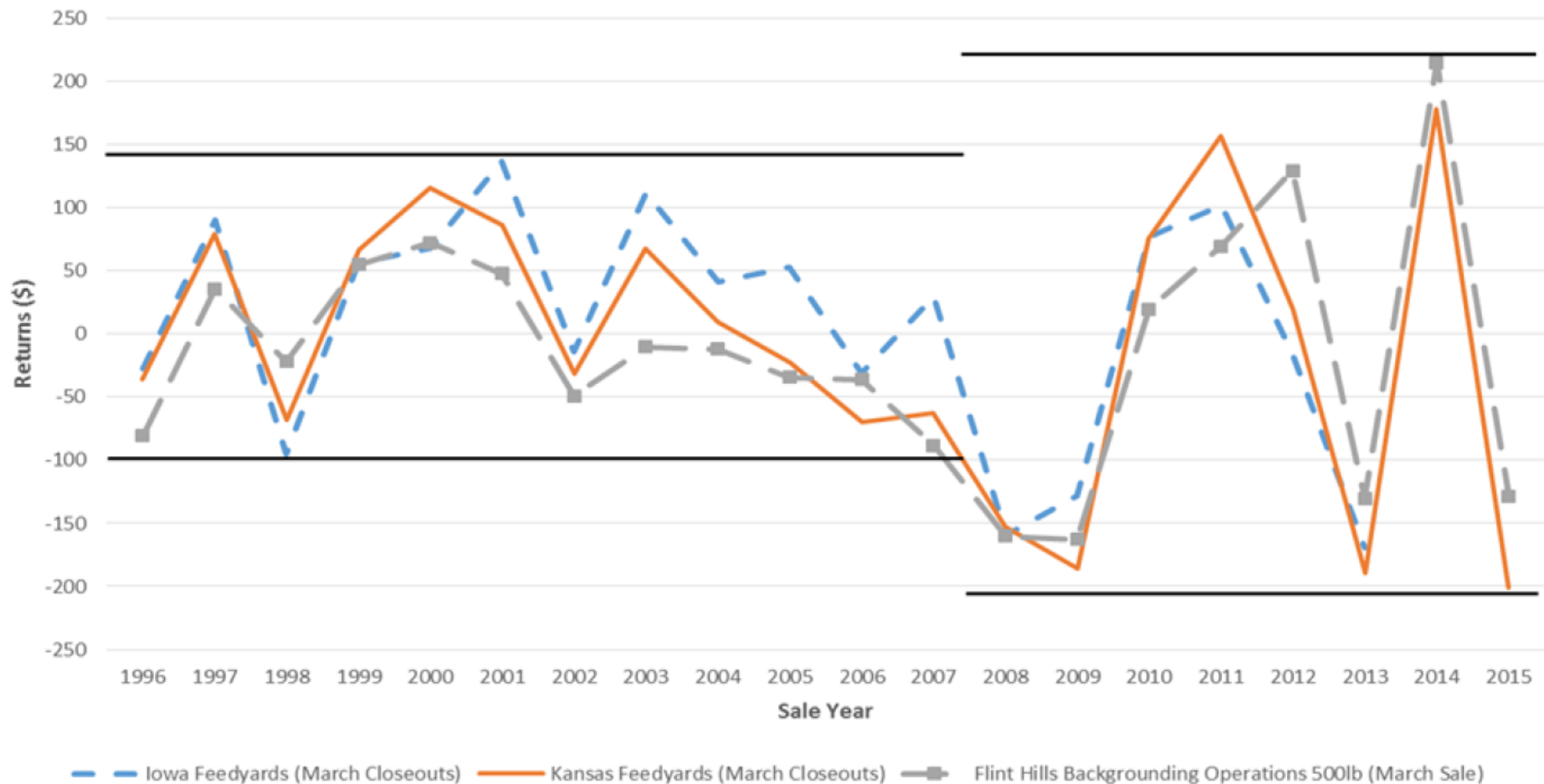
Stocker Research of Note:

Henry Ott's MS Thesis

- 1996-2015 Flint Hills, KS assessment
 - Sept & Nov backgrounding placements (425, 500, 575 lbs) with planned March sale
 - April & May stocker placements (450, 600, 750 lbs) with planned July sale
- Full thesis available online: <http://krex.k-state.edu/dspace/handle/2097/4/browse?value=Ott%2C+Henry+L.&type=author>

Stocker Research of Note: Henry Ott's MS Thesis

Predicted Historical Cattle Feeding Returns (\$/Head, 1996-2015)
(Flint Hills Backgrounder vs. Kansas Feedyards vs. Iowa Feedyards)



Stocker Research of Note: Henry Ott's MS Thesis

- 20-Year AVERAGE Net Return Results Summary
 - Nov>Sept backgrounding placements
 - April>May stocker placements
 - Lighter>Heavier placements
- Full thesis available online: <http://krex.k-state.edu/dspace/handle/2097/4/browse?value=Ott%2C+Henry+L.&type=author>

Stocker Research of Note: Henry Ott's MS Thesis

Table 4.30 Scenario Comparison

425/450lb Scenario Comparison, 1996-2015				
	Scenarios			
<u>Criterion</u>	<u>Sept-March</u>	<u>Nov-March</u>	<u>April-July</u>	<u>May-July</u>
Average Ex-Post Net Income (\$)	23.26	38.06	78.87	49.32
Ex-Post Net Income Range (\$)	(-125.96,272.41)	(-148.84,212.12)	(-48.27,397.33)	(-57.64,380.04)
Coefficient of Variation	4.304	2.024	1.161	1.893
Average Net Income Prediction Error (\$)	10.77	3	-38.32	-12.94
% of Years the Market Signals Early Sale	55	30	10	10

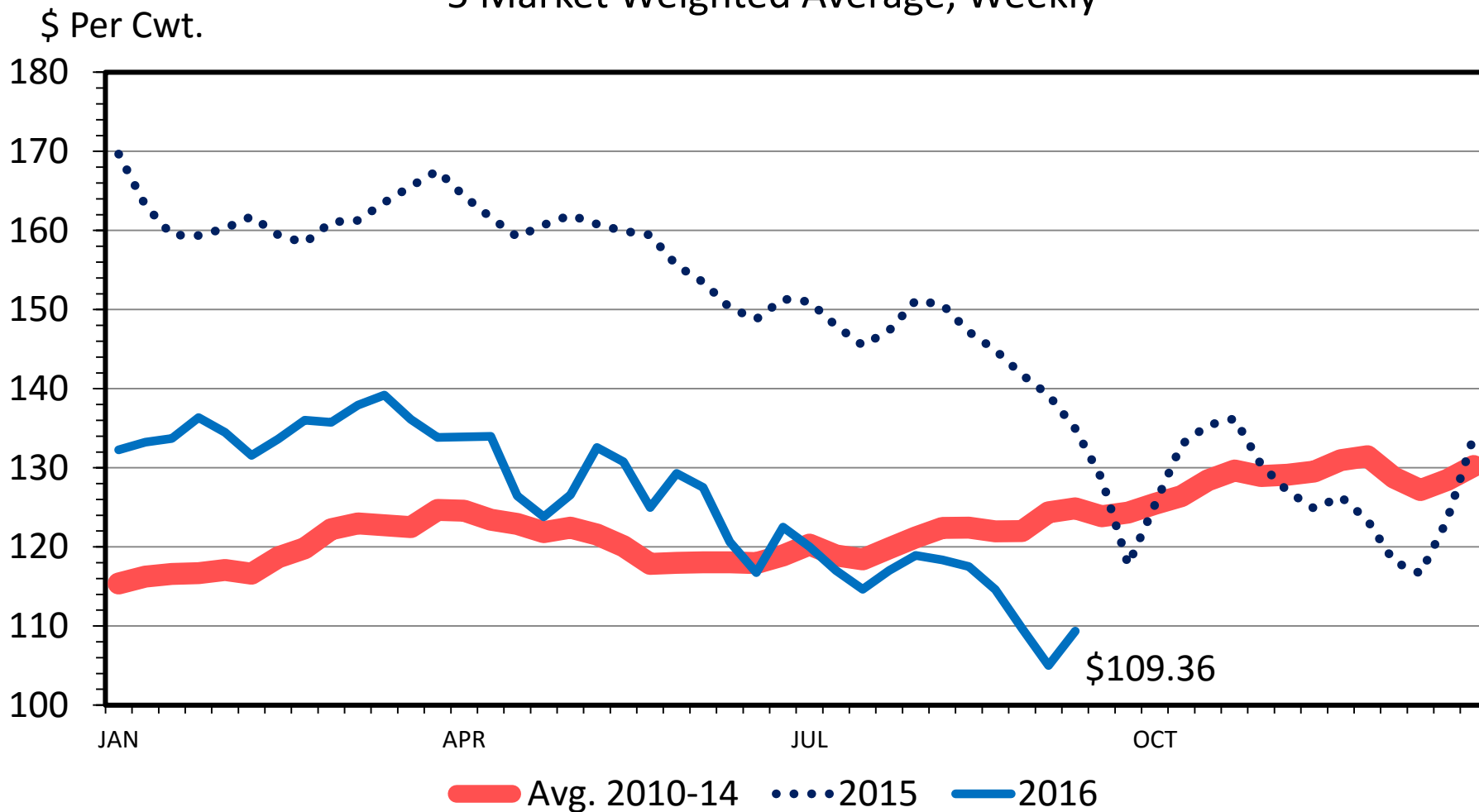
- Full thesis available online: <http://krex.k-state.edu/dspace/handle/2097/4/browse?value=Ott%2C+Henry+L.&type=author>

Economic Outlook Overview: Feedlots

- 2016 Remains tough
- Structural concerns persist:
 - Excess capacity & Slowed/Stalled Herd Growth

SLAUGHTER STEER PRICES

5 Market Weighted Average, Weekly



Data Source: USDA-AMS

Livestock Marketing Information Center

09/20/16

Historical and Projected Kansas Feedlot Net Returns (as of 9/9/16')

(<http://www.agmanager.info/livestock-meat/cattle-finishing-historical-and-projected-returns>)

July 16': -\$104/steer

Table 1. Projected Values for Finishing Steers in Kansas Feedyards*

Closeout Mo-Yr	Net Return	FCOG**	Fed Price	Feeder Price	Breakeven FCOG**	Breakeven Fed Price	Breakeven Feeder Price
Aug-16	-97.79	77.63	116.50	151.60	61.14	123.23	140.23
Sep-16	-237.89	76.50	105.24	148.36	36.11	121.40	121.42
Oct-16	-185.98	77.14	105.26	145.14	47.93	117.77	123.26
Nov-16	-169.79	78.50	105.86	142.83	51.37	117.32	122.99
Dec-16	-164.98	79.32	106.07	140.14	51.46	117.29	121.35
Jan-17	-176.21	80.21	107.68	144.52	50.92	119.75	124.00
Feb-17	-88.04	79.40	105.60	132.50	65.01	111.68	121.97
Mar-17	-14.30	79.10	107.22	125.07	76.63	108.21	123.43
Apr-17	-92.03	78.64	100.38	124.29	62.77	106.95	113.11
May-17	-16.33	77.81	104.83	123.09	74.99	105.99	121.12

Representative Barometer for Trends in Profitability

Historical and Projected Kansas Feedlot Net Returns (as of 9/9/16')

(<http://www.agmanager.info/livestock-meat/cattle-finishing-historical-and-projected-returns>)

July 16': -\$104/steer

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Sep-16	-237.89	76.50	105.24	148.36	36.11	121.40	121.42
Oct-16	-185.98	LC Up ~\$4 since 9/9	105.26	145.14	47.93	117.77	123.26
Nov-16	-169.79		105.86	142.83	51.37	117.32	122.99
Dec-16	-164.98		106.07	140.14	51.46	117.29	121.35
Jan-17	-176.21		107.68	144.52	50.92	119.75	124.00
Feb-17	-88.04		105.60	132.50	65.01	111.68	121.97
Mar-17	-14.30		107.22	125.07	76.63	108.21	123.43
Apr-17	-92.03		100.38	124.29	62.77	106.95	113.11
May-17	-16.33		104.83	123.09	74.99	105.99	121.12

Representative Barometer for Trends in Profitability

Economic Outlook Overview: Feedlots

- 9/23 COF Report Expectations
 - On-Feed Sept 1: +1.2% (+0.3%, +1.9%)
 - Placed in Aug: +13.1% (+8.6%, +18.0%)
 - Marketed in Aug: +17.5% (+12.3%, +18.1%)
- FI Slaughter vs. 2015 (thru 9/3)

Total Cattle	Steers	Heifers	Total Steers & Heifers	Cows Dairy	Cows Other	Total Cows	Bulls	Total Cows & Bulls
2016 TO DATE (1,000 HD)								
20,010	11,083	5,019	16,102	1,933	1,644	3,578	330	3,908
2015 thru Sept. 3 (1,000 HD)								
19,048	10,324	4,986	15,309	1,956	1,472	3,428	310	3,739
2016 vs 2015								
105%	107%	101%	105%	99%	112%	104%	106%	105%

Quarterly Forecasts (LMIC: 9/1/16)

		% Chg.	Average	% Chg.	Comm'l	% Chg.
Year	Comm'l	from	Dressed	from	Beef	from
Quarter	Slaughter	Year Ago	Weight	Year Ago	Production	Year Ago
2016						
I	7,181	3.0	826.5	1.7	5,935	4.8
II	7,629	5.5	810.9	0.1	6,187	5.6
III	7,788	6.8	825.1	-0.9	6,426	5.9
IV	7,469	2.8	833.6	-0.9	6,226	1.9
Year	30,066	4.6	823.9	0.0	24,773	4.5
2017						
I	7,530	4.9	829.2	0.3	6,244	5.2
II	7,997	4.8	814.8	0.5	6,516	5.3
III	7,987	2.6	827.8	0.3	6,612	2.9
IV	7,770	4.0	835.4	0.2	6,491	4.3
Year	31,284	4.0	826.7	0.3	25,863	4.4
2018						
I	7,762	3.1	833.2	0.5	6,467	3.6
II	8,186	2.4	818.7	0.5	6,702	2.9
III	8,169	2.3	831.6	0.4	6,793	2.7
IV	8,062	3.8	839.0	0.4	6,764	4.2
Year	32,179	2.9	830.5	0.5	26,726	3.3

Quarterly Forecasts (LMIC: 9/1/16)

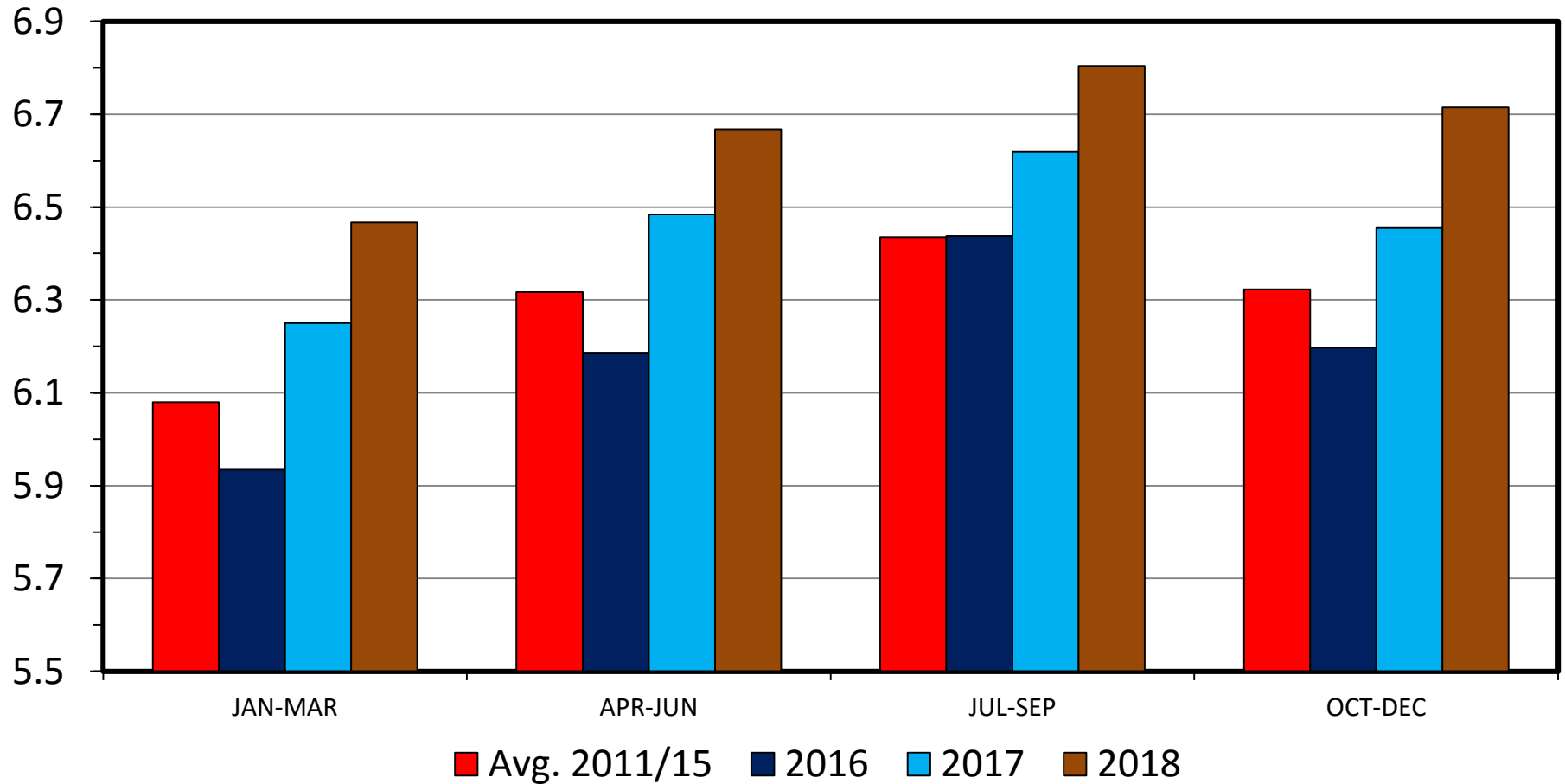
Year Quarter	Live Sltr. Steer Price	% Chg. from Year Ago	Feeder Steer Price Southern Plains	
	5-Mkt Avg		7-800#	5-600#
2016				
I	135	-17.0	160	196
II	128	-19.2	149	174
III	117-118	since 9/1 LC +\$3 to \$4 FC -\$1 to \$2	147-149	161-164
IV	120-122		146-150	160-165
Year	124-126		150-153	171-176
2017				
I	121-124		144-149	163-169
II	120-124		145-152	166-173
III	115-120		142-150	162-170
IV	116-122		141-149	157-166
Year	118-122		144-149	163-169
2018				
I	115-122	-3.3	139-148	159-169
II	115-123	-2.5	140-150	161-172
III	110-119	-2.6	136-147	157-170
IV	111-121	-2.5	135-147	154-168
Year	114-120	-2.5	140-146	160-168

Trade & Meat Supplies

COMMERCIAL BEEF PRODUCTION

US, Quarterly

Bil. Pounds



Data Source: USDA-NASS, Forecasts by LMIC

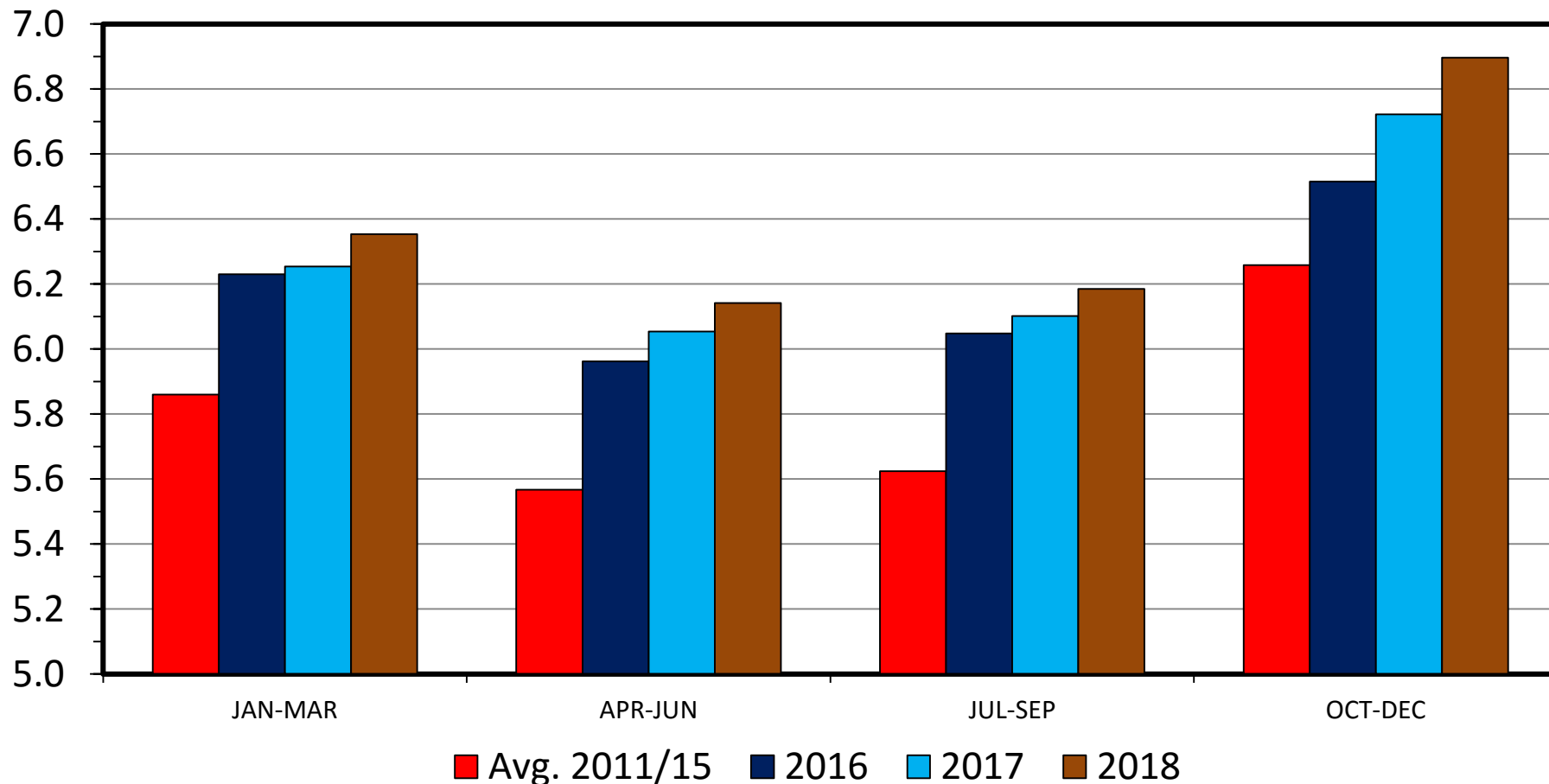
Livestock Marketing Information Center

M-S-01
08/30/16

COMMERCIAL PORK PRODUCTION

US, Quarterly

Bil. Pounds



Data Source: USDA-NASS, Forecasts by LMIC

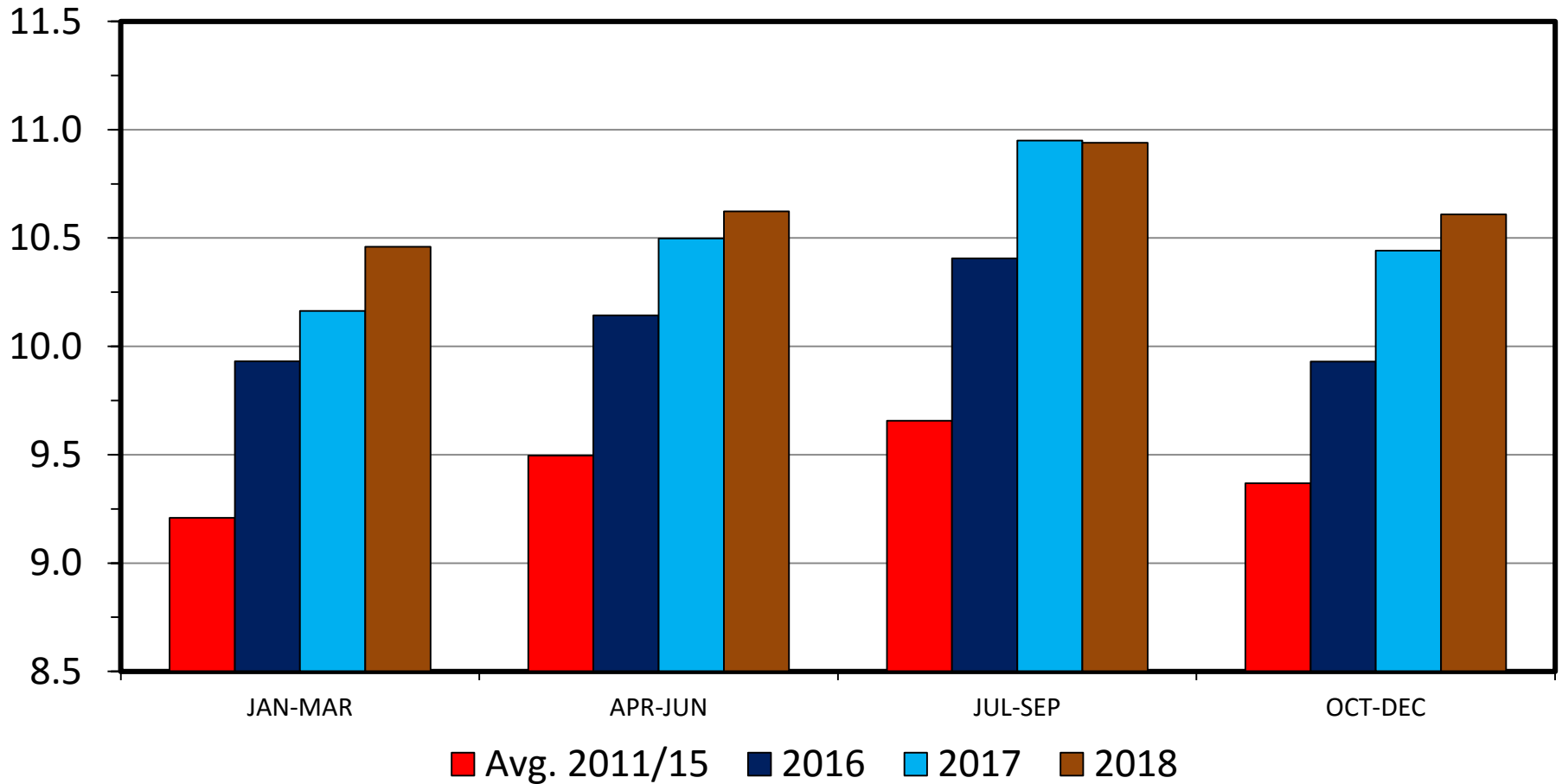
Livestock Marketing Information Center

M-S-06
08/30/16

RTC BROILER PRODUCTION

US, Quarterly

Bil. Pounds



Data Source: USDA-NASS, Forecasts by LMIC

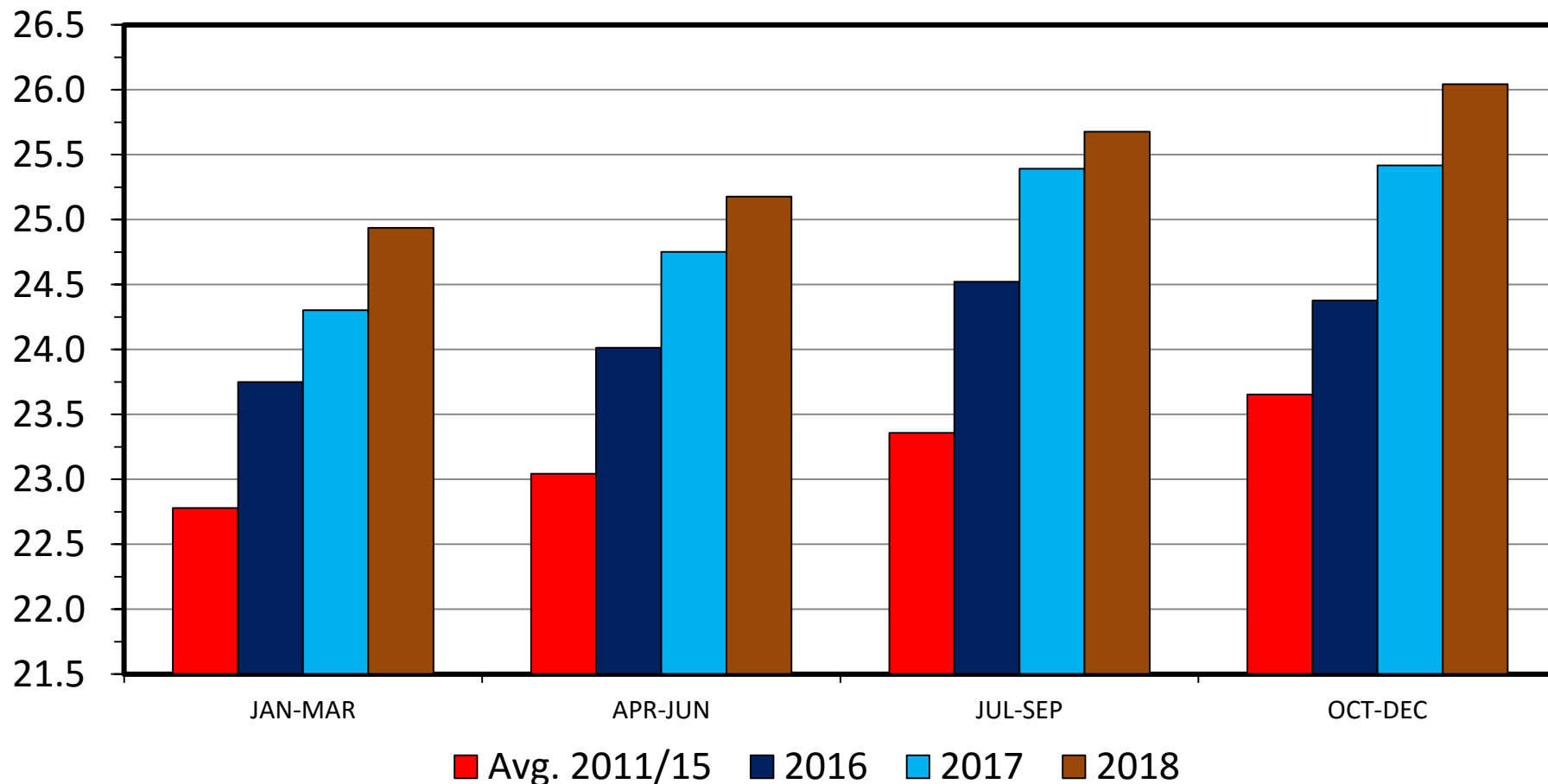
Livestock Marketing Information Center

M-S-30
08/30/16

TOTAL RED MEAT & POULTRY PRODUCTION

US, Quarterly

Bil. Pounds



Data Source: USDA-NASS, Forecasts by LMIC

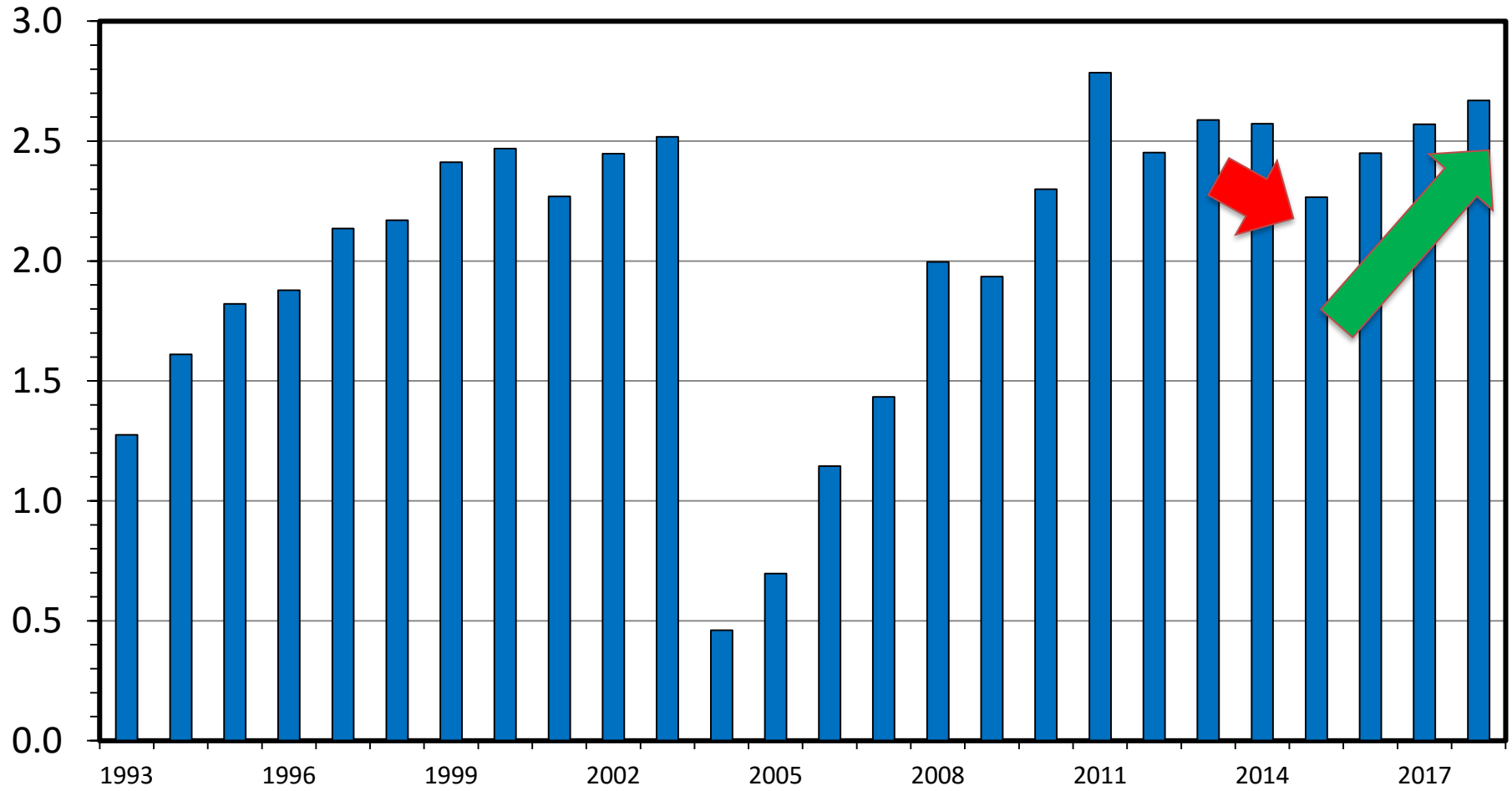
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M-S-31
08/30/16

US BEEF AND VEAL EXPORTS

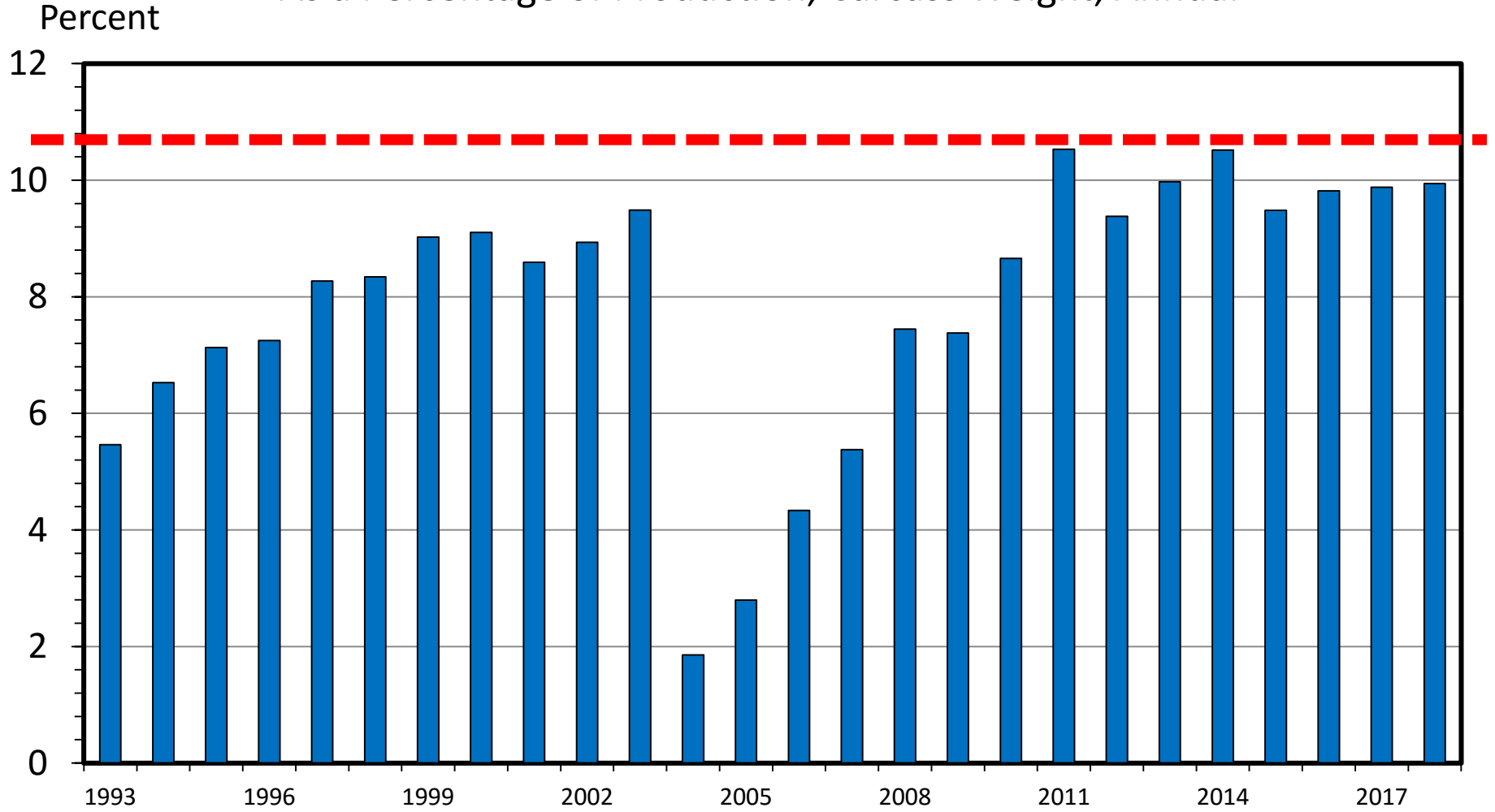
Carcass Weight, Annual

Bil. Pounds



US BEEF AND VEAL EXPORTS

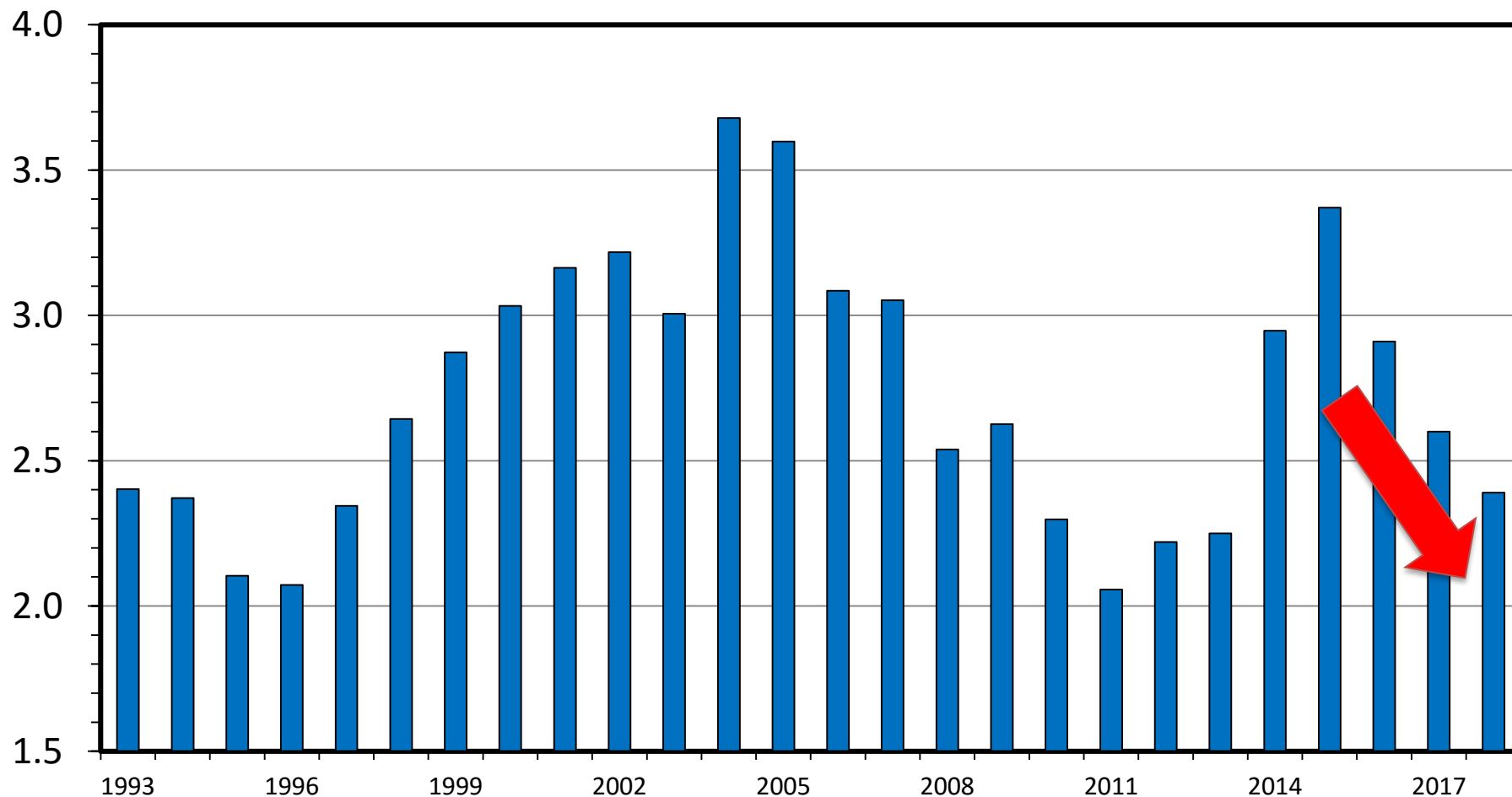
As a Percentage of Production, Carcass Weight, Annual



US BEEF AND VEAL IMPORTS

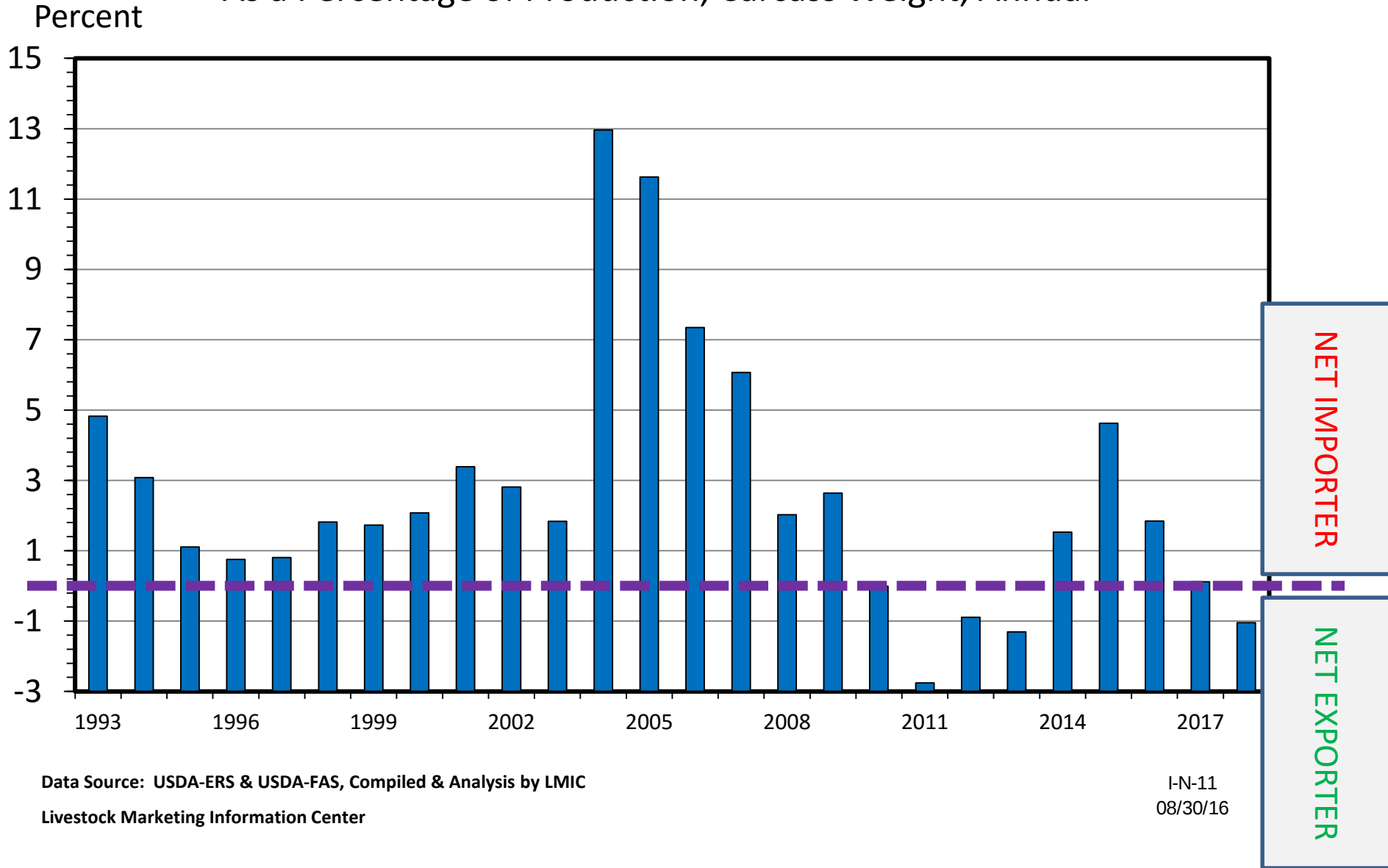
Carcass Weight, Annual

Bil. Pounds



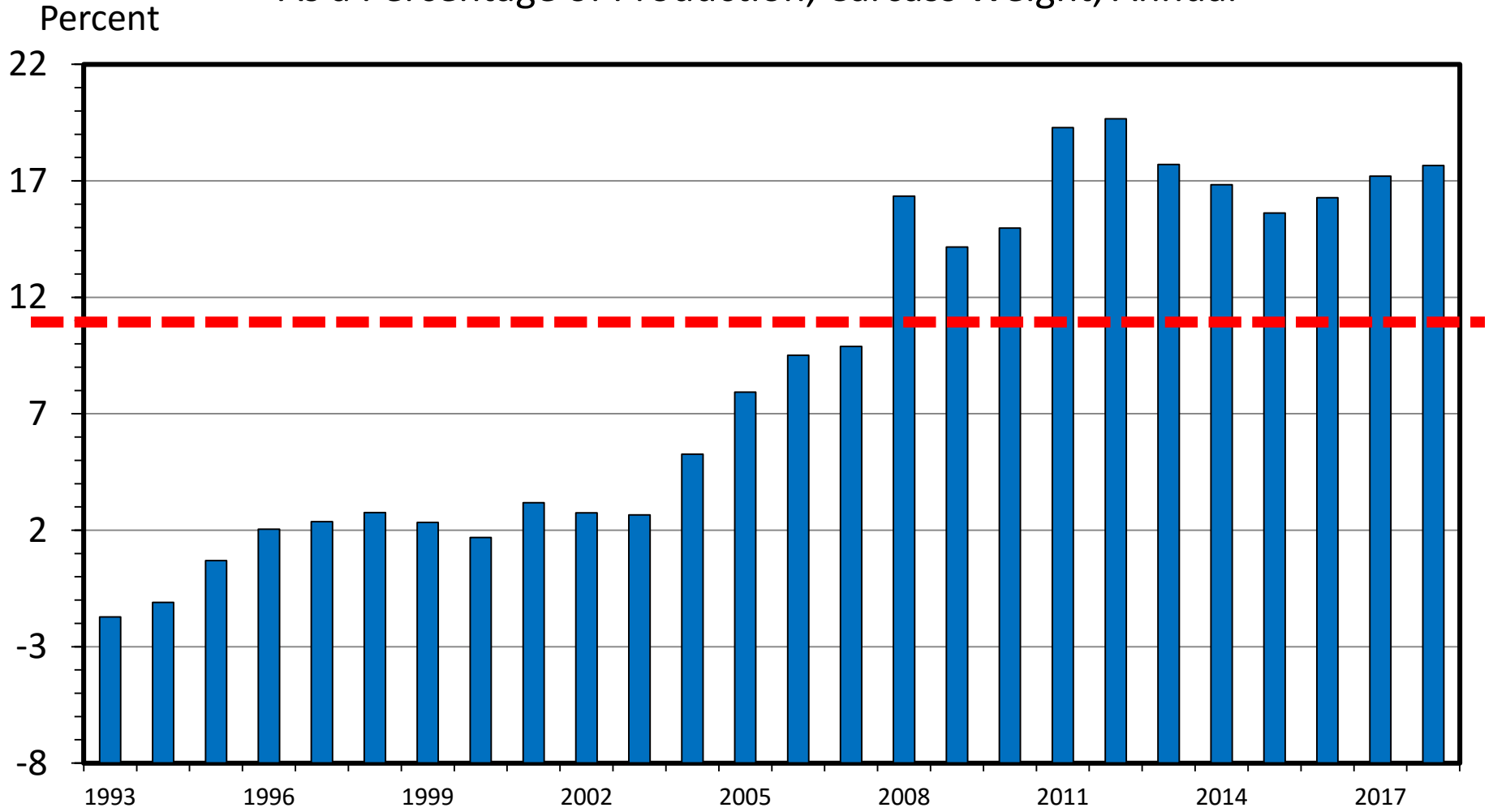
US BEEF AND VEAL NET IMPORTS

As a Percentage of Production, Carcass Weight, Annual



US NET PORK EXPORTS

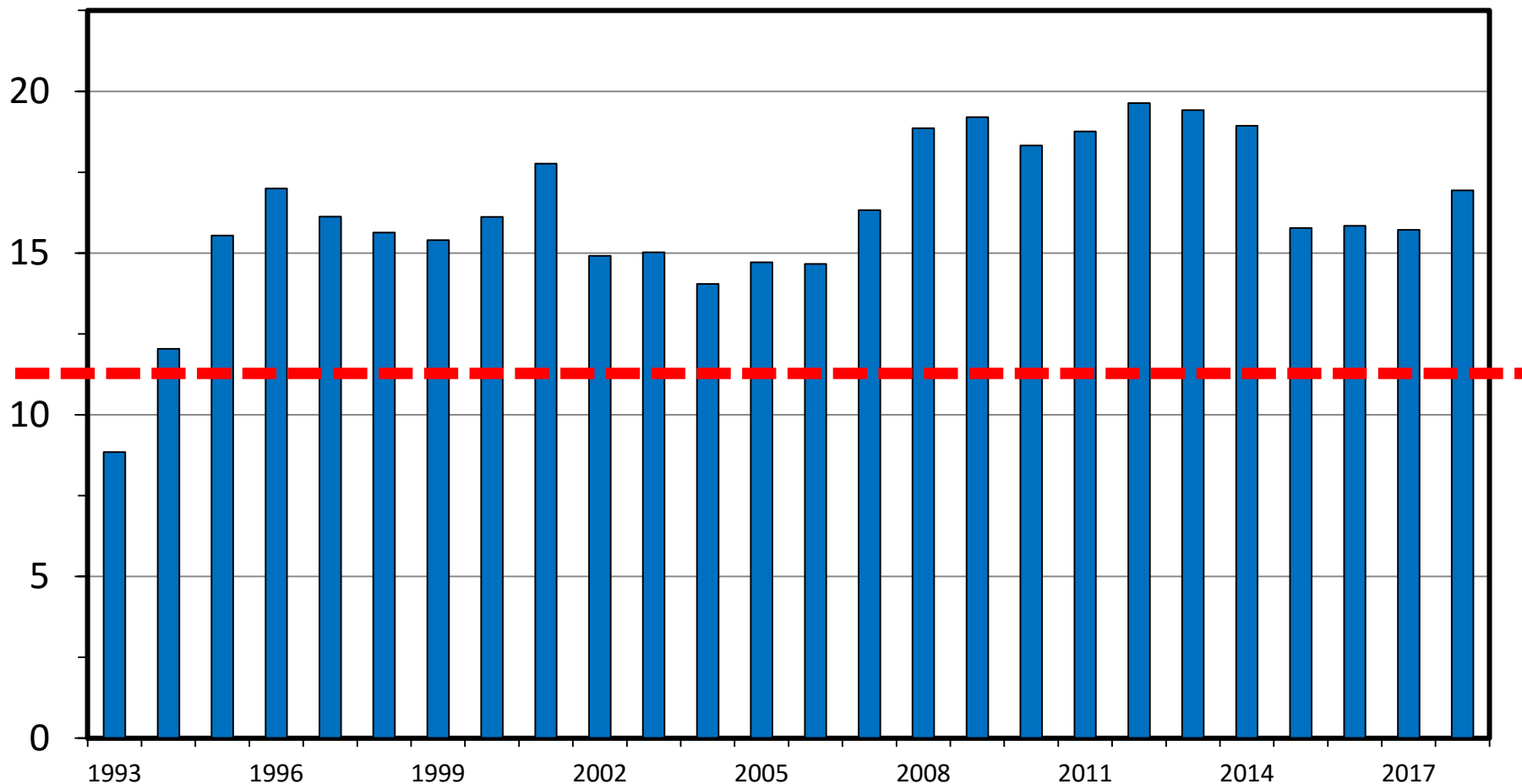
As a Percentage of Production, Carcass Weight, Annual



US BROILER EXPORTS

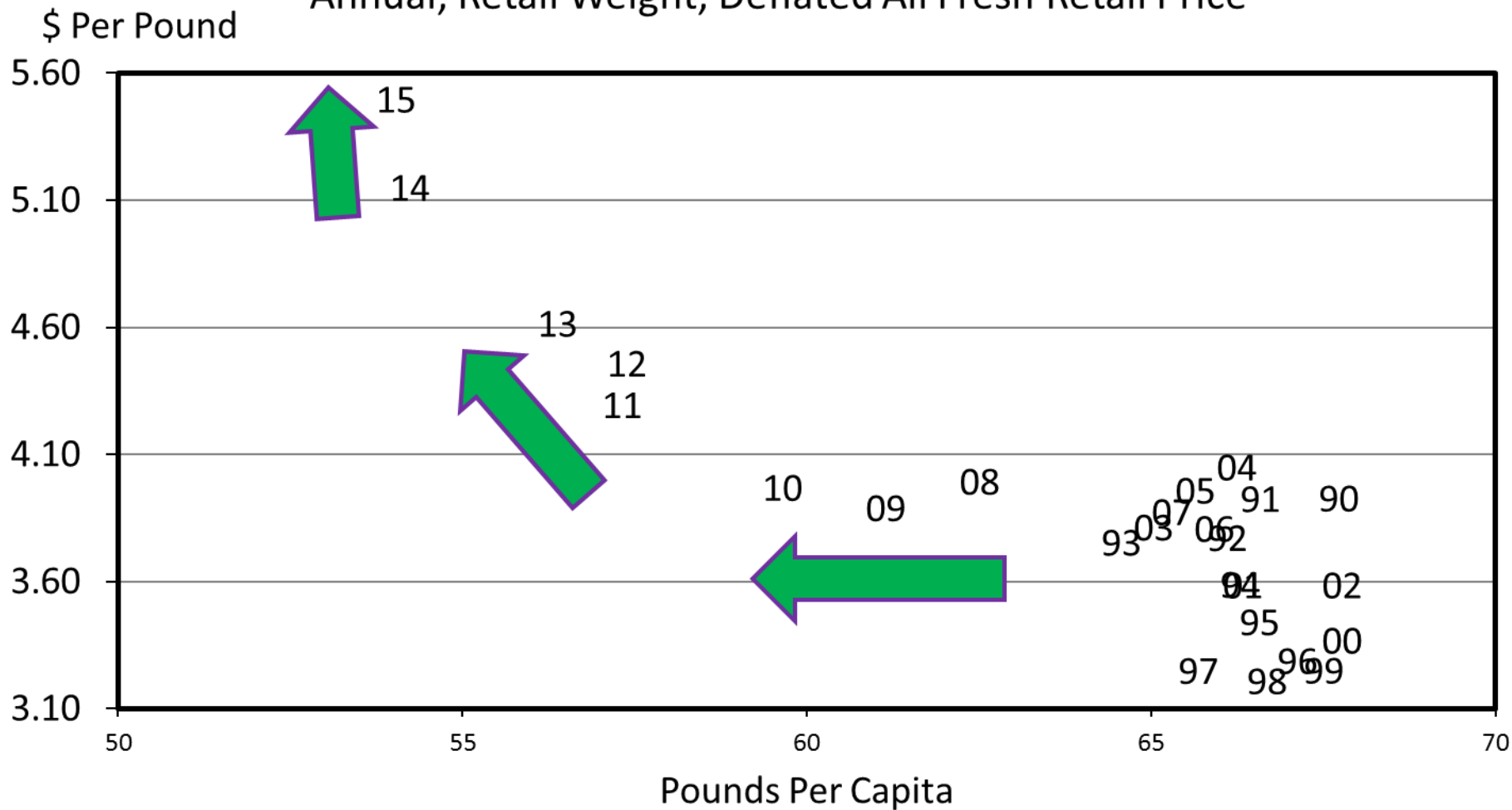
As a Percentage of Broiler Production, RTC, Annual

Percent



BEEF PRICE-QUANTITY RELATIONSHIP

Annual, Retail Weight, Deflated All Fresh Retail Price

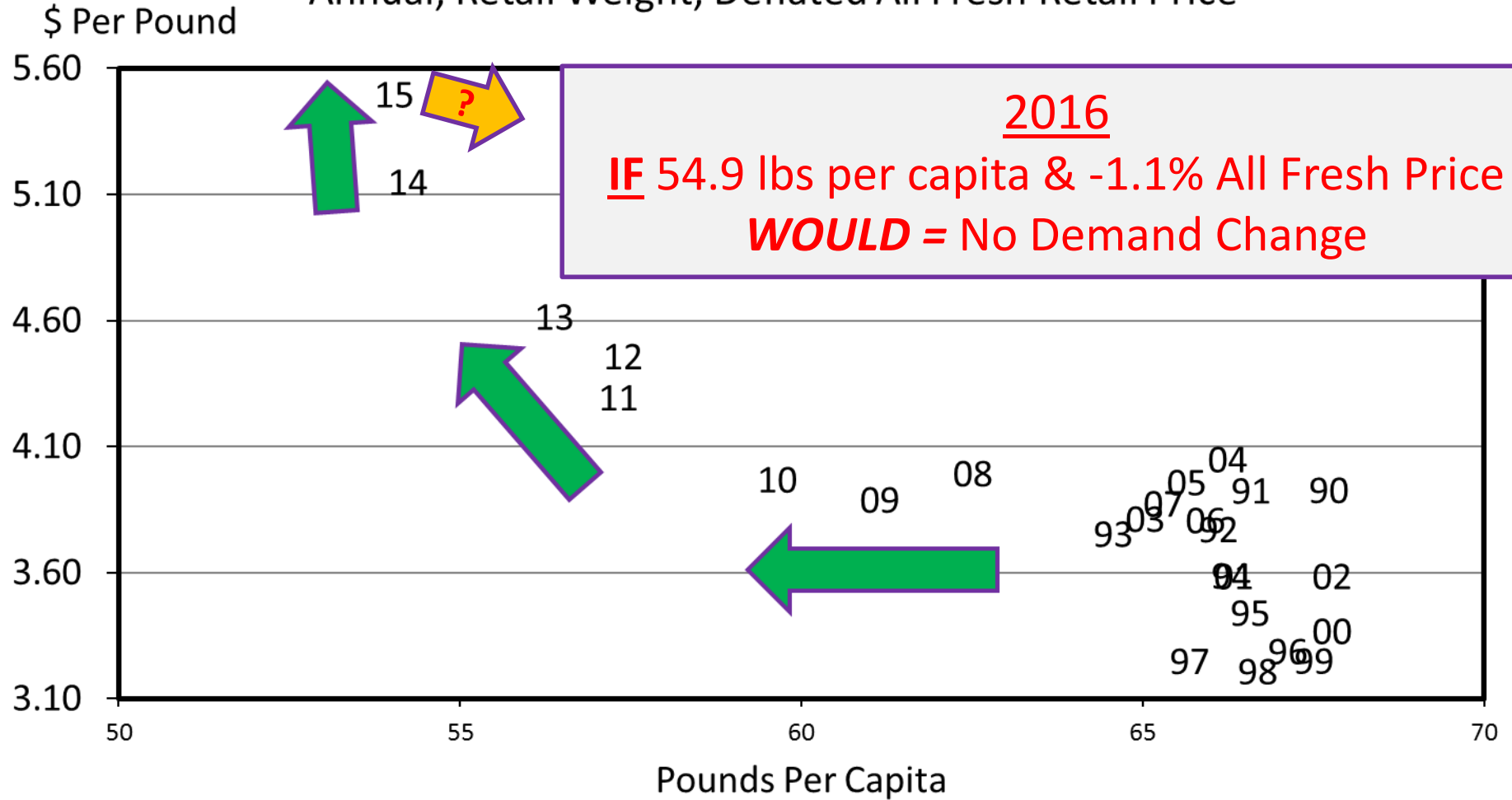


Data Source: Bureau of Economic Analysis & USDA-ERS, Compiled and Analysis by LMIC
Livestock Marketing Information Center

C-P-65A
03/25/16

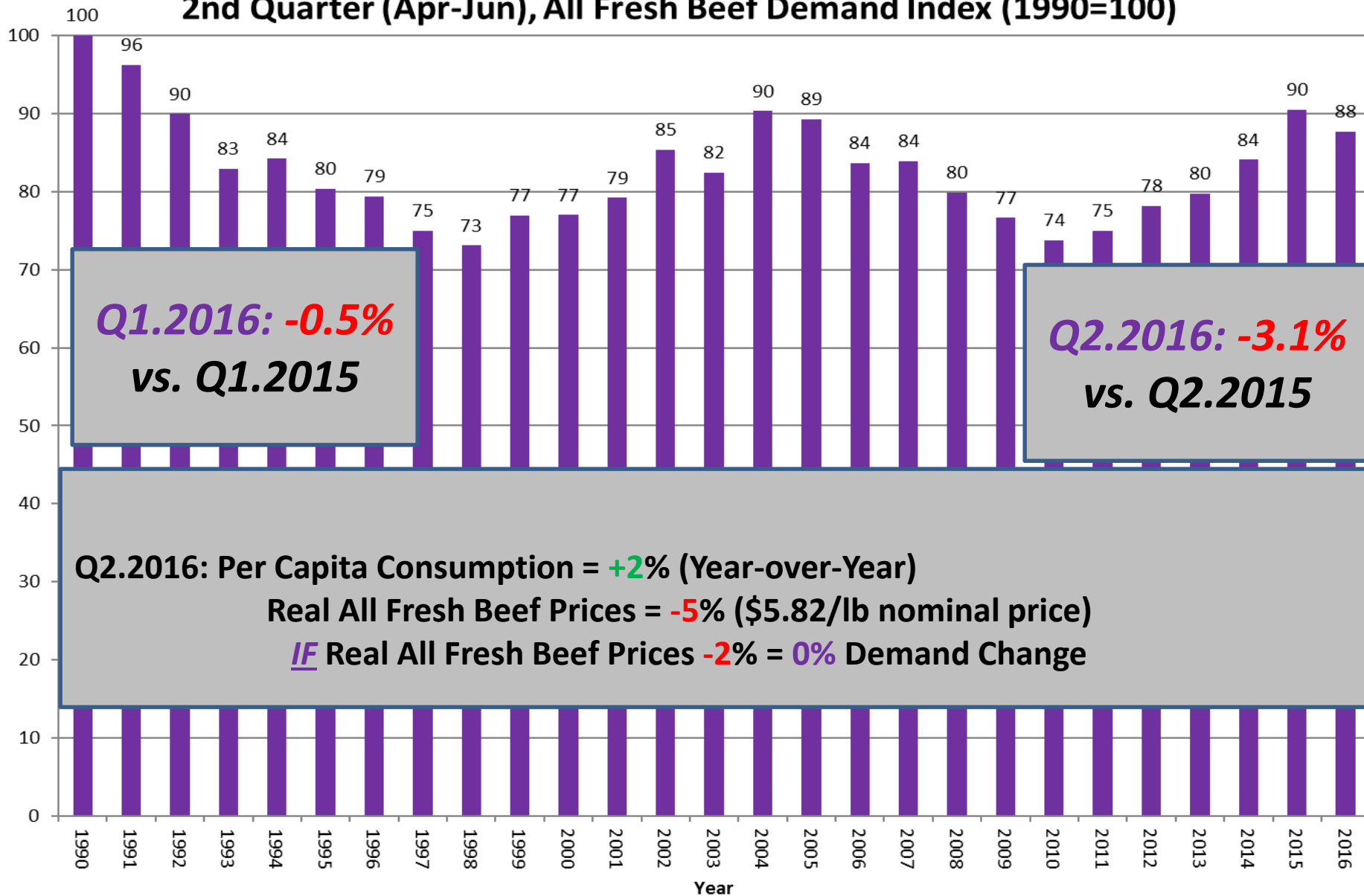
BEEF PRICE-QUANTITY RELATIONSHIP

Annual, Retail Weight, Deflated All Fresh Retail Price



2nd Quarter (Apr-Jun), All Fresh Beef Demand Index (1990=100)

Demand Index (1990=100)



Source: Glynn T. Tonsor, Kansas State University, July 2016

Relative Changes in Beef & Cattle Prices

	All	KS	KS
	Fresh	550 LB	DIRECT
	Retail	CALF	SLAUGHTER
	Beef		
Values (\$/lb or \$/cwt)			
2008	396.7	116.7	92.9
2009	389.3	110.0	83.4
2010	402.1	123.8	95.4
2011	444.0	149.7	114.4
2012	469.4	170.0	122.7
2013	493.8	169.7	125.6
2014	560.0	244.8	154.2
2015	603.8	252.1	148.3
2016	579.0	179.3	127.8
Yr-O-Yr Change (%)			
2009	-1.9%	-5.7%	-10.2%
2010	3.3%	12.5%	14.3%
2011	10.4%	20.9%	19.9%
2012	5.7%	13.5%	7.3%
2013	5.2%	-0.2%	2.3%
2014	13.4%	44.3%	22.8%
2015	7.8%	3.0%	-3.8%
2016	-4.1%	-28.9%	-13.8%

Wrap-Up

- Broad 2016-2017 Profitability Outlook
 - Cow-calf: Converging toward Long-Term Levels
 - Stocker: Opportunity varies widely across situations
 - Feedlot: Ongoing struggle; worst behind us (I think)

More information available at:



This presentation will be available in PDF format at:
<http://www.agmanager.info/contributors/tonsor>

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