

2017 Cattle Market Update

February 21, 2017

6:30 pm

Douglas County Fairgrounds

Flory Meeting Hall

2110 Harper St.

Lawrence, KS 66046

Glynn Tonsor

Dept. of Ag. Economics Kansas State University



AgManager
.info

“Interesting Times” in the Beef Industry

*Veterinary Feed
Directive*

*Cease of Georgia Dock Price/ MPR
Discussions*

*TRADE w/
BRAZIL*

*TPP/TTIP & US
Election*

*Q4-2016 Hog Slaughter
Capacity*

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

*Re-emergence of
MCOOL?*

*CME LC
CONTRACT
CHANGES*

*CME FC
INDEX
CHANGES*

*CATTLE
MARKETS
“BROKEN”*

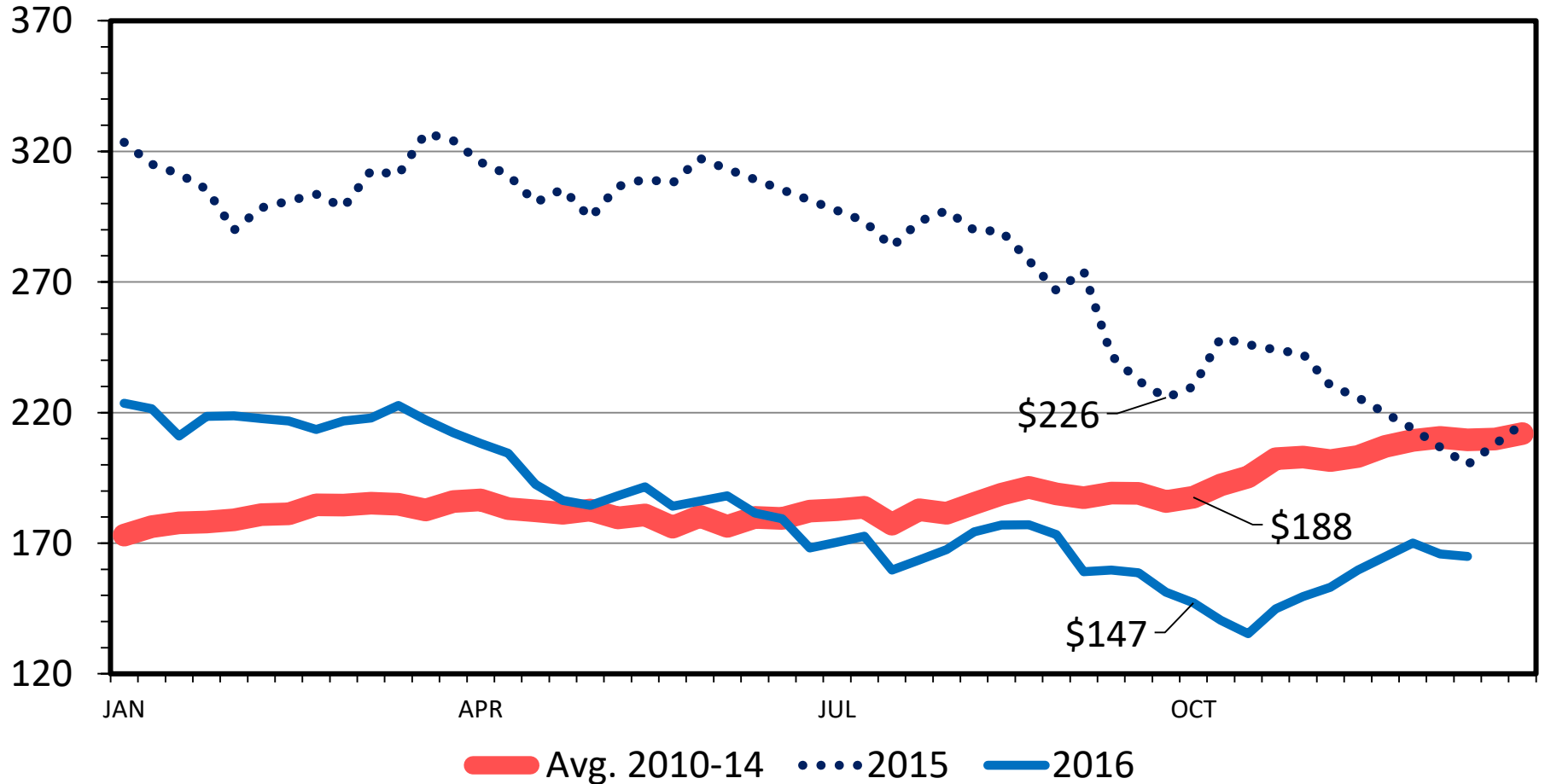
Overarching Beef Industry Economic Outlook

- Supplies
 - Growing meat supplies +
Some trade “challenges” = more lbs at home
 - Herd expansion stopped?
- Demand
 - Widely missed factor in industry profits
 - Weakening since Q4.2015

MED. & LRG. #1 STEER CALF PRICES

400-500 Pounds, Southern Plains, Weekly

\$ Per Cwt.

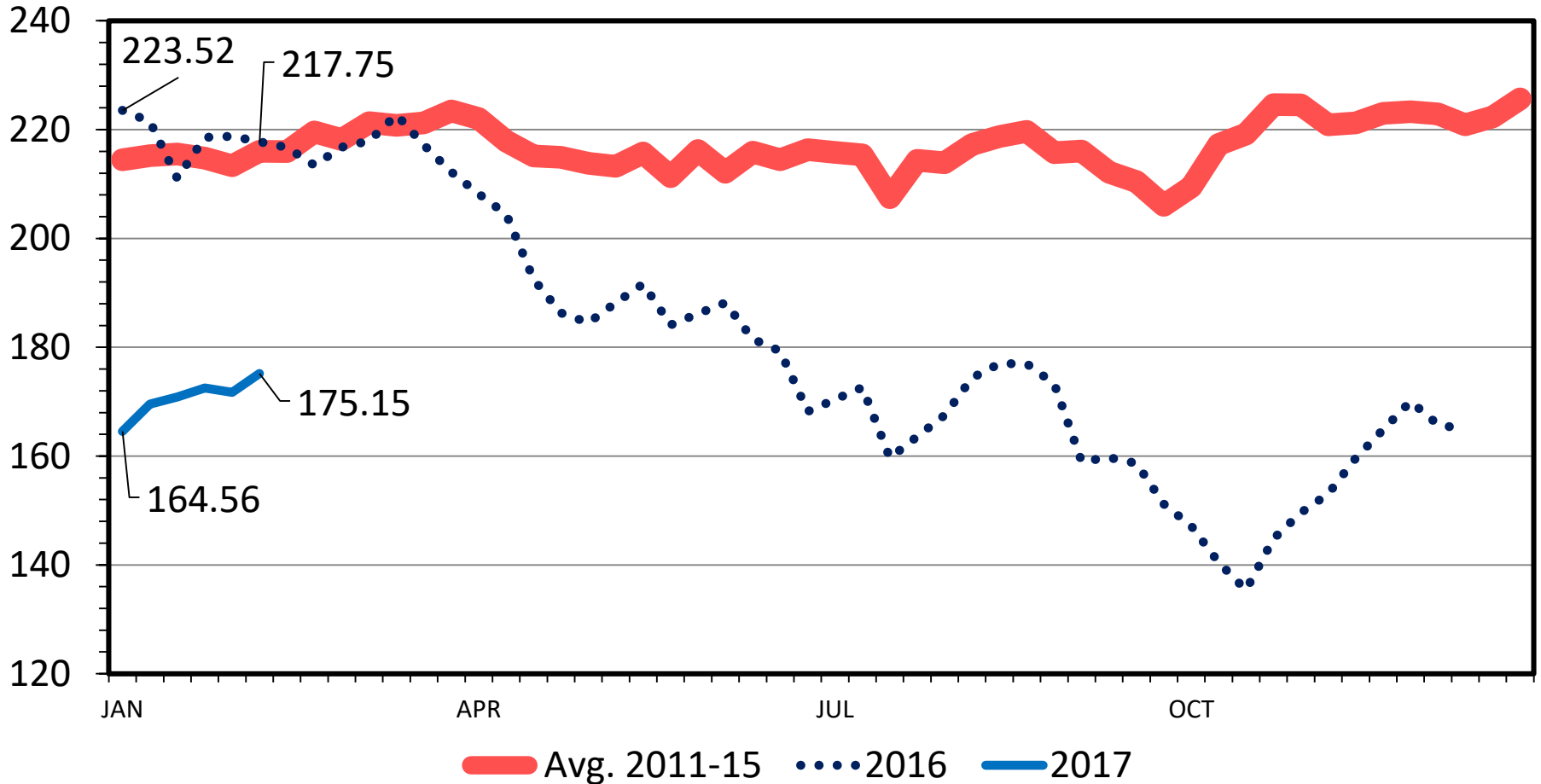


C-P-49A
01/04/17

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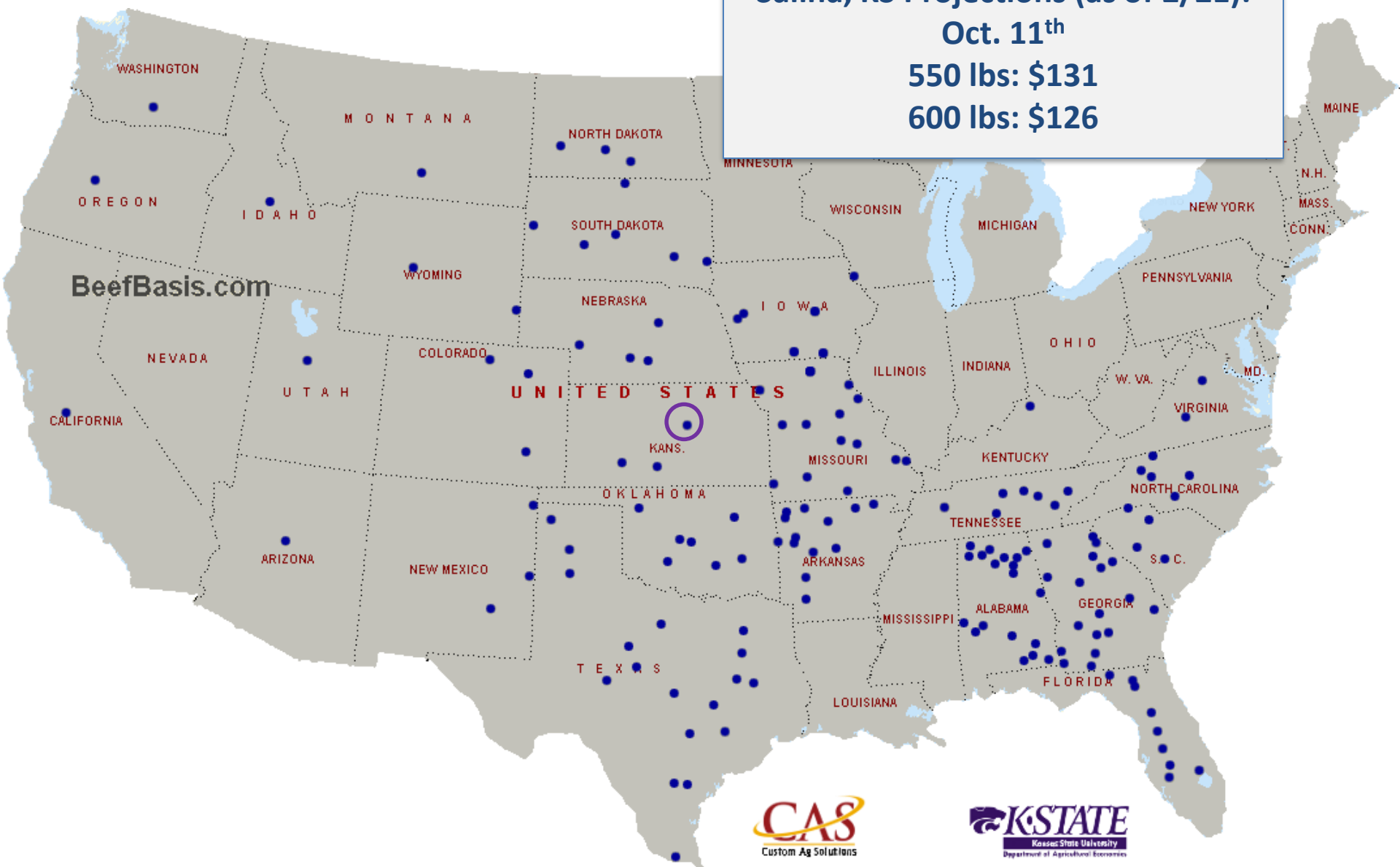
Data Source: USDA-AMS

Livestock Marketing Information Center

C-P-49A

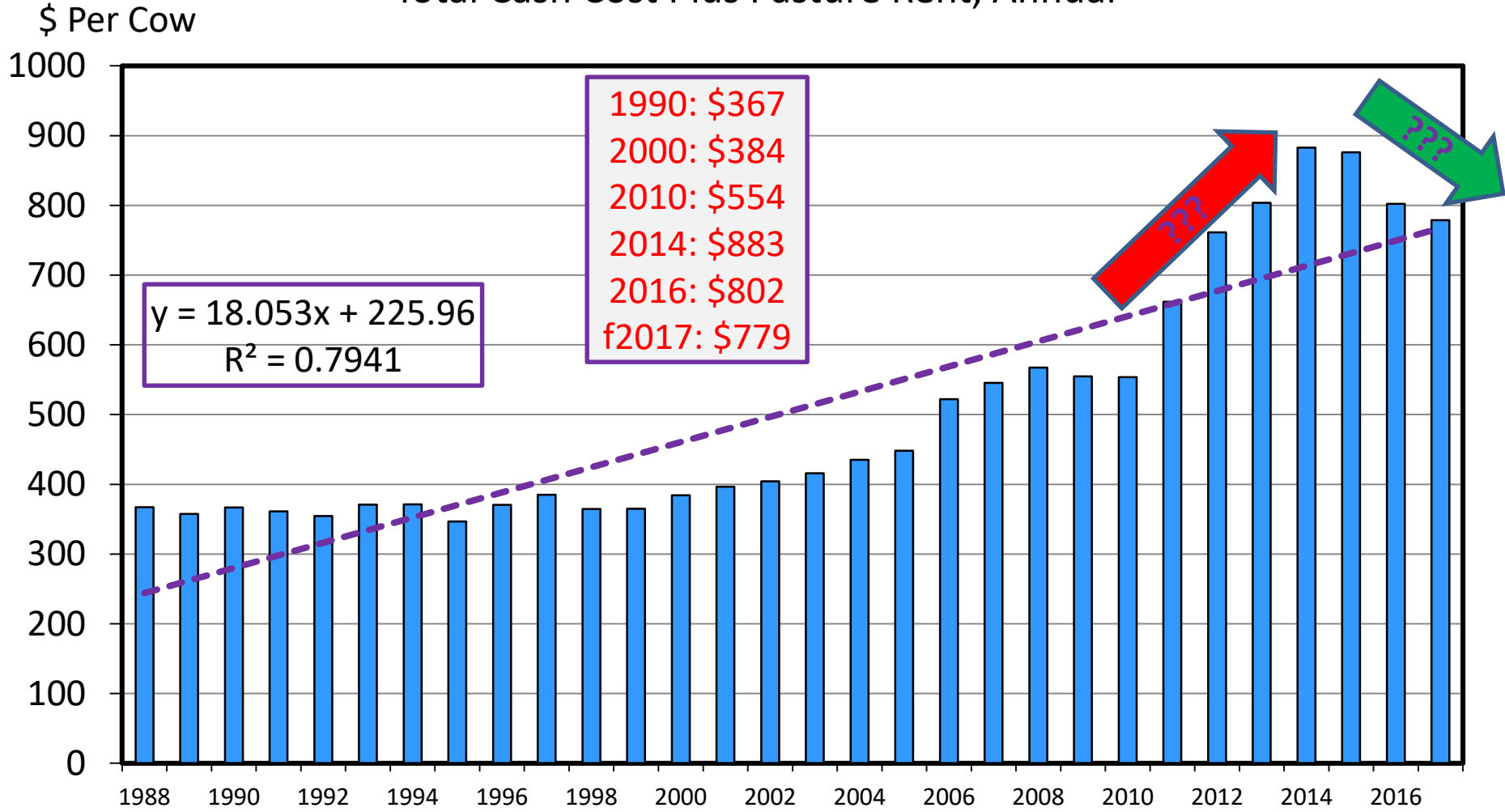
02/13/17

Salina, KS Projections (as of 2/21):
Oct. 11th
550 lbs: \$131
600 lbs: \$126



ESTIMATED AVERAGE COW CALF COSTS

Total Cash Cost Plus Pasture Rent, Annual



Data Source: USDA & LMIC, Compiled by LMIC

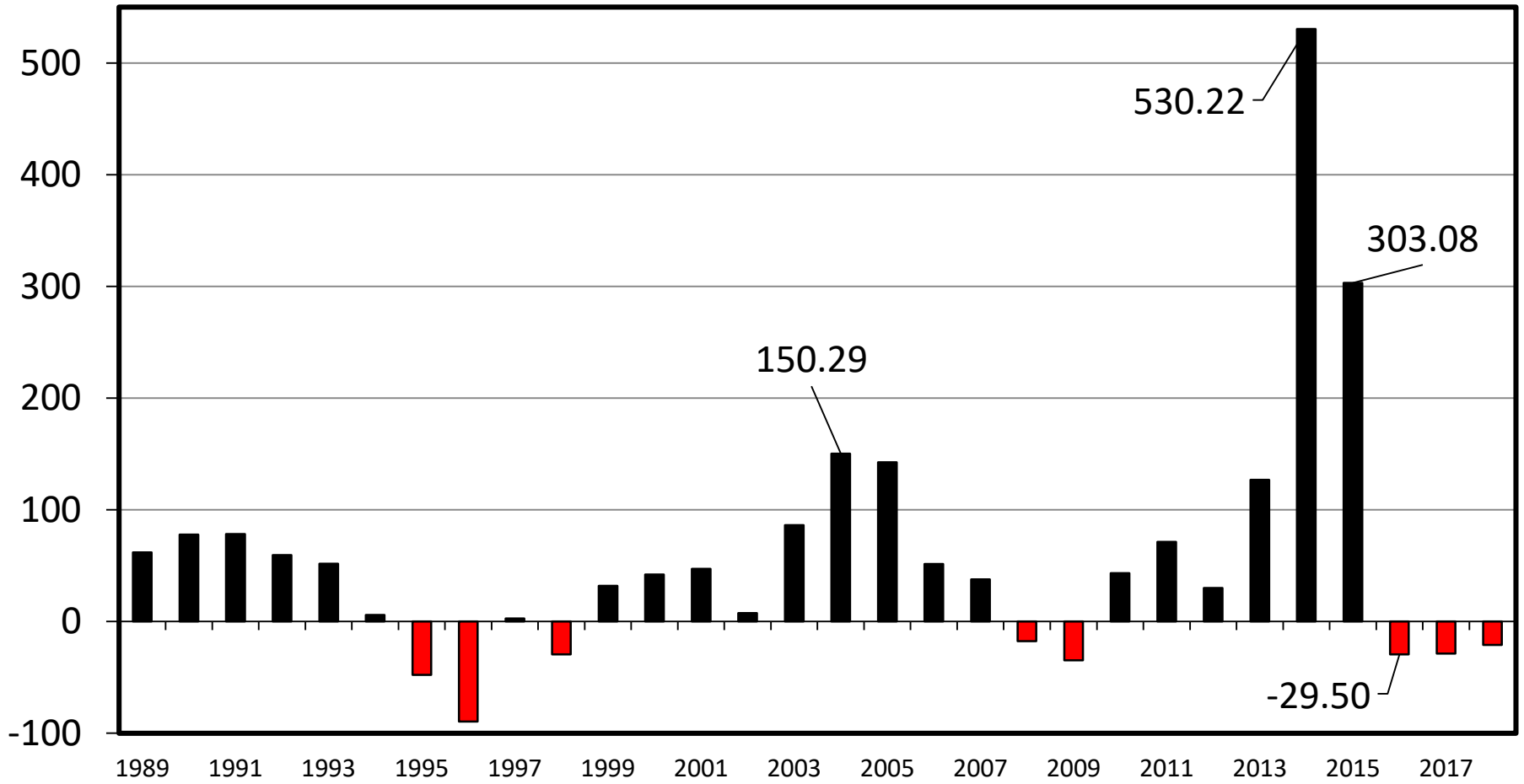
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ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual

\$ Per Cow



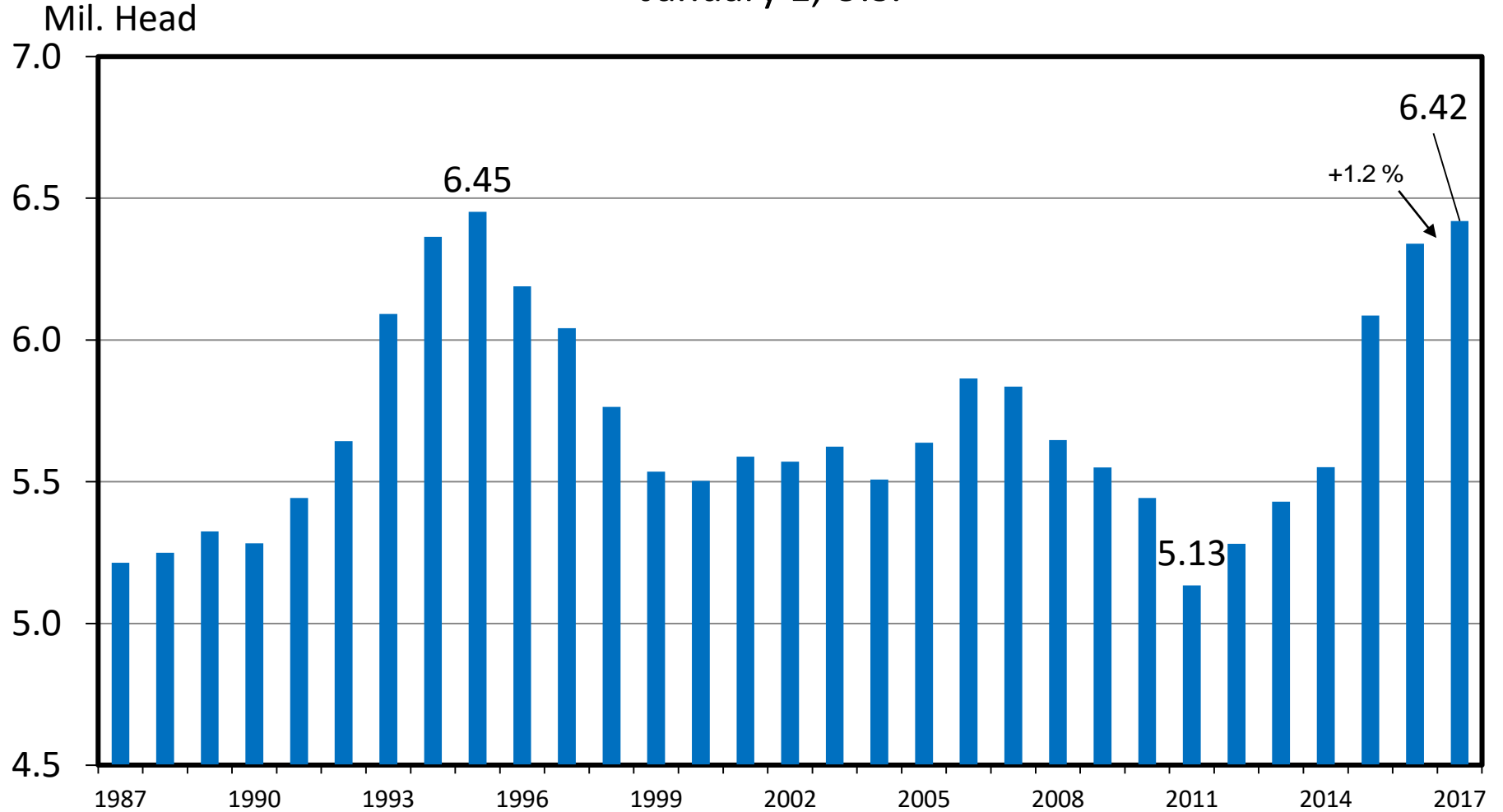
Data Source: USDA & LMIC, Compiled by LMIC

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C-P-66
02/05/17

HEIFERS HELD AS BEEF COW REPLACEMENTS

January 1, U.S.



Data Source: USDA-NASS

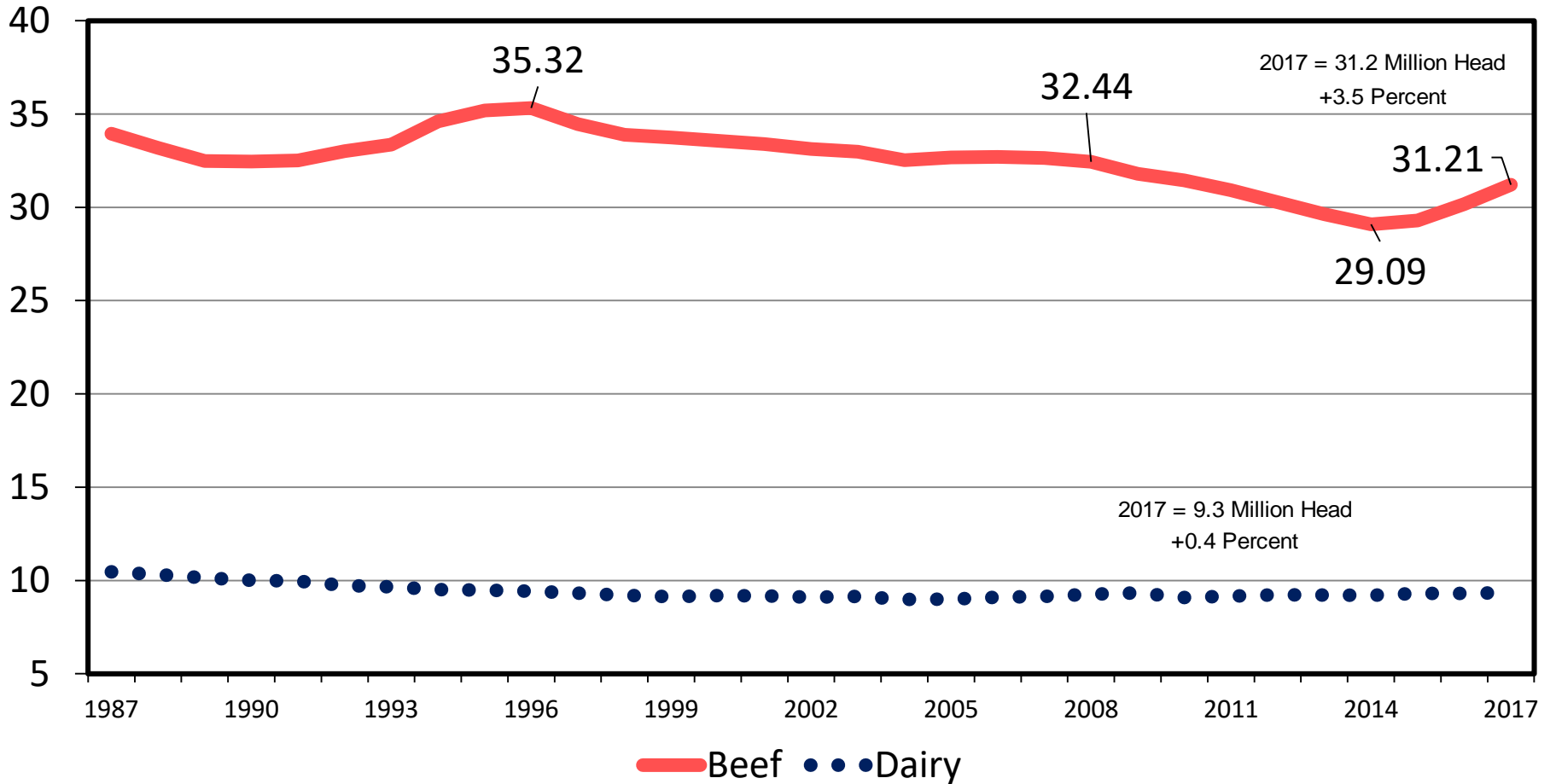
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C-N-38
02/03/17

JANUARY 1 COW INVENTORY

U.S., Annual

Mil. Head



Data Source: USDA-NASS

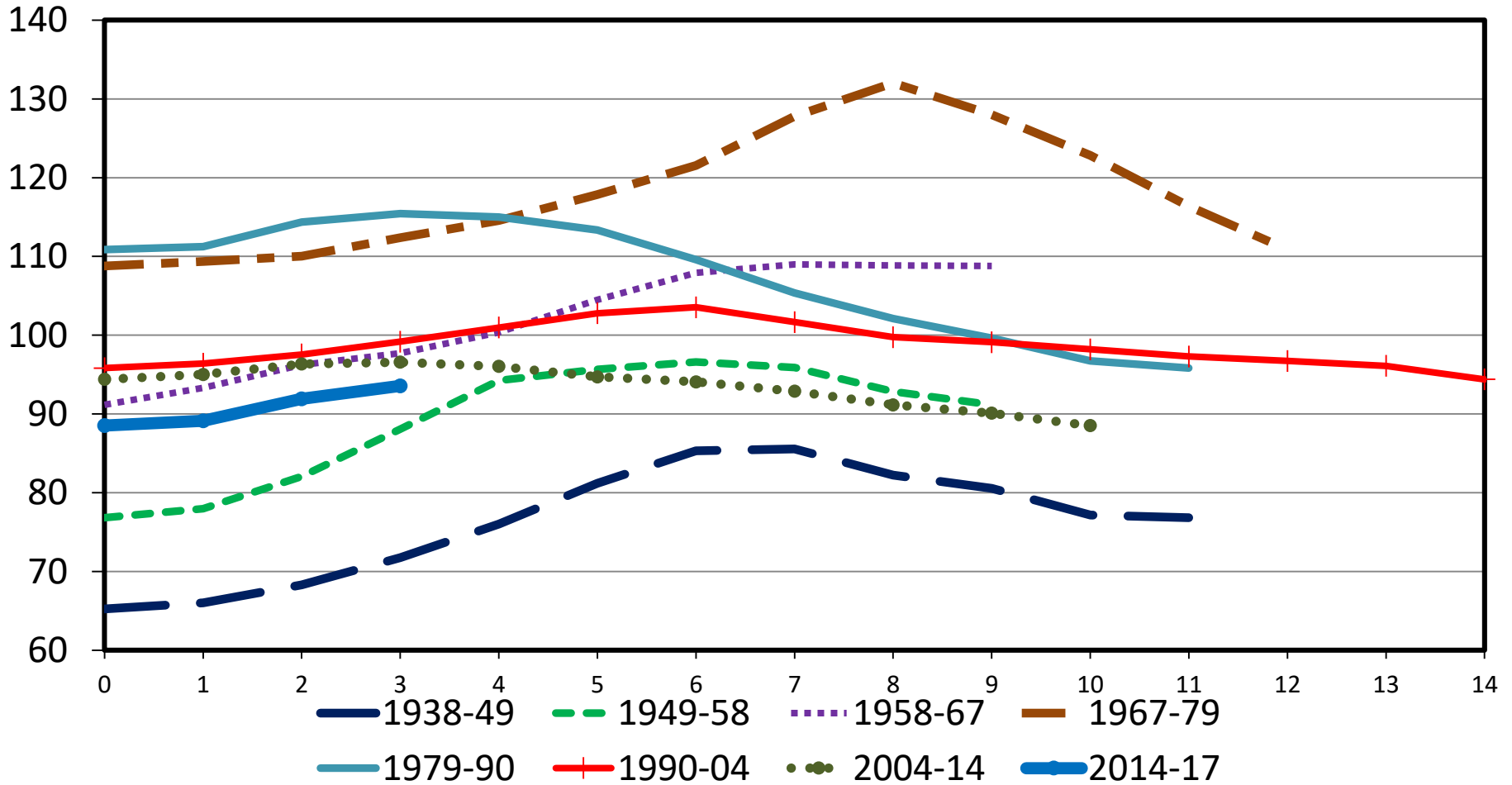
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C-N-02
02/03/17

TOTAL CATTLE INVENTORY BY CYCLE

U.S., January 1

Mil. Head



Data Source: USDA-NASS

Livestock Marketing Information Center

C-N-40
02/03/17

Differences Between High-, Medium-, and Low-Profit Cow-Calf Producers: An Analysis of 2011-2015 Kansas Farm Management Association Cow-Calf Enterprise

Dustin L. Pendell (dpendell@ksu.edu) and Kevin L. Herbel (kherbel@ksu.edu)

Kansas State University Department of Agricultural Economics – November 2016

http://www.agmanager.info/sites/default/files/pdf/DifferencesBetweenHighMediumLowProfitCow-CalfProducers_2011-2015.pdf

Variability of Cow-Calf Returns

- Variability over 41 Years
 - Avg Returns Over Total Cost: $-\$91/\text{cow}$
 - Low of $-\$306$ & High of $+\$226$
- Substantial Variability ACROSS Producers at a Time

Variability of Cow-Calf Returns

Table 1. Beef Cow-Calf Enterprise Returns over Total Costs, 2011-2015 (minimum of 3 years)*

	All Farms	Profit Category			Difference between High 1/3 and Low 1/3	
		High 1/3 Head / \$	Mid 1/3 Head / \$	Low 1/3 Head / \$	Absolute	%
Number of Farms	72	24	24	24		
Labor allocated to livestock, %	33.7	39.9	29.7	31.5	8	27%
Number of Cows in Herd	140	200	120	101	99	98%
Number of Calves Sold	128	184	111	91	93	103%
Calves Sold per Cow in Herd	0.916	0.919	0.926	0.897	0.02	2%
Weight of Calves Sold, lbs.	618	642	619	594	48	8%
Calf Sales Price / Cwt	\$167.22	\$166.39	\$164.51	\$170.75	-\$4.36	-3%
Gross Income	\$1,005.67	\$1,049.70	\$1,008.67	\$958.64	\$91.06	9%
Feed	\$369.31	\$279.89	\$378.70	\$449.33	-\$169.44	-38%
Pasture	\$164.33	\$170.88	\$164.82	\$157.28	\$13.60	9%
Interest	\$149.09	\$142.96	\$151.16	\$153.16	-\$10.21	-7%
Vet Medicine / Drugs	\$28.40	\$23.63	\$29.61	\$31.97	-\$8.34	-26%
Livestock Marketing / Breeding	\$19.15	\$10.52	\$23.41	\$23.53	-\$13.02	-55%
Depreciation	\$57.89	\$44.25	\$56.54	\$72.88	-\$28.63	-39%
Machinery	\$96.39	\$86.38	\$93.75	\$109.05	-\$22.66	-21%
Labor	\$172.28	\$152.55	\$161.36	\$202.93	-\$50.38	-25%
Other	\$48.65	\$43.15	\$41.30	\$61.50	-\$18.34	-30%
Total Cost	\$1,105.49	\$954.20	\$1,100.65	\$1,261.63	-\$307.43	-24%
Net Return to Management	-\$99.83	\$95.50	-\$91.98	-\$302.99	\$398.49	

*Sorted by Net Returns over Total Costs per Cow

Variability of Cow-Calf Returns

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*Sorted by Net Returns over Total Costs per Cow

Cow-Calf – Expansion Discussion

- *What Can I pay for a Replacement?*
 - *KSU-Beef Replacement* spreadsheet
 - Two fact sheets and video tutorial also available online:
 - <http://www.agmanager.info/livestock/budgets/production/default.asp>

Cow-Calf – Expansion Discussion

• *What Can I pay for a Replacement?*

KSU-Beef Replacement spreadsheet (<http://www.agmanager.info/livestock/budgets/production/default.asp>)

[Print information](#)

Input Assumptions

Number of replacements purchased	100	Percent marketable calves (1 - death loss)	97.0%
Year of purchase	2017	Annual cow death loss	0.5%
First year for calf sales	2018	Annual cull rate	15.0%
Cull cow weight, lbs/hd	1,250	Annual inflation rate on costs	1.0%
Annual cow costs, \$/year	\$800	Annual increase in average weaning weight	0.0%
Price scenario to use (1-3) (USDA (As of Dec. '16))	1	Discount rate (interest rate)	7.5%
Weaning weight scenario to use (1-3)	1		

Net Present Value Analysis

Year	Cows at		Prices, \$/cwt		Calf Income	Cull Income			Cost Adj.	Net Income	Discount factor	NPV**	
	BOY*	Calf	Calf wt	Calf		Cull	Annual	Age					Cost
2018	100.0	1	542	\$170.60	\$75.69	\$897	\$141.92	\$800	\$808	\$0	\$231	0.9302	\$958
2019	84.5	2	552	\$166.96	\$74.46	\$755	\$117.97	\$665	\$690	\$0	\$184	0.8653	\$949
2020	71.4	3	562	\$153.03	\$68.71	\$596	\$91.98	\$518	\$589	\$0	\$99	0.8050	\$871
2021	60.3	4	567	\$149.27	\$67.24	\$495	\$76.06	\$428	\$502	\$0	\$69	0.7488	\$826
2022	51.0	5	572	\$141.37	\$63.95	\$400	\$61.13	\$344	\$429	\$0	\$32	0.6966	\$768
2023	43.1	6	572	\$141.14	\$63.84	\$337	\$51.57	\$291	\$366	\$0	\$23	0.6480	\$731
2024	36.4	7	567	\$138.12	\$62.33	\$277	\$42.54	\$240	\$312	\$0	\$7	0.6028	\$691
2025	30.8	8	565	\$137.19	\$61.85	\$231	\$35.67	\$201	\$266	\$0	\$0	0.5607	\$660
2026	26.0	9	562	\$135.69	\$61.08	\$192	\$29.77	\$168	\$227	\$0	-\$5	0.5216	\$632
2027	22.0	10	559	\$135.95	\$61.08	\$162	\$25.15	\$142	\$194	\$0	-\$7	0.4852	\$610

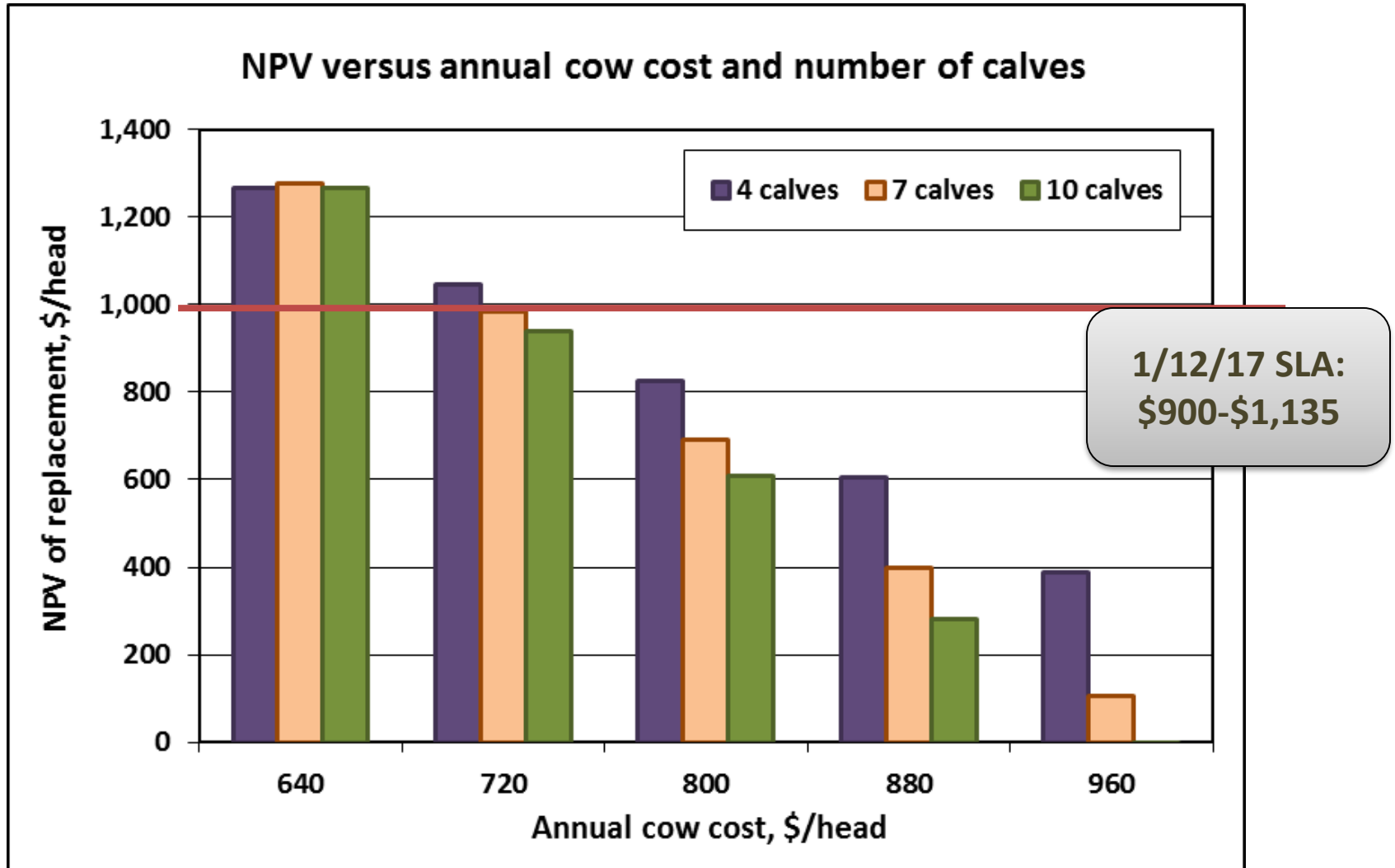
* BOY = Beginning of year

** Net present value if replacement is sold in this year

Cow-Calf – Expansion Discussion

- *What Can I pay for a Replacement?*

KSU-Beef Replacement spreadsheet (<http://www.agmanager.info/livestock/budgets/production/default.asp>)

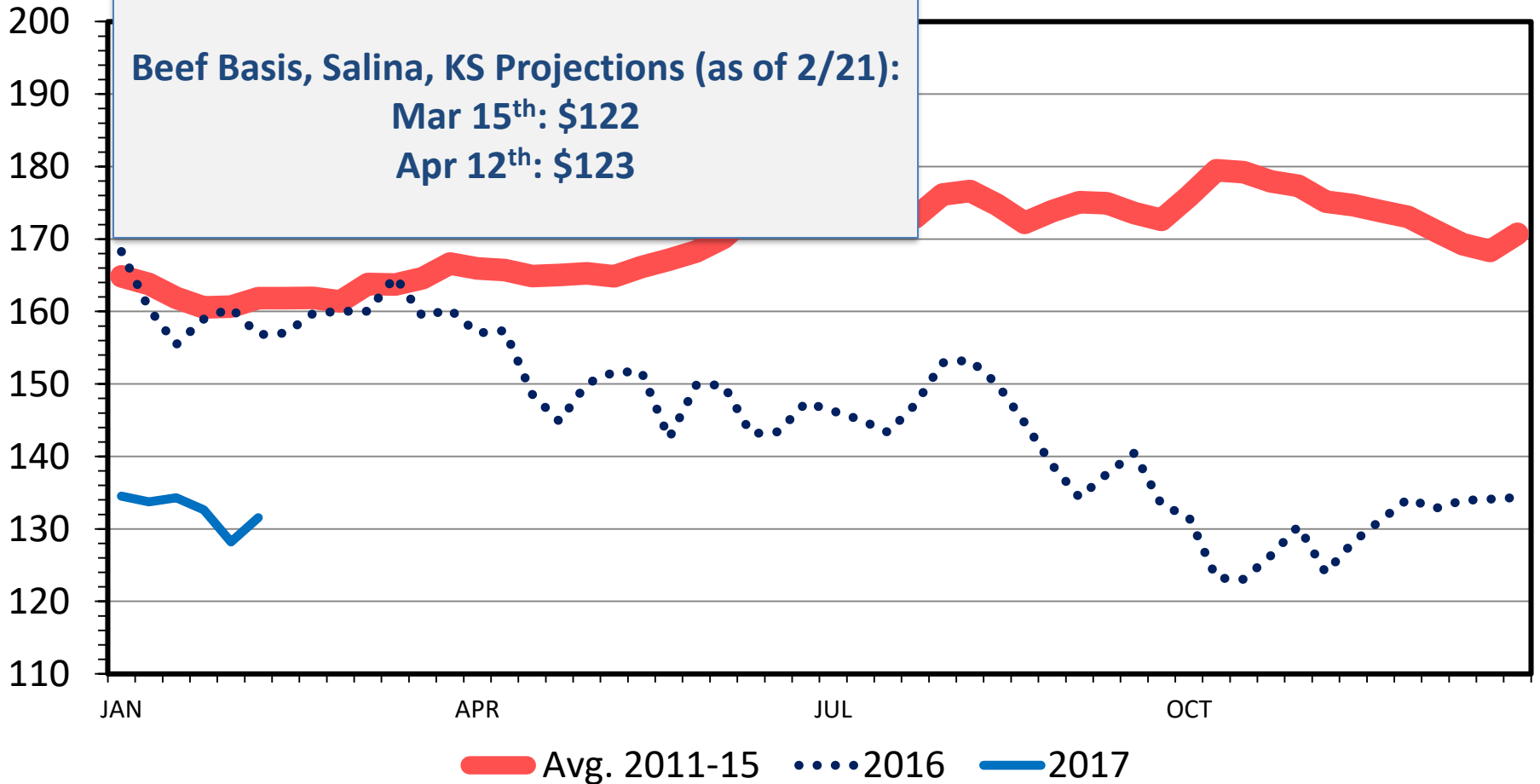


Economic Outlook Overview: Backgrounding/Stockers

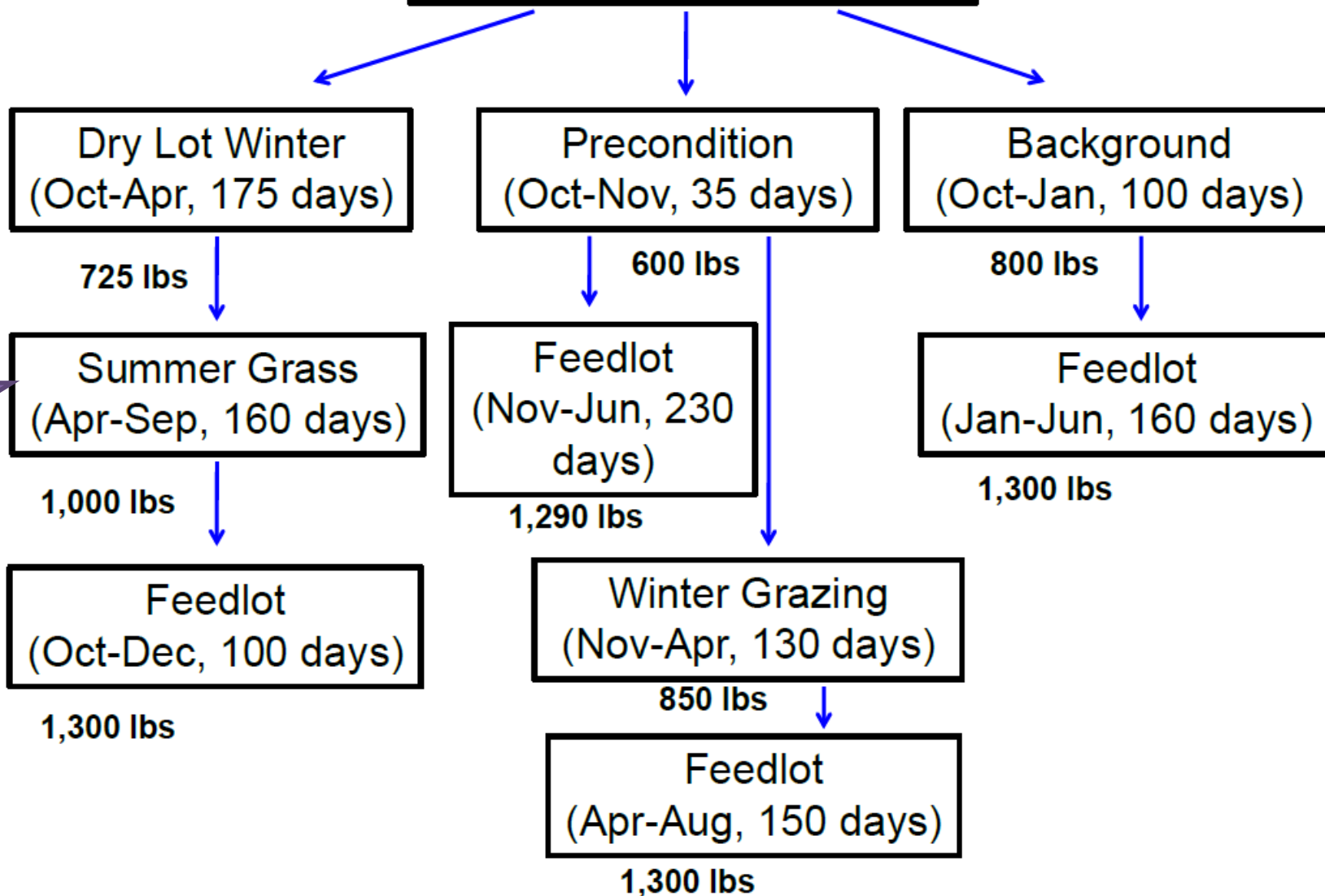
MED. & LRG. #1 FEEDER STEER PRICES

700-800 Pounds, Southern Plains, Weekly

\$ Per Cwt.



Fall Weaned 550# Calf



Economic Outlook Overview: Stockers

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

- Salina, KS 2/21/17 Summer Grass, 155 DOF Case:
 - Buy 725 lb steer on 04/05/17 (\$125)
 - Sell 900 lb steer on 09/06/17 (\$117) {ADG 1.13}
 - VOG: \$85/cwt

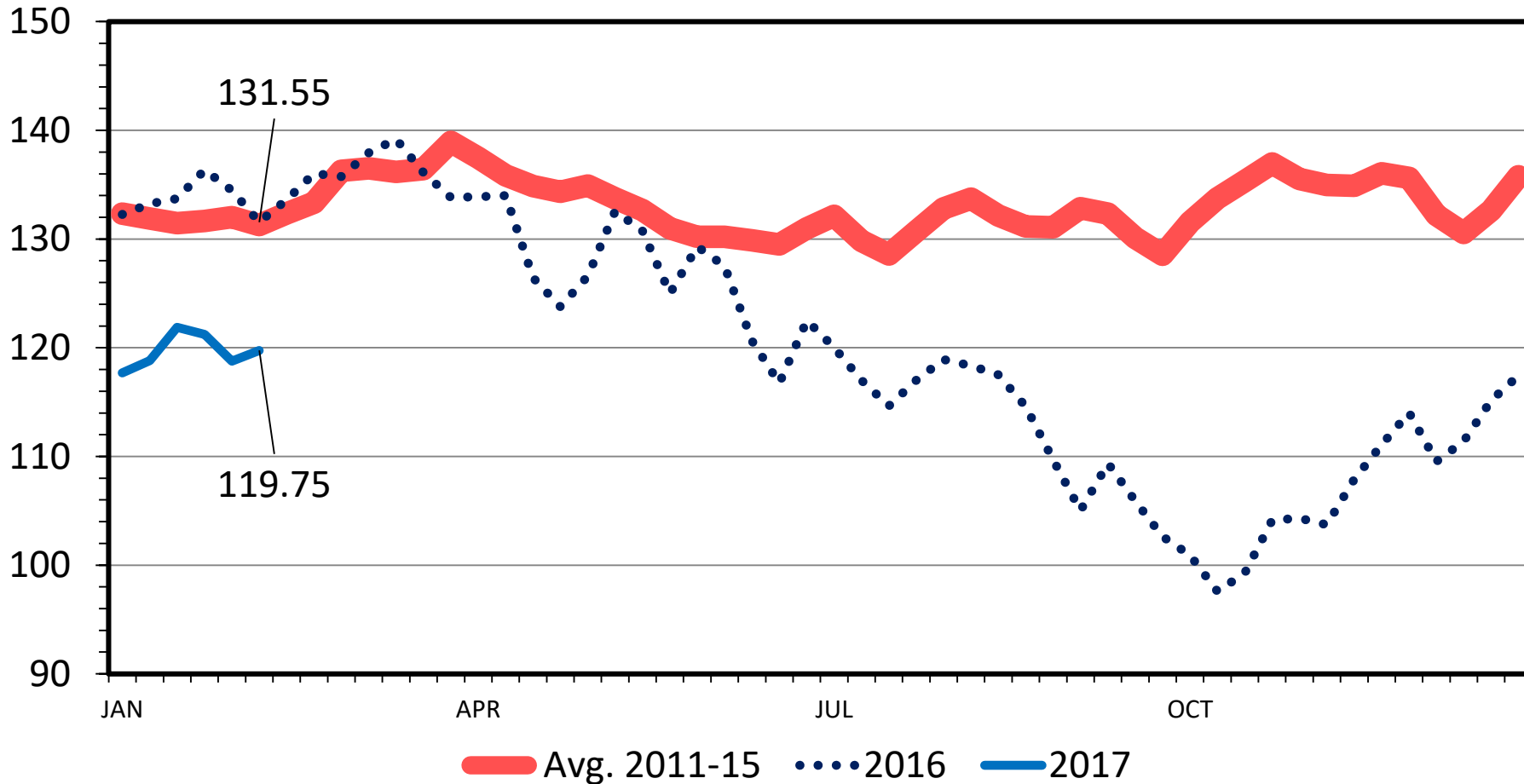
Economic Outlook Overview: Feedlots

- 2016 remained tough
 - 2017 showing improvement
- Structural concerns persist:
 - Slowed Herd Growth

SLAUGHTER STEER PRICES

5 Market Weighted Average, Weekly

\$ Per Cwt.



Data Source: USDA-AMS

Livestock Marketing Information Center

02/13/17

Historical and Projected Kansas Feedlot Net Returns

(as of 2/17/17')

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

Dec. 16': +\$22/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
Jan-17	82.30	66.79	120.63	144.63	81.07	114.84	154.35
Feb-17	43.75	74.02	116.28	137.96	81.53	113.16	143.28
Mar-17	115.84	75.02	117.89	129.45	96.00	109.62	143.09
Apr-17	-18.93	75.91	107.47	128.60	72.48	108.86	126.26
May-17	17.54	76.29	111.90	131.37	79.45	110.62	133.53
Jun-17	-102.68	76.39	103.95	132.78	57.98	111.43	120.18
Jul-17	-14.77	78.92	103.85	119.41	76.22	104.91	117.67
Aug-17	-15.01	80.68	102.89	115.96	77.82	103.97	114.22
Sep-17	-32.68	80.29	102.71	118.99	74.40	105.04	115.13
Oct-17	-54.10	81.67	102.78	120.17	71.69	106.64	113.86

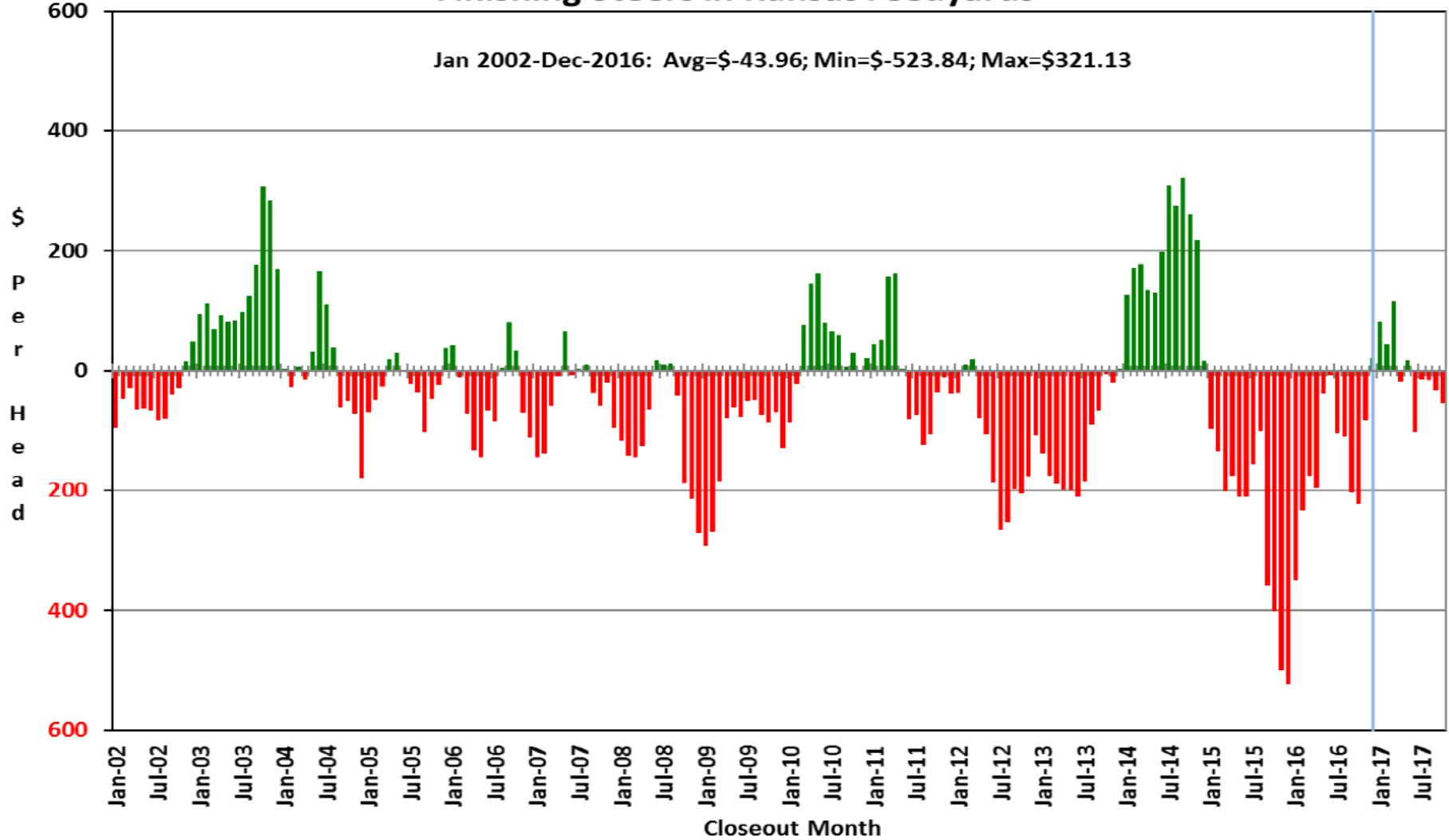
Representative Barometer for Trends in Profitability

Historical and Projected Kansas Feedlot Net Returns

(as of 2/17/17')

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

Figure 1. Historical & Projected Average Net Returns for Finishing Steers in Kansas Feedyards



Quarterly Forecasts (LMIC: 2/13/17)

		% 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	7,840	7.5	825.0	-0.9	6,468	6.6
IV	7,916	9.0	836.6	-0.5	6,623	8.4
Year	30,565	6.3	824.8	0.1	25,212	6.4
2017						
I	7,494	4.4	820.7	-0.7	6,150	3.6
II	7,974	4.5	814.2	0.4	6,493	4.9
III	8,049	2.7	828.6	0.4	6,670	3.1
IV	8,088	2.2	839.4	0.3	6,789	2.5
Year	31,605	3.4	825.9	0.1	26,102	3.5
2018						
I	7,724	3.1	825.5	0.6	6,376	3.7
II	8,163	2.4	818.0	0.5	6,678	2.8
III	8,266	2.7	832.7	0.5	6,883	3.2
IV	8,313	2.8	842.6	0.4	7,004	3.2
Year	32,466	2.7	829.8	0.5	26,941	3.2

Quarterly Forecasts (LMIC: 2/13/17)

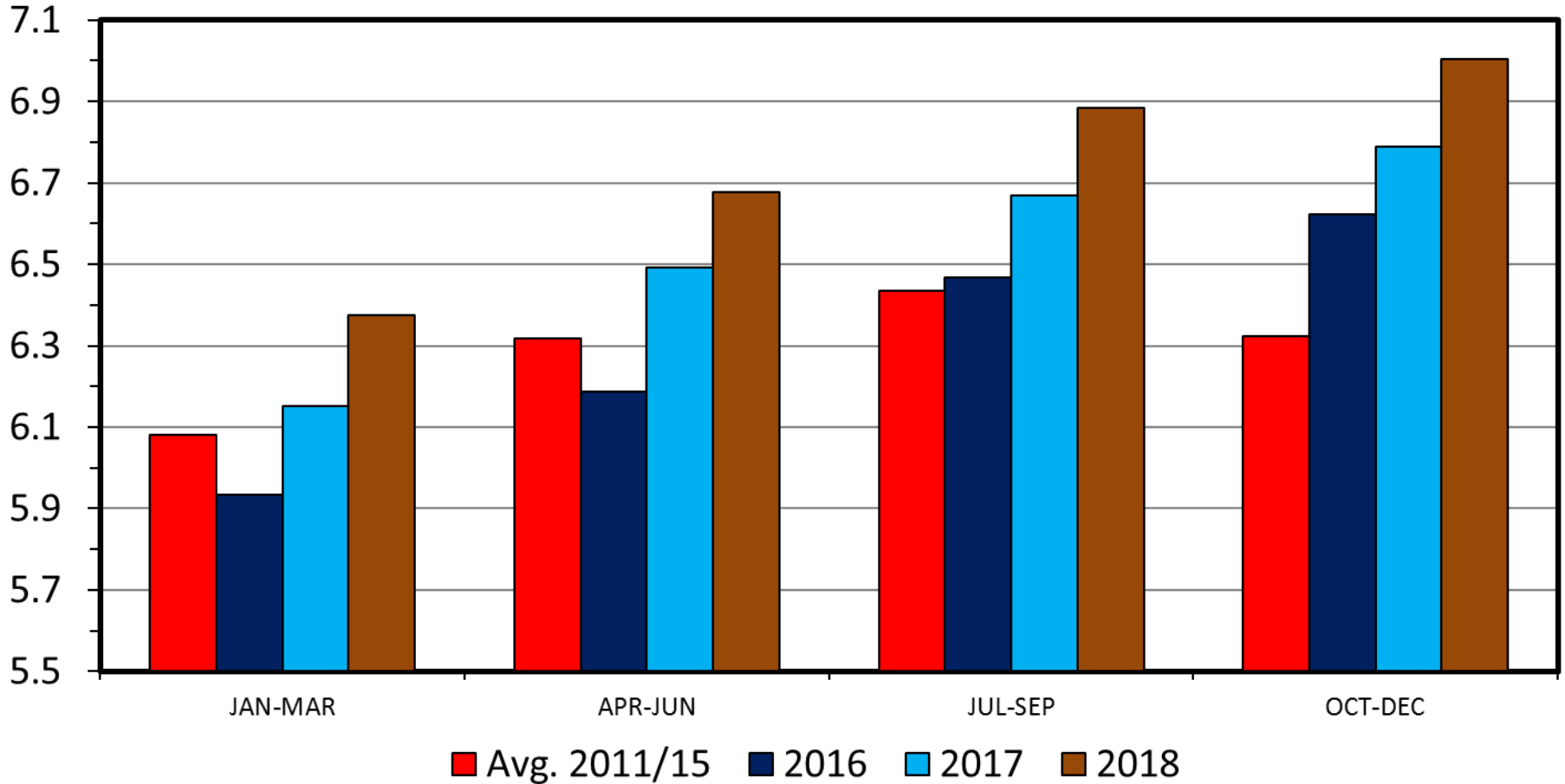
Year Quarter	Live Sltr.	% Chg. from Year Ago	Feeder Steer Price	
	Steer Price 5-Mkt Avg		Southern Plains	
			7-800#	5-600#
2016				
I	135	-17.0	160	196
II	128	-19.2	149	174
III	113	-21.5	144	157
IV	108	-15.7	129	138
Year	121	-18.4	146	166
2017				
I	117-118	-12.8	129-131	149-152
II	113-116	-10.3	129-133	145-150
III	106-110	-4.6	128-134	139-146
IV	107-112	1.7	126-133	133-142
Year	111-114	-6.9	128-133	141-148
2018				
I	109-115	-4.7	124-132	135-146
II	107-114	-3.5	127-136	137-149
III	103-111	-0.9	123-133	134-147
IV	104-113	-0.9	122-133	130-144
Year	108-111	-2.7	126-132	136-144

Trade & Meat Supplies

COMMERCIAL BEEF PRODUCTION

US, Quarterly

Bil. Pounds



■ Avg. 2011/15 ■ 2016 ■ 2017 ■ 2018

Data Source: USDA-NASS, Forecasts by LMIC

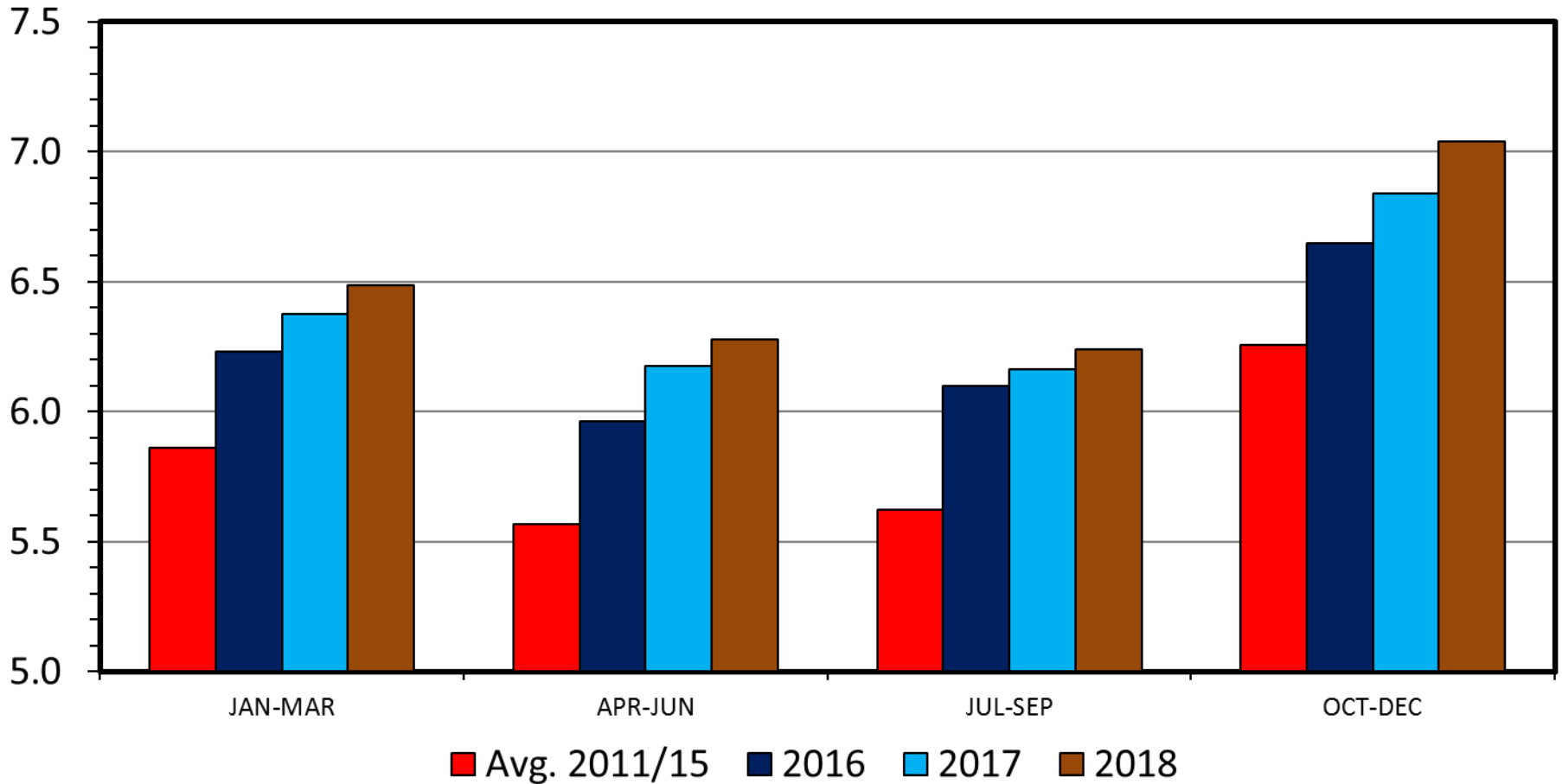
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M-S-01
02/05/17

COMMERCIAL PORK PRODUCTION

US, Quarterly

Bil. Pounds



■ Avg. 2011/15 ■ 2016 ■ 2017 ■ 2018

Data Source: USDA-NASS, Forecasts by LMIC

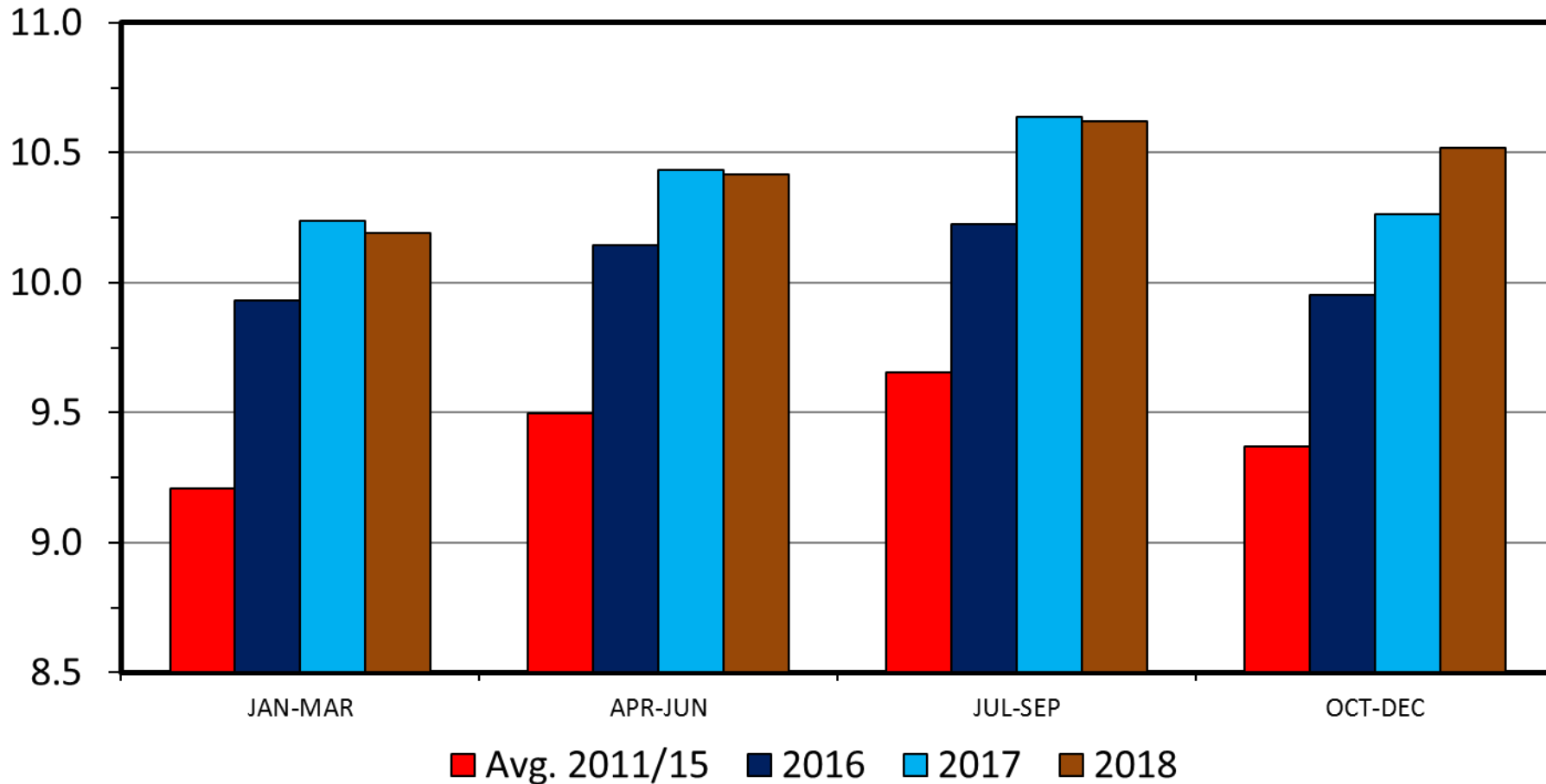
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M-S-06
02/05/17

RTC BROILER PRODUCTION

US, Quarterly

Bil. Pounds



■ Avg. 2011/15 ■ 2016 ■ 2017 ■ 2018

Data Source: USDA-NASS, Forecasts by LMIC

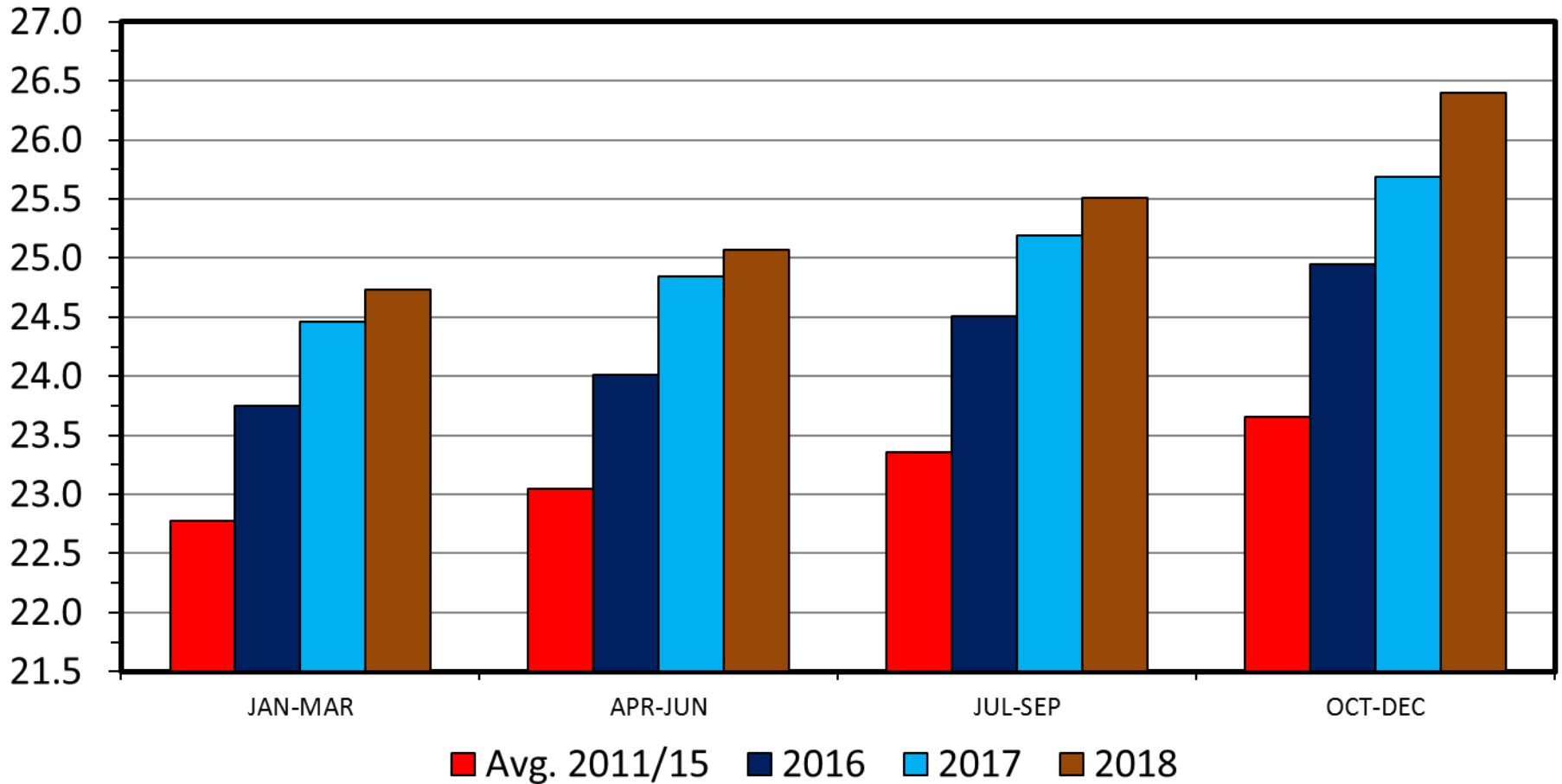
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M-S-30
02/05/17

TOTAL RED MEAT & POULTRY PRODUCTION

US, Quarterly

Bil. Pounds



■ Avg. 2011/15 ■ 2016 ■ 2017 ■ 2018

Data Source: USDA-NASS, Forecasts by LMIC

Livestock Marketing Information Center

M-S-31
02/05/17

USDA Long-Term projections (2017-2026)

Early release Nov. 2016

Feb. 2017 full report (<http://www.usda.gov/oce/commodity/projections/>)

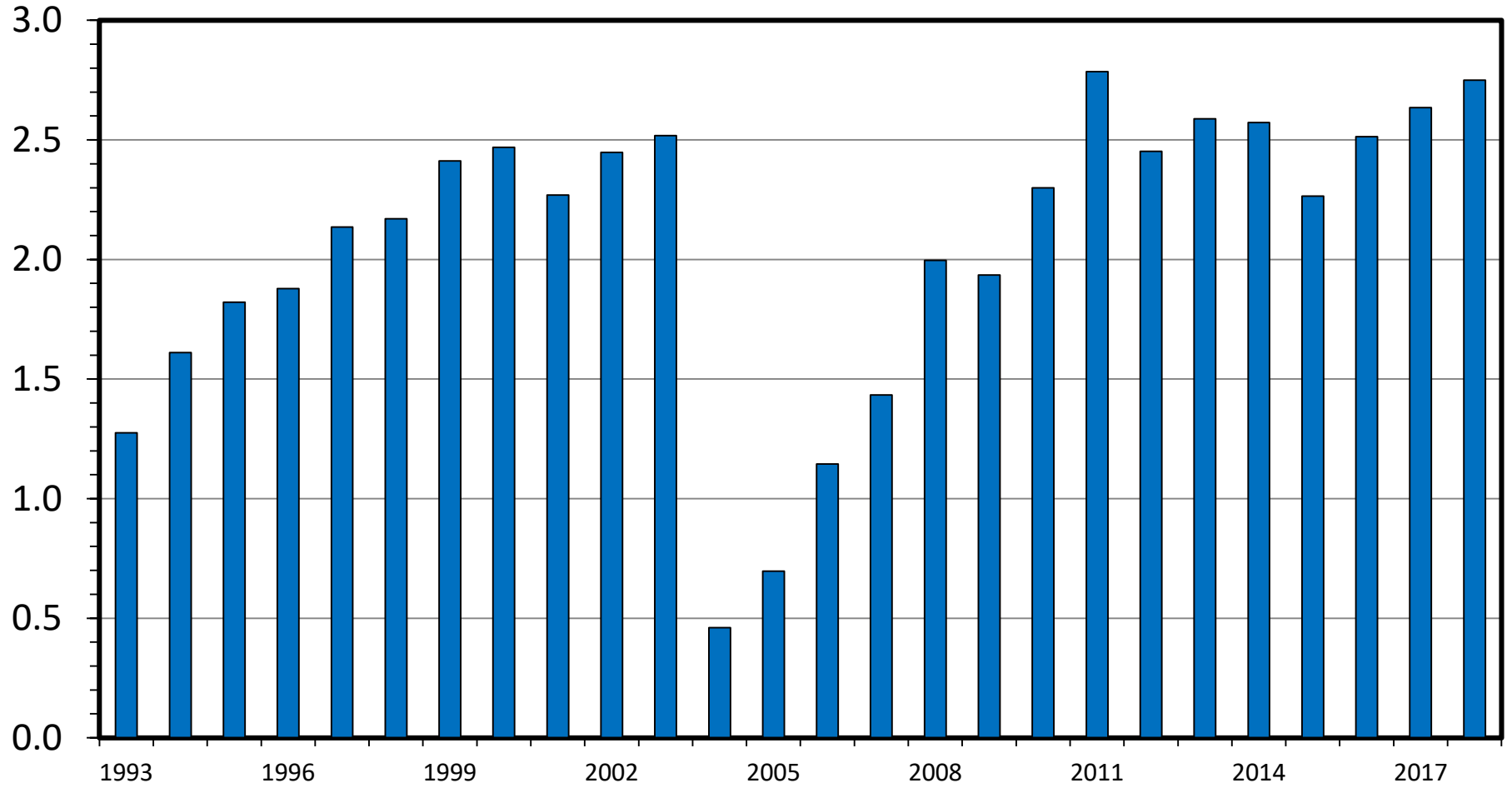
Per capita meat consumption, retail weight

	2005	2010	2014	2016	2017	2026
Beef	65.6	59.6	54.2	55.4	56.6	56.0
Pork	50.1	47.7	45.8	49.9	51.0	51.4
Broiler	86.0	82.4	83.3	89.6	90.4	89.5
Total Red Meat & Poultry	221.2	208.9	201.4	214.3	217.5	216.5

US BEEF AND VEAL EXPORTS

Carcass Weight, Annual

Bil. Pounds



Data Source: USDA-ERS & USDA-FAS, Compiled & Analysis by LMIC

Livestock Marketing Information Center

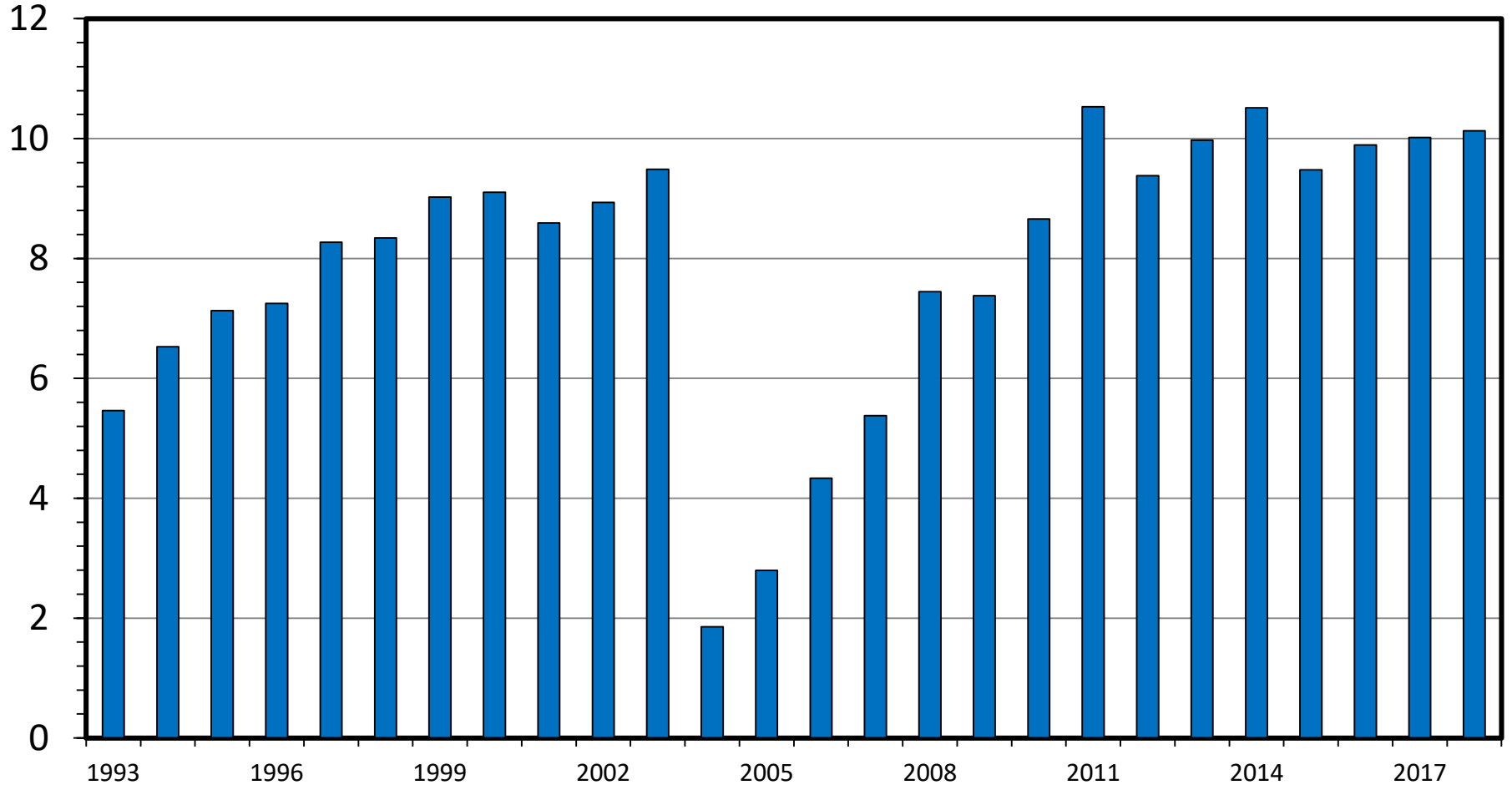
I-N-06

02/05/17

US BEEF AND VEAL EXPORTS

As a Percentage of Production, Carcass Weight, Annual

Percent



Data Source: USDA-ERS & USDA-FAS, Compiled & Analysis by LMIC

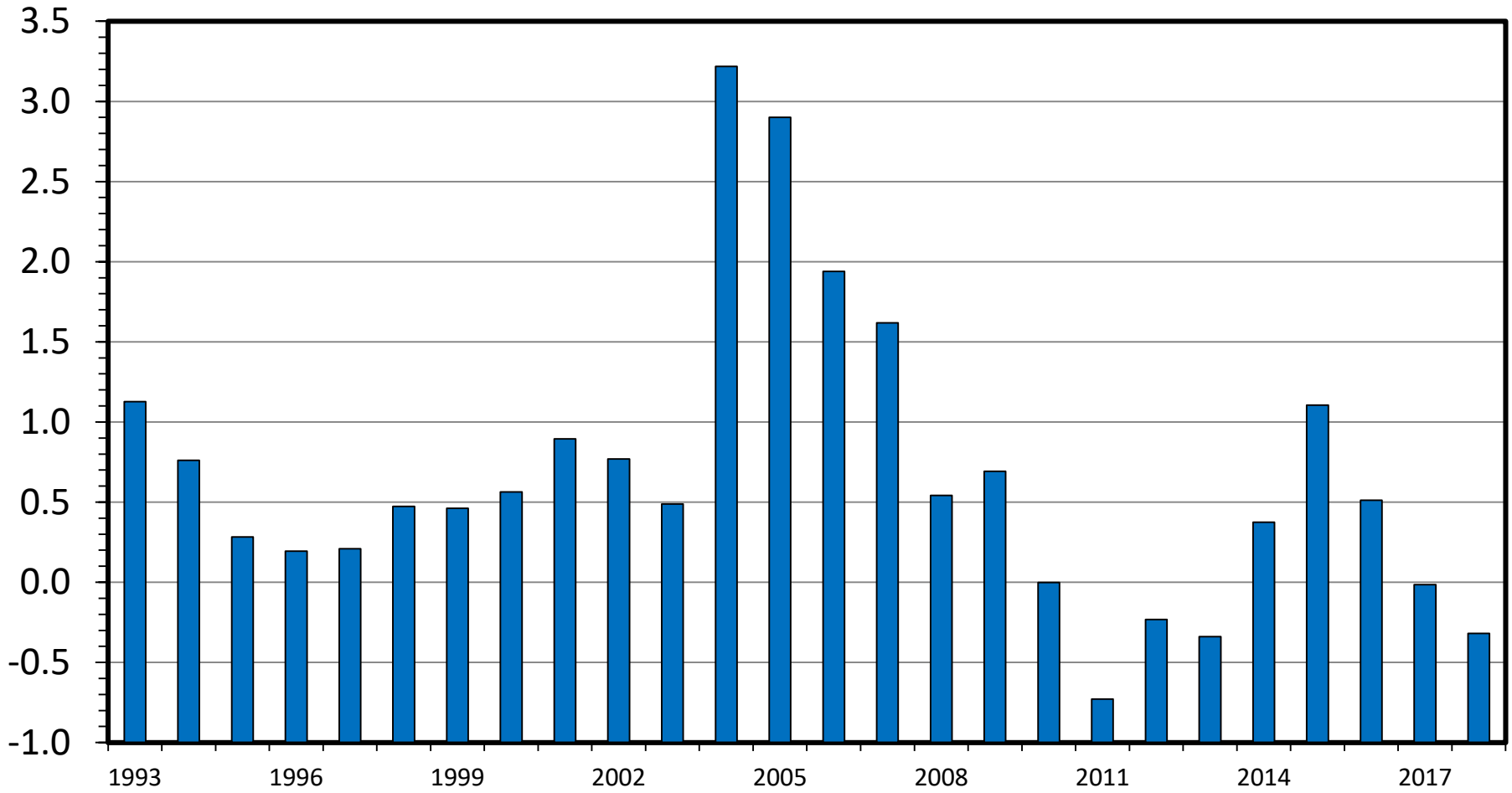
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US BEEF AND VEAL NET IMPORTS

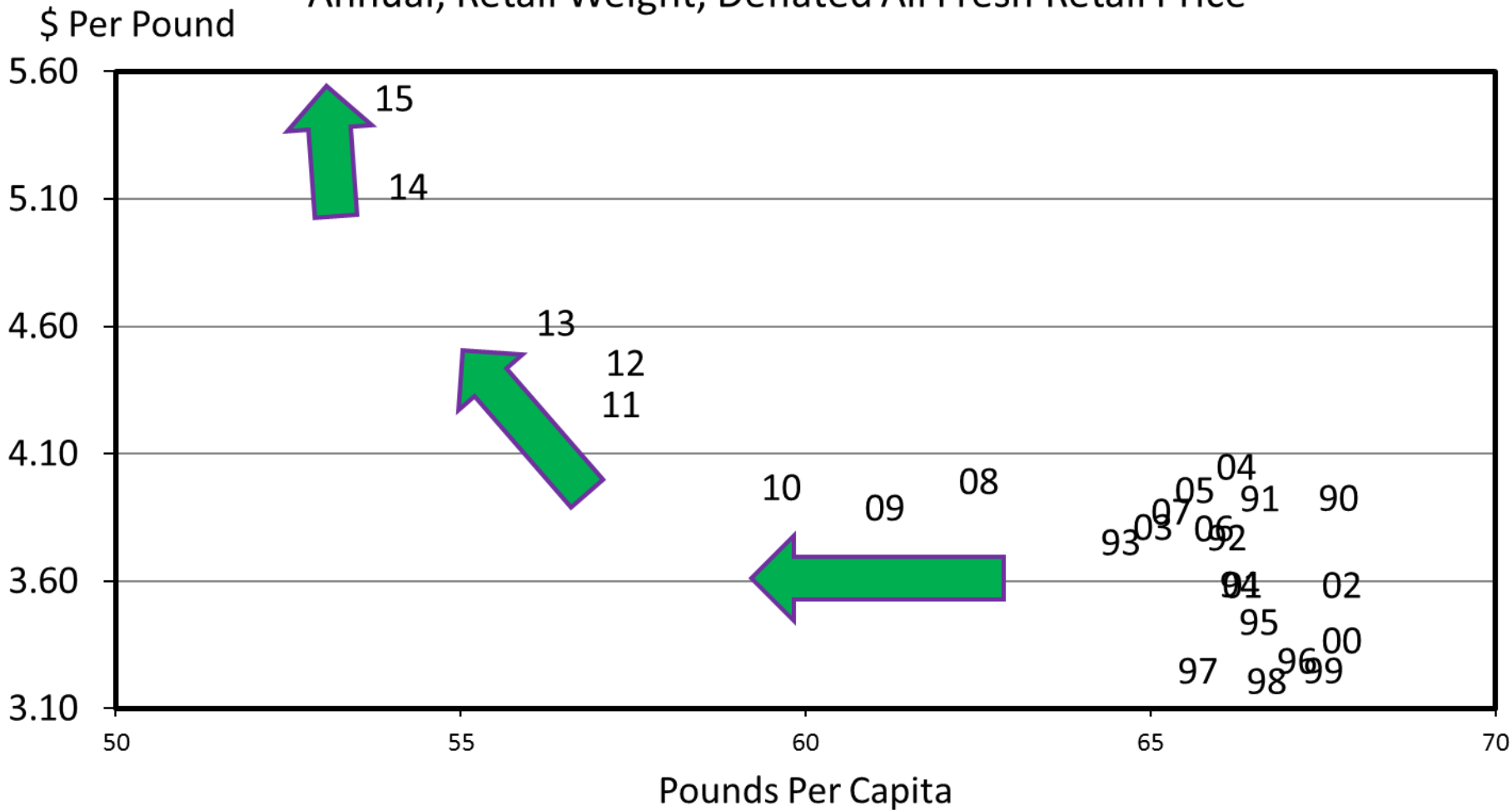
Carcass Weight, Annual

Bil. Pounds



BEEF PRICE-QUANTITY RELATIONSHIP

Annual, Retail Weight, Deflated All Fresh Retail Price

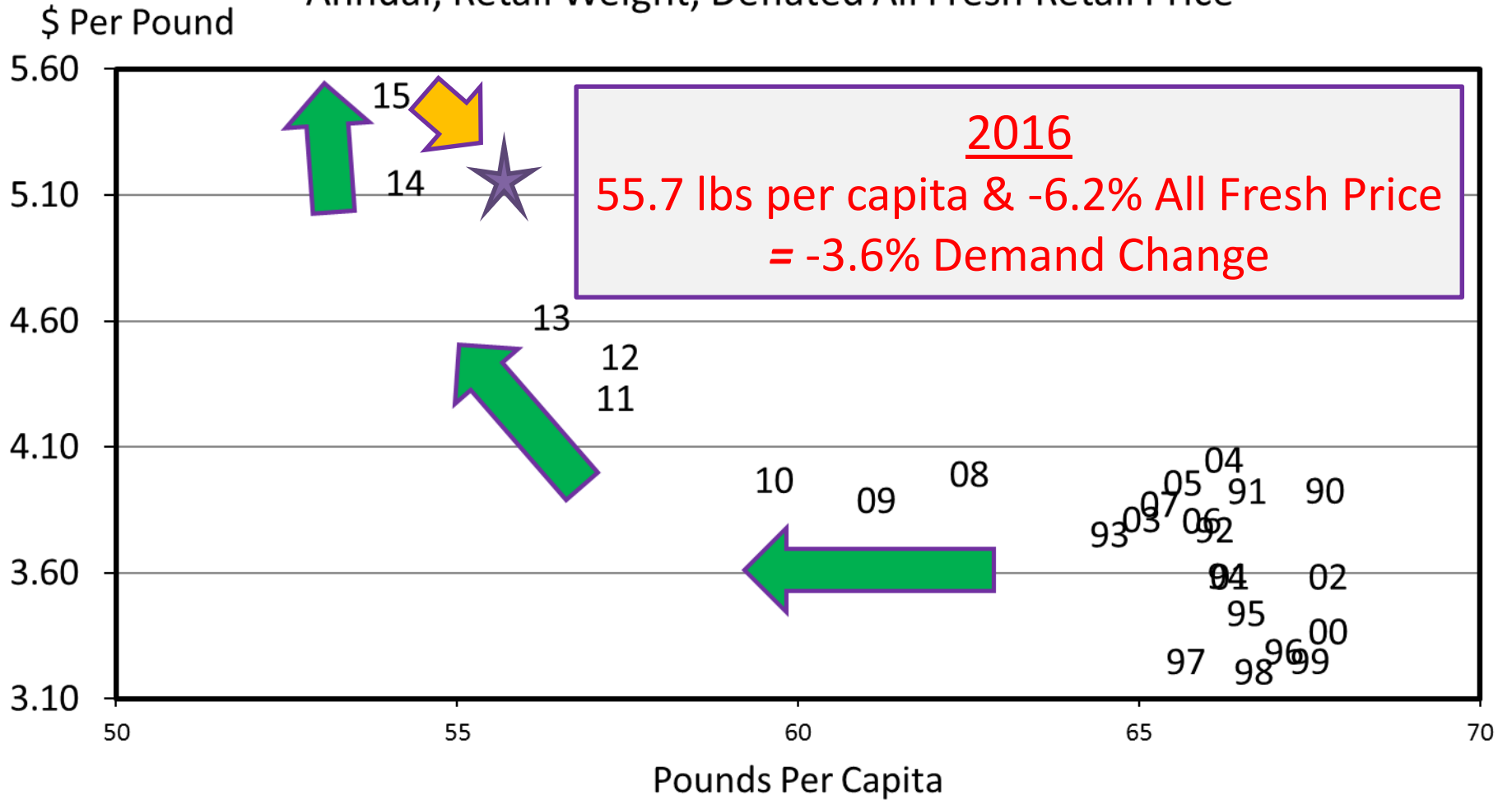


Data Source: Bureau of Economic Analysis & USDA-ERS, Compiled and Analysis by LMIC
Livestock Marketing Information Center

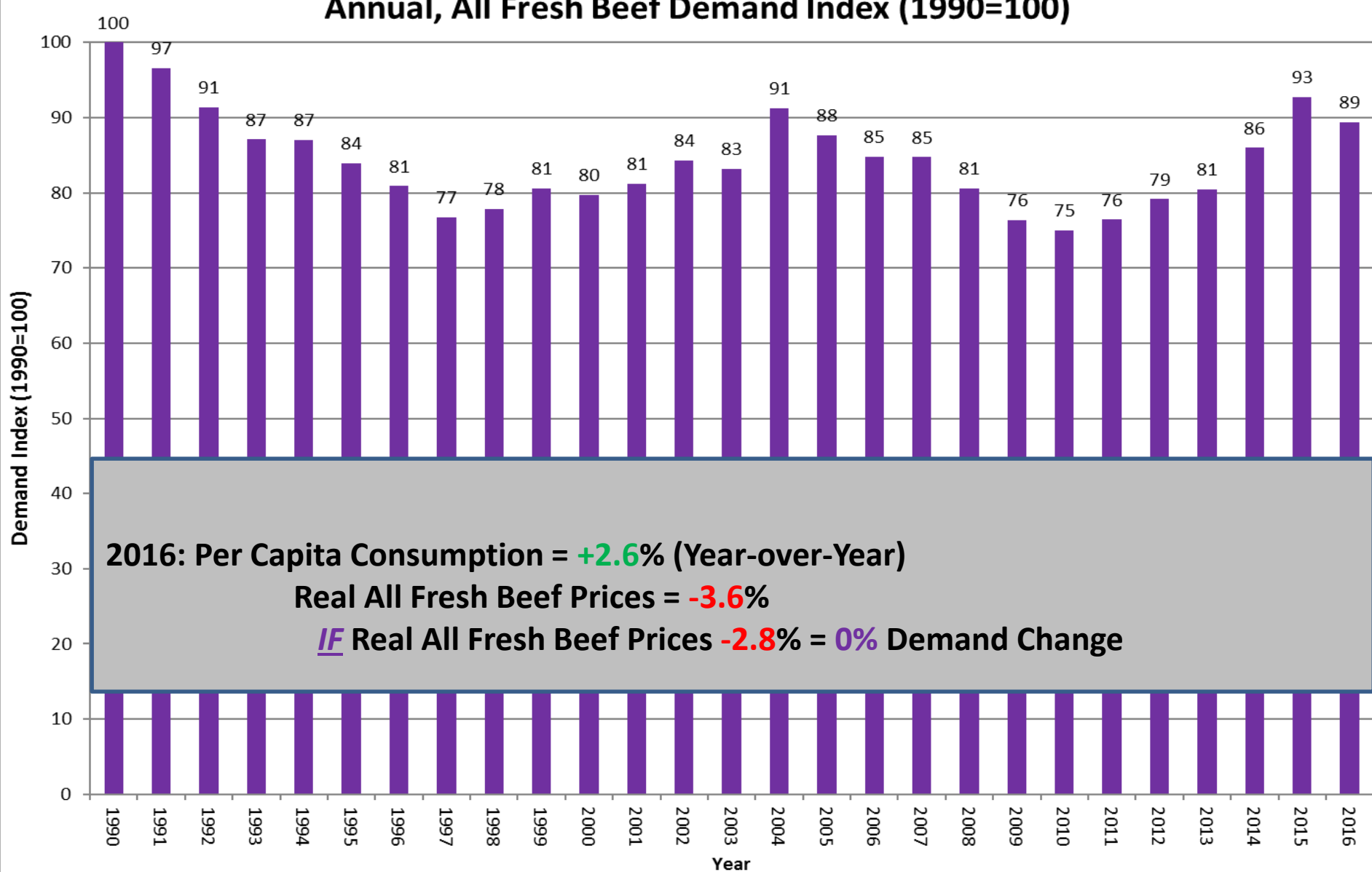
C-P-65A
03/25/16

BEEF PRICE-QUANTITY RELATIONSHIP

Annual, Retail Weight, Deflated All Fresh Retail Price



Annual, All Fresh Beef Demand Index (1990=100)



Source: Glynn T. Tonsor, Kansas State University, Jan. 2017

Wrap-Up

- Broad 2014 vs 2016 Comparison
 - 2014
 - Tight Meat Supplies & Strong Red Meat Demand
 - **BOTH** Supportive of prices
 - 2016
 - Expanding Meat Supplies & Weaker Red Meat Demand
 - **BOTH** Pressure prices

Wrap-Up

- Broad Profitability Outlook
 - Cow-calf: Converging toward Long-Term Levels
 - Stocker: Opportunity varies widely across situations
 - Feedlot: Worst behind us (I think)

More information available at:



This presentation will be available in PDF format at:

<http://www.agmanager.info/about/contributors/individual/tonsor.asp>

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About AgManager.info

AgManager.info website is a comprehensive source of information, analysis, and decision-making tools for agricultural producers, agribusinesses, and others. The site serves as a clearinghouse for applied outreach information emanating from the Department of Agricultural Economics at Kansas State University. It was created by combining departmental and faculty sites as well as creating new features exclusive to the AgManager.info site. The goal of this coordination is to improve the organization of web-based material and allow greater access for agricultural producers and other clientele.



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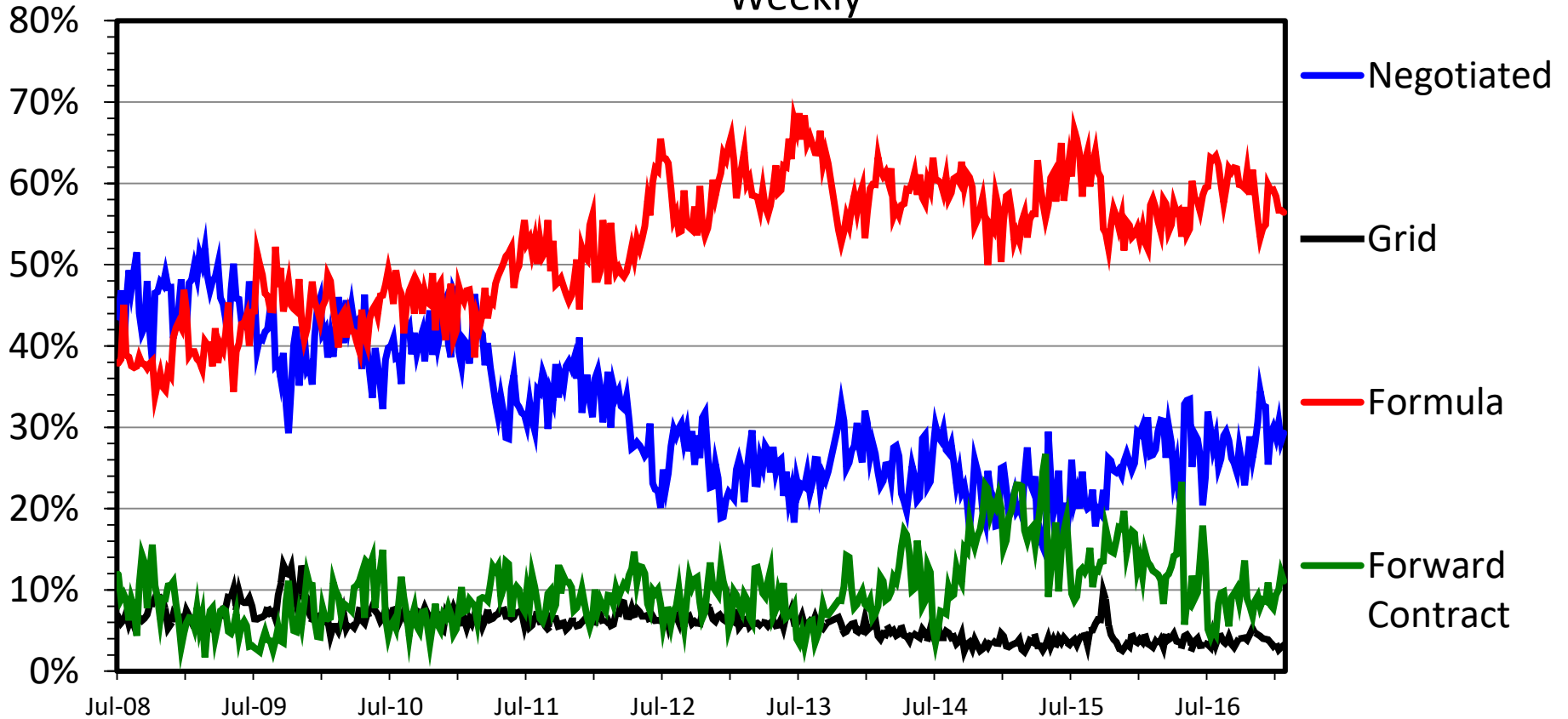
Projecting Stocker/Backgrounder VOG

- 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)

STEERS/HEIFERS SOLD BY TRANSACTION

National
Weekly

Percent

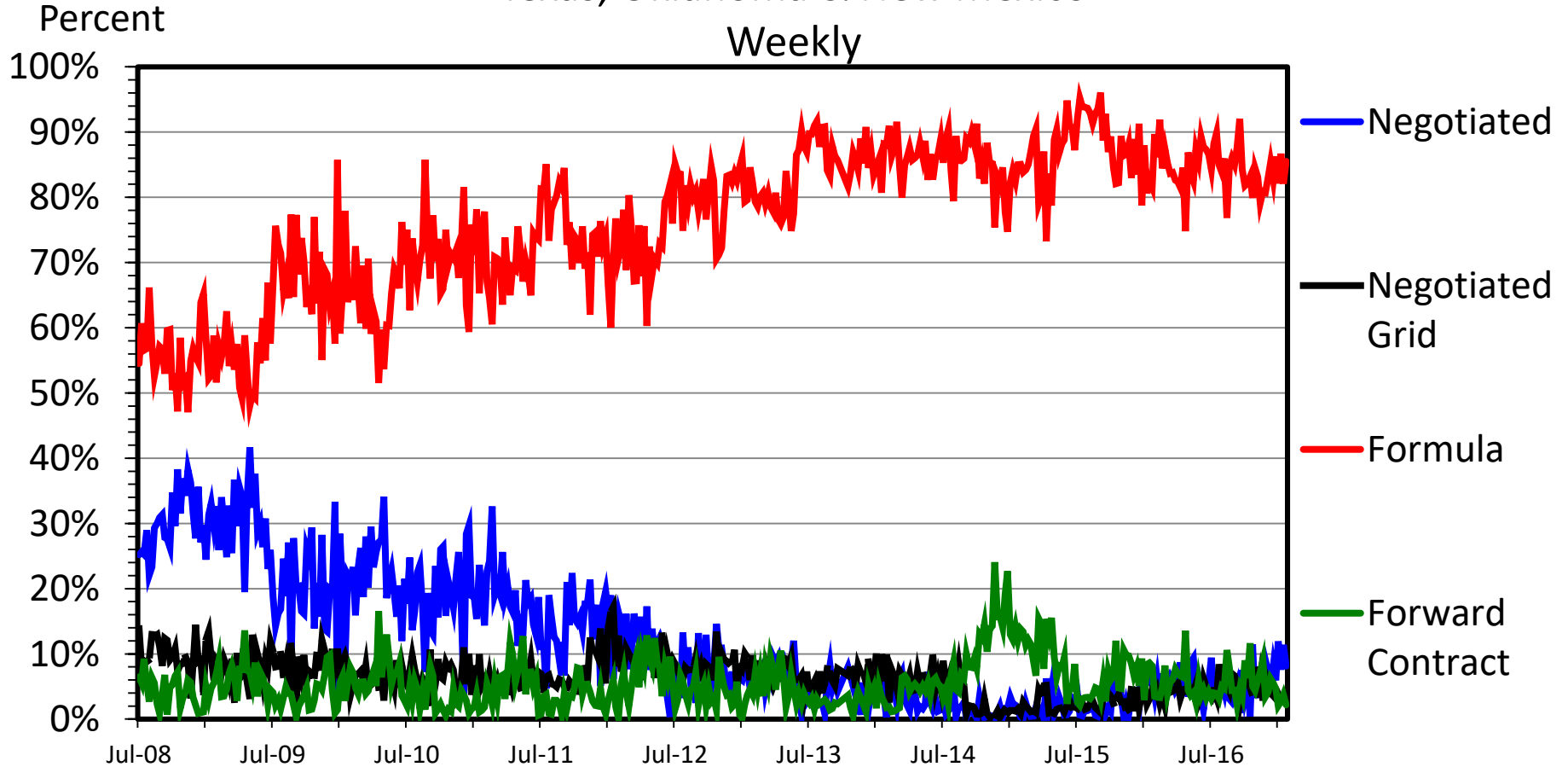


Data Source: USDA-AMS

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STEERS/HEIFERS SOLD BY TRANSACTION

Texas, Oklahoma & New Mexico



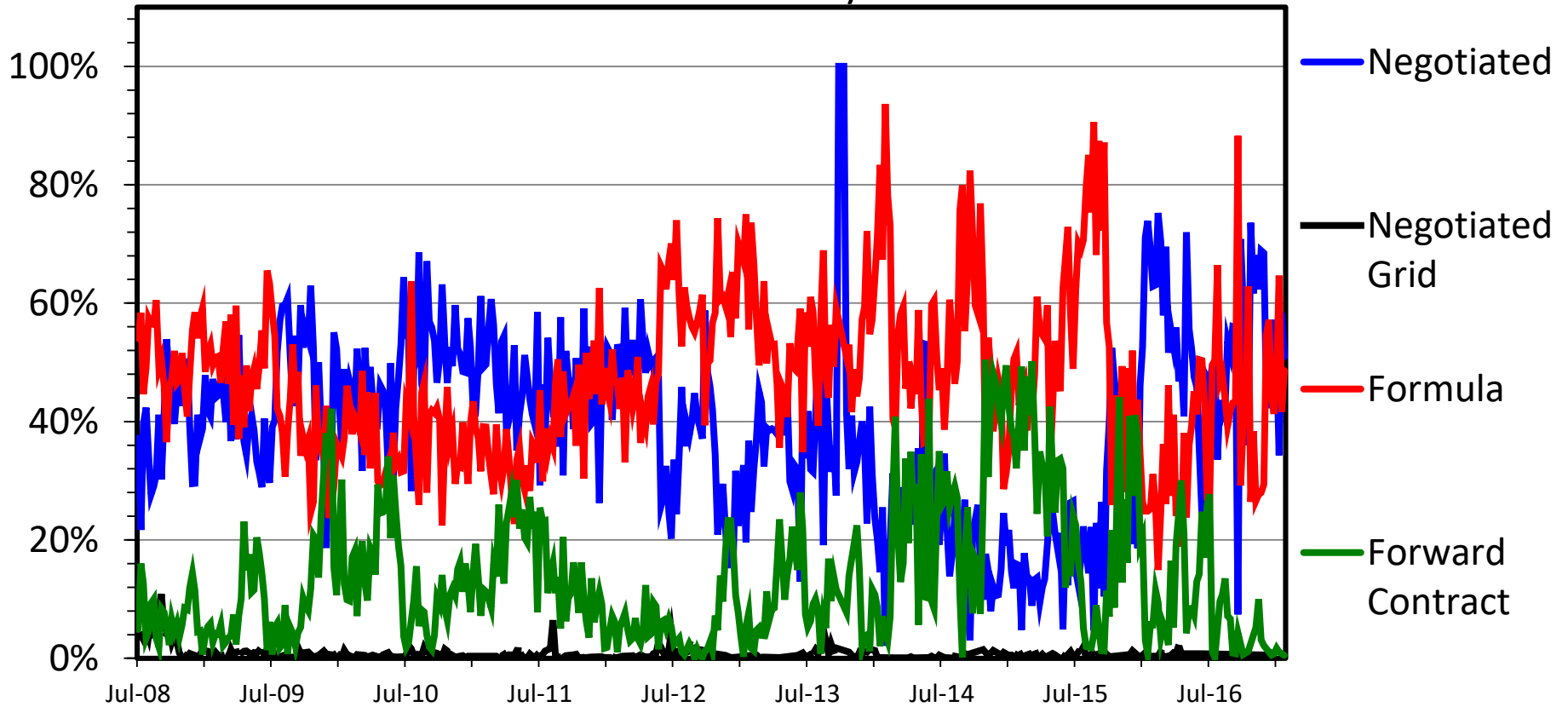
Data Source: USDA-AMS

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STEERS/HEIFERS SOLD BY TRANSACTION

Kansas
Weekly

Percent

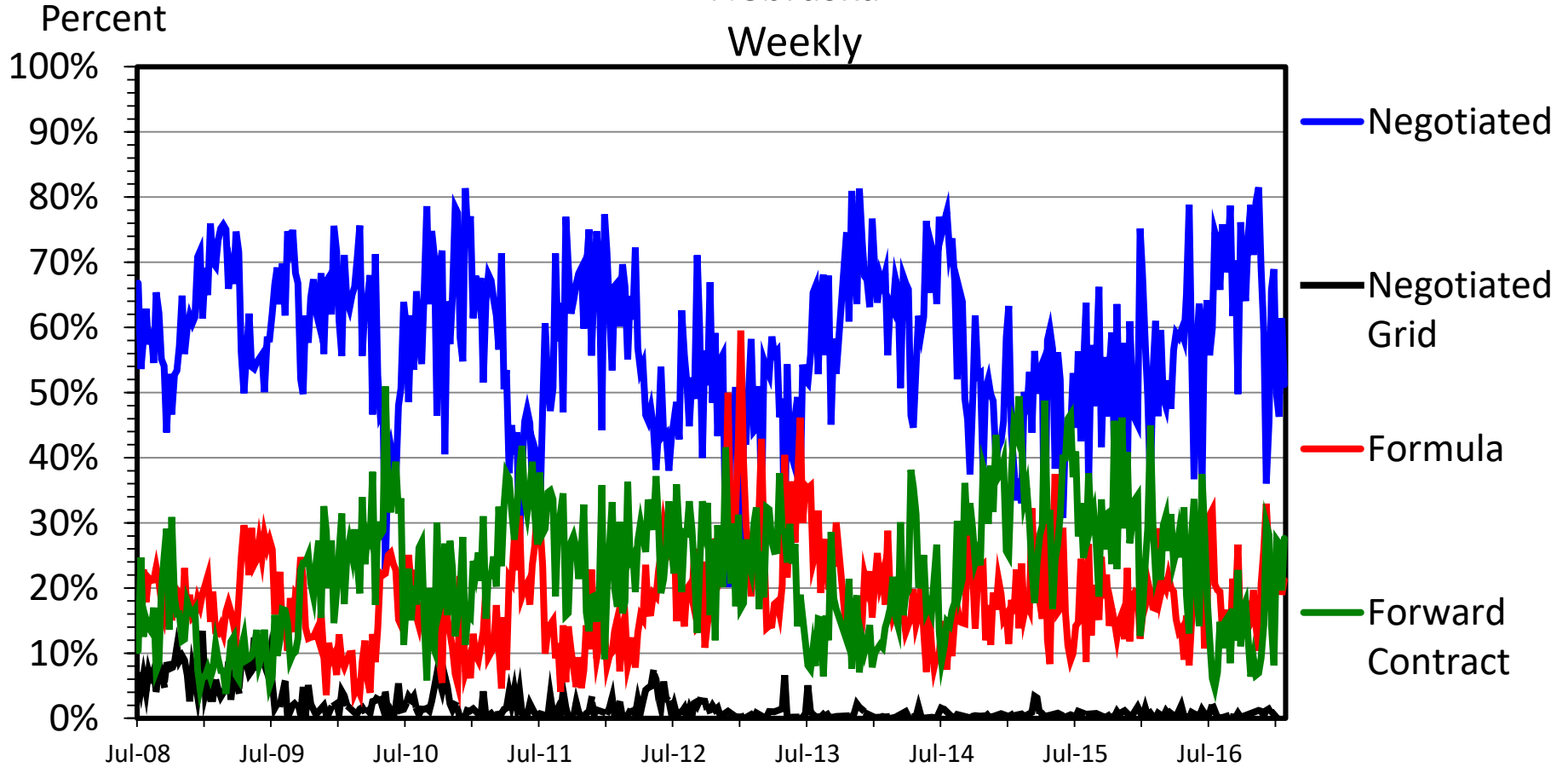


Data Source: USDA-AMS

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STEERS/HEIFERS SOLD BY TRANSACTION

Nebraska
Weekly



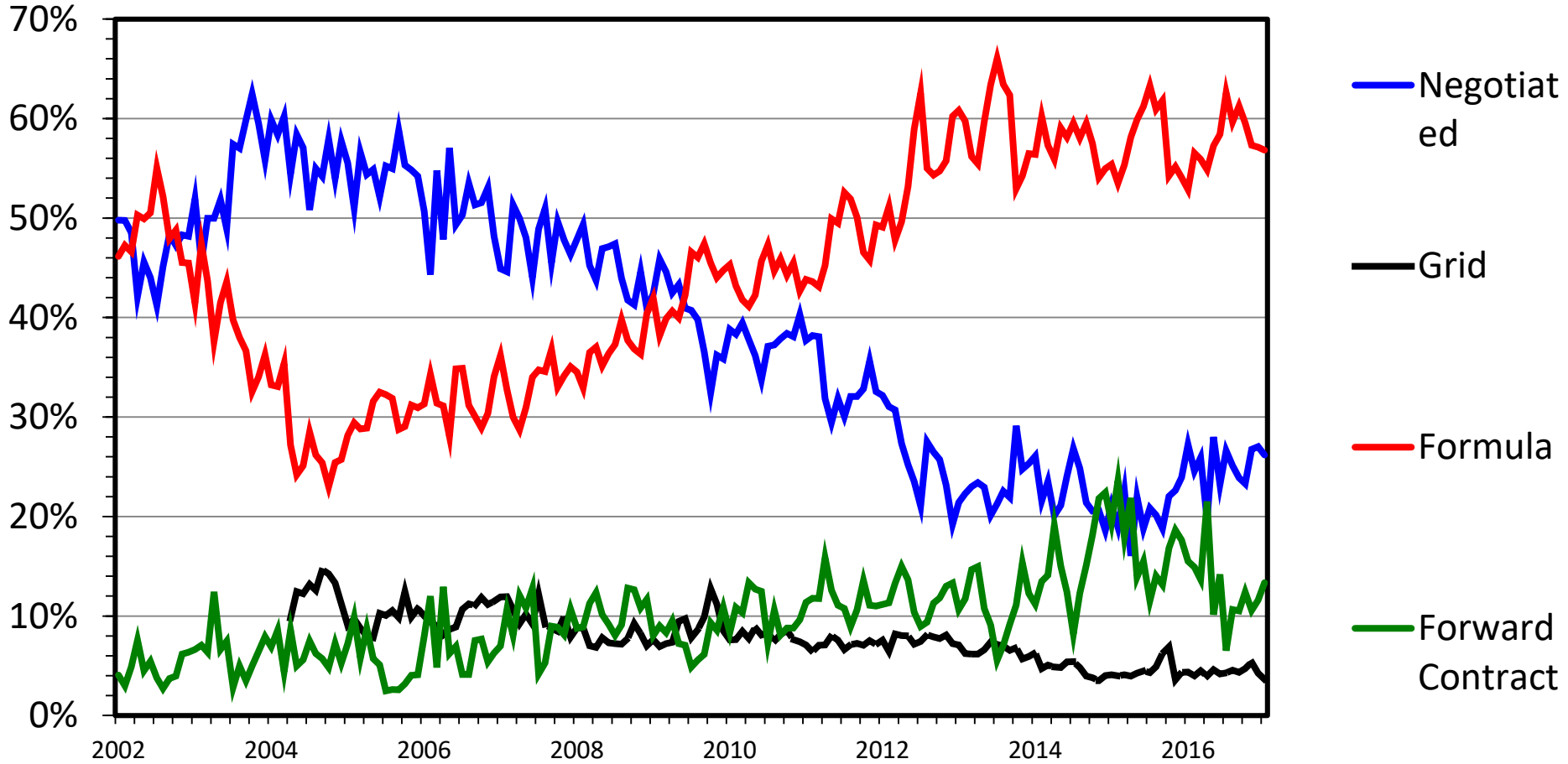
Data Source: USDA-AMS

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TOTAL CATTLE SOLD BY TRANSACTION

Monthly

Percent

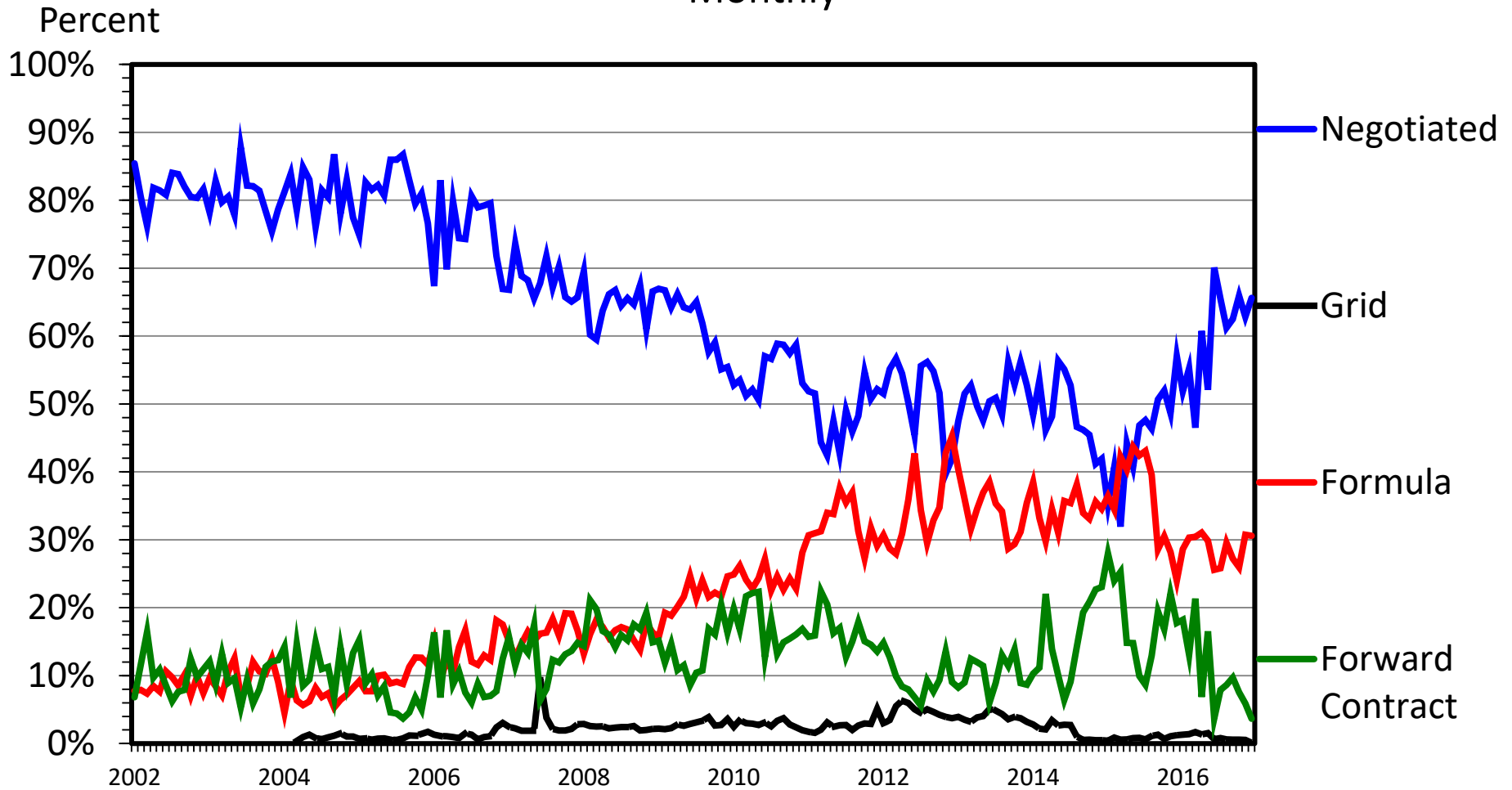


Data Source: USDA-AMS

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CATTLE SOLD ON A LIVE BASIS

Monthly



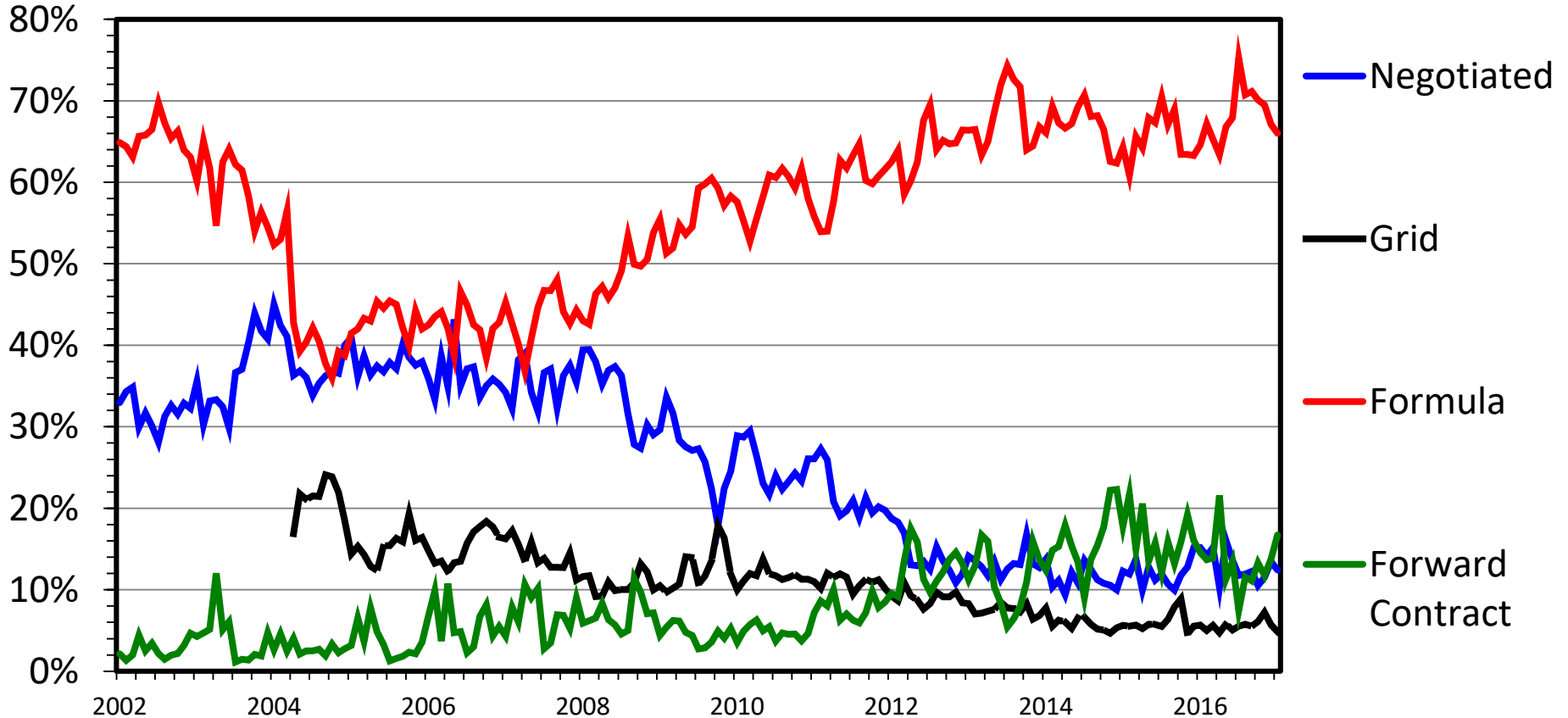
Data Source: USDA-AMS

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CATTLE SOLD ON A DRESSED BASIS

Monthly

Percent



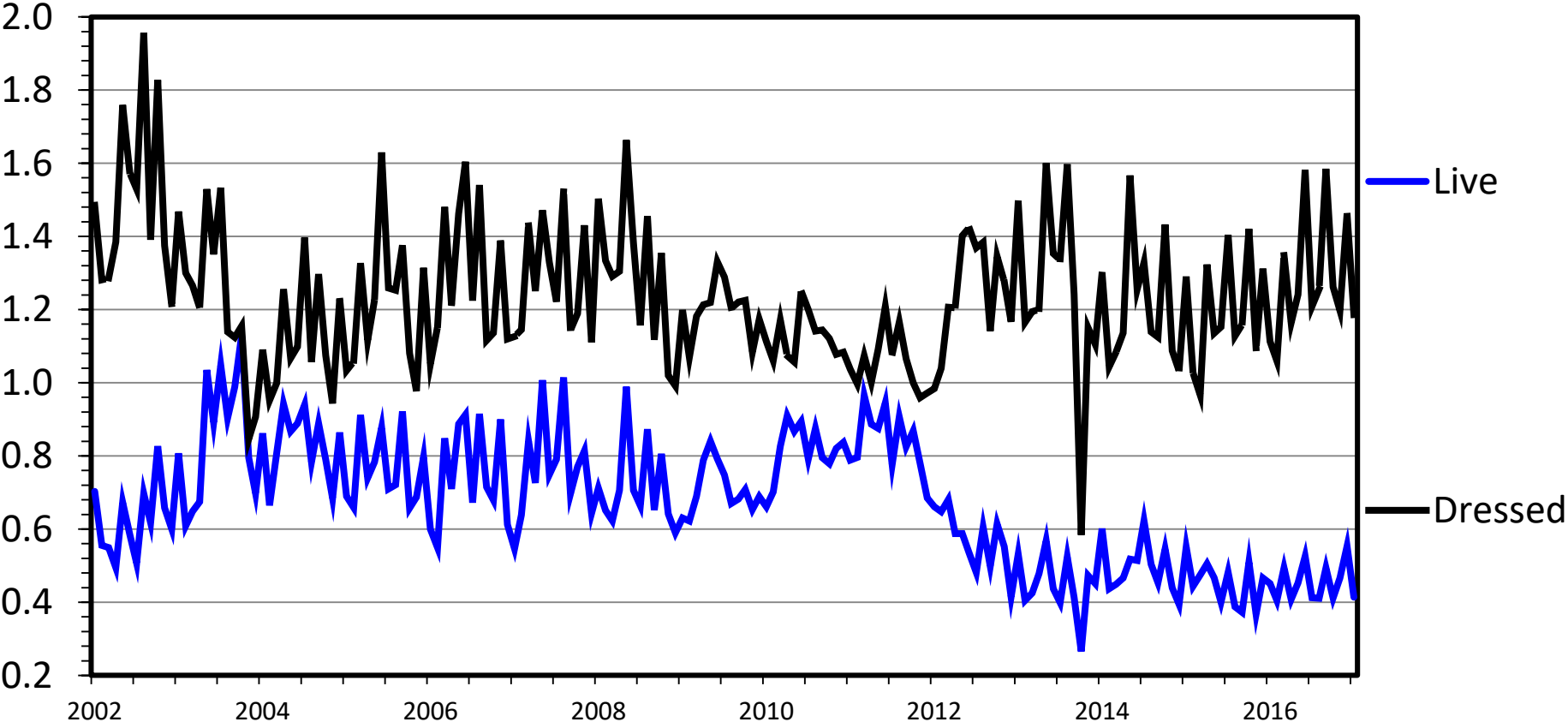
Data Source: USDA-AMS

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CATTLE SOLD: LIVE vs DRESSED

Monthly

Mil. Head



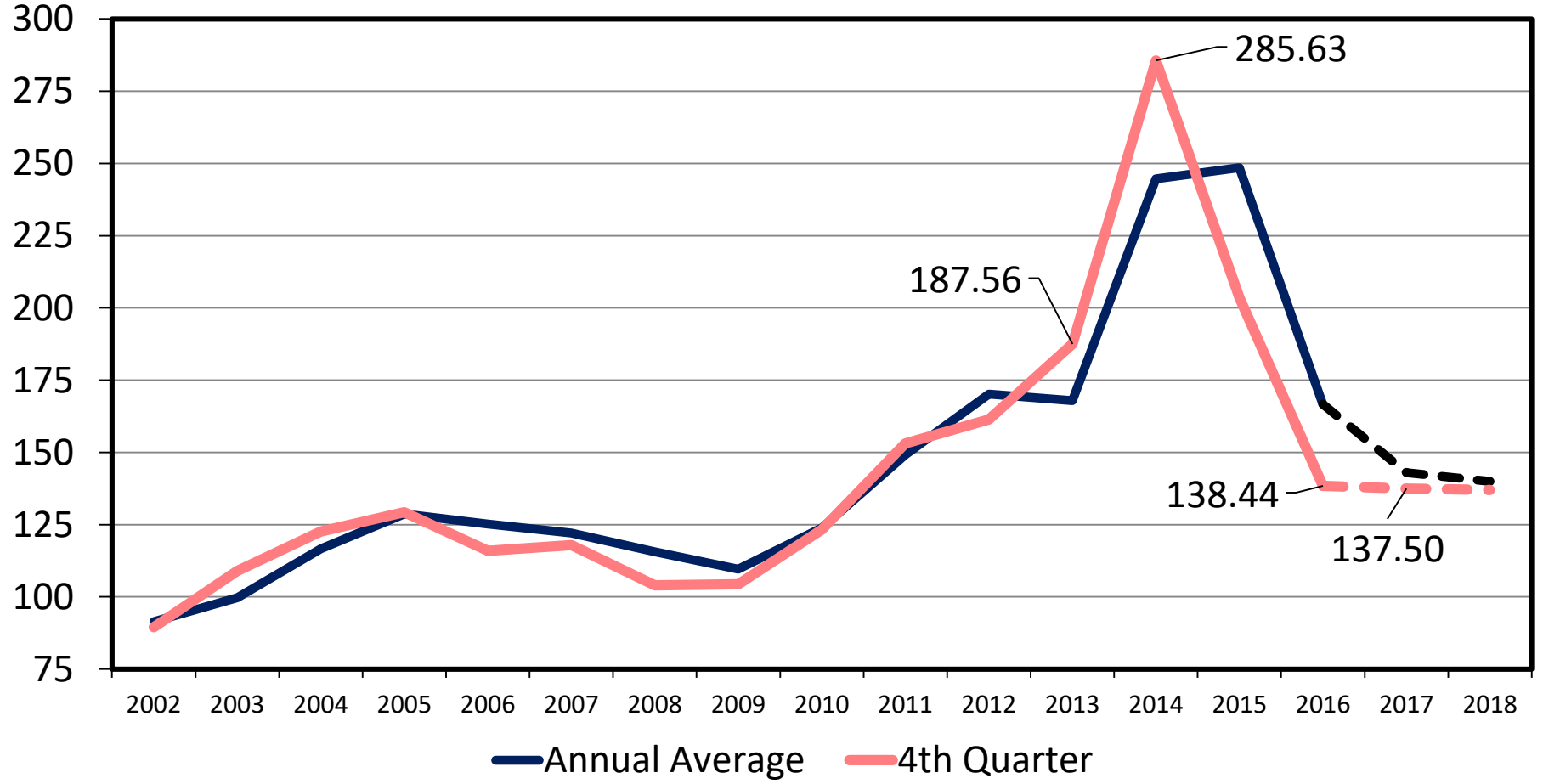
Data Source: USDA-AMS

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AVERAGE CALF PRICES

500-600lb Steer Calves, Southern Plains

\$ Per Cwt



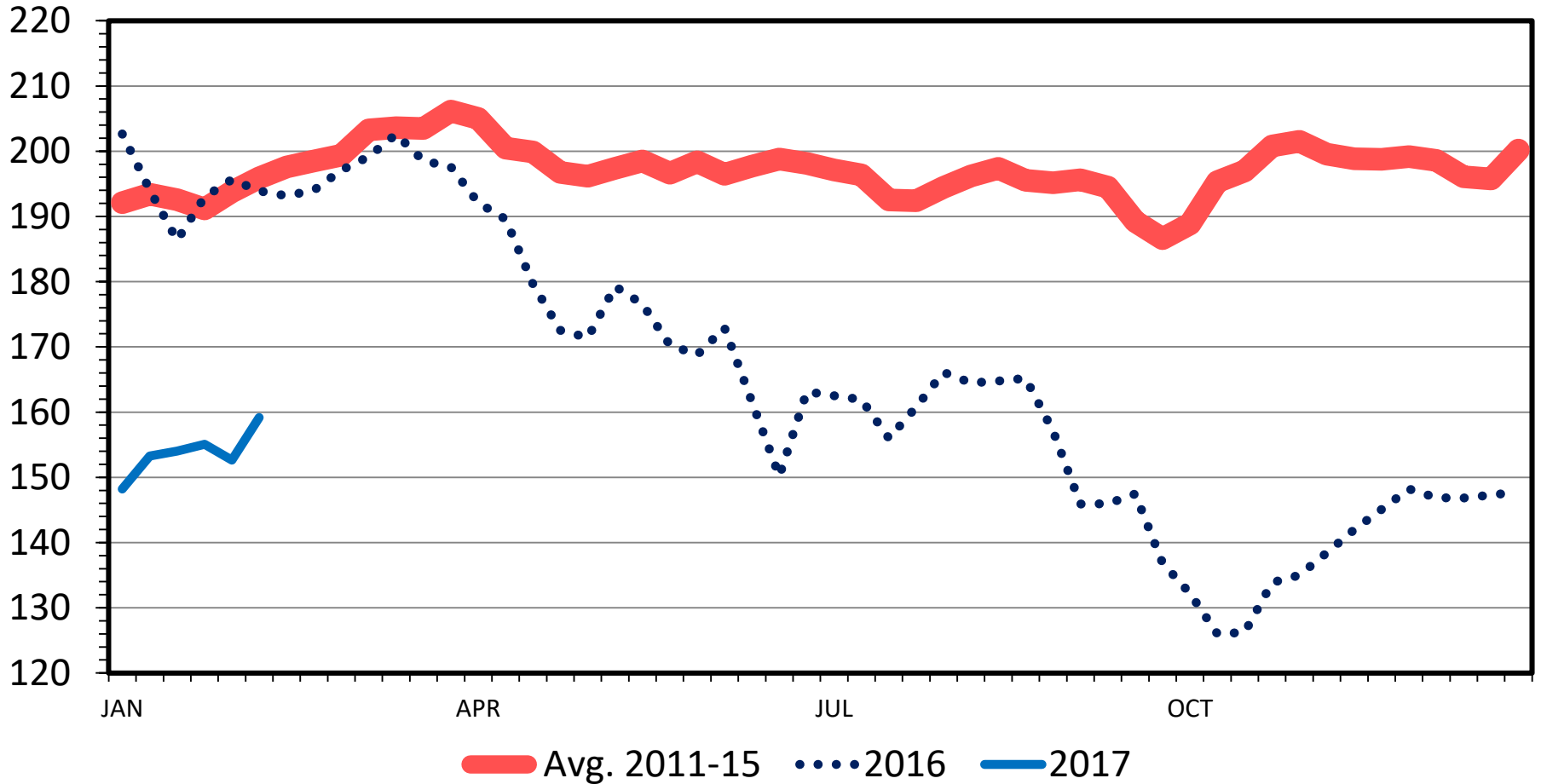
Data Source: USDA-AMS, Compiled and Forecasts by LMIC

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MED. & LRG. #1 STEER CALF PRICES

500-600 Pounds, Southern Plains, Weekly

\$ Per Cwt.



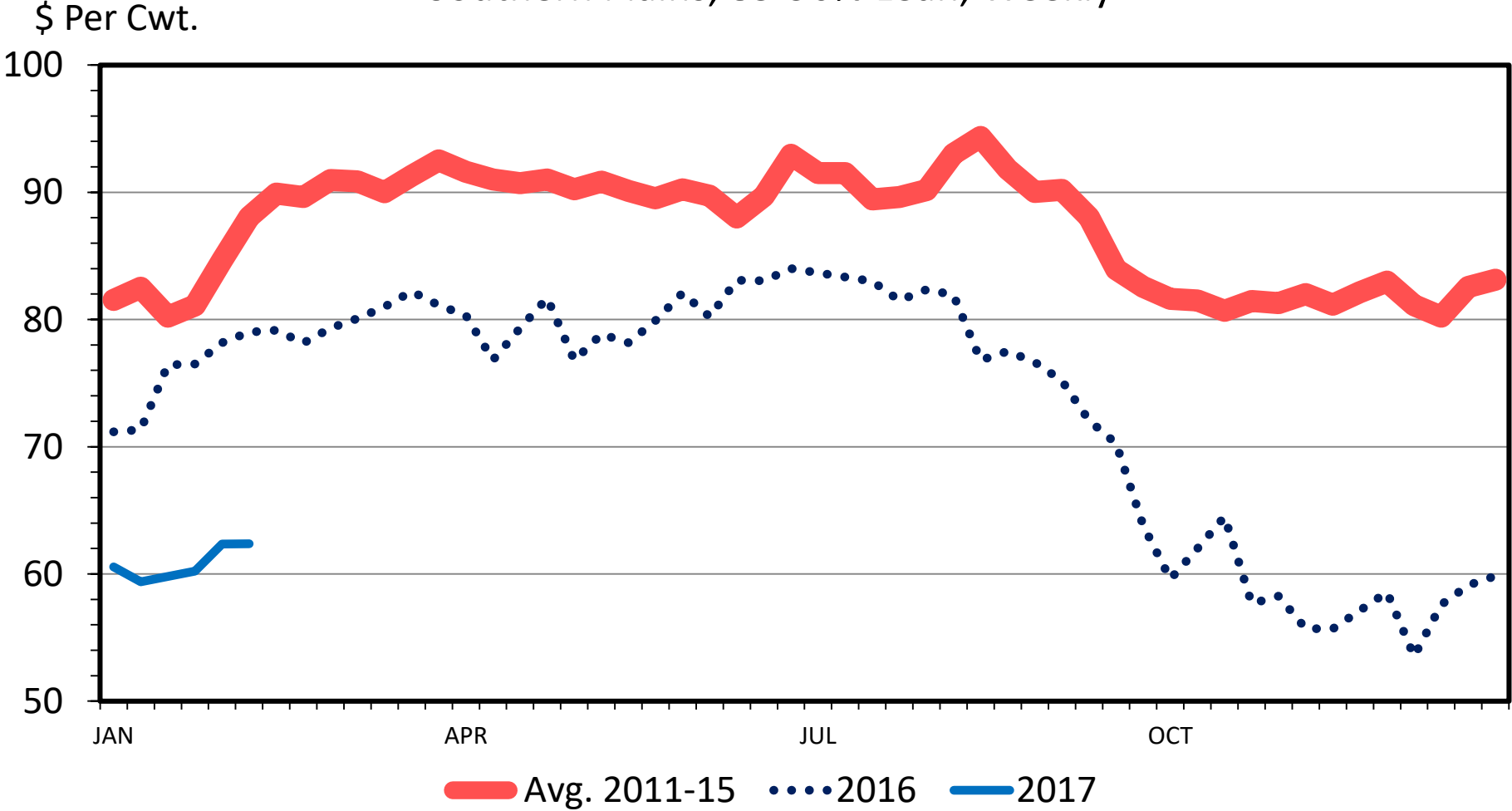
Data Source: USDA-AMS

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C-P-54
02/13/17

SLAUGHTER COW PRICES

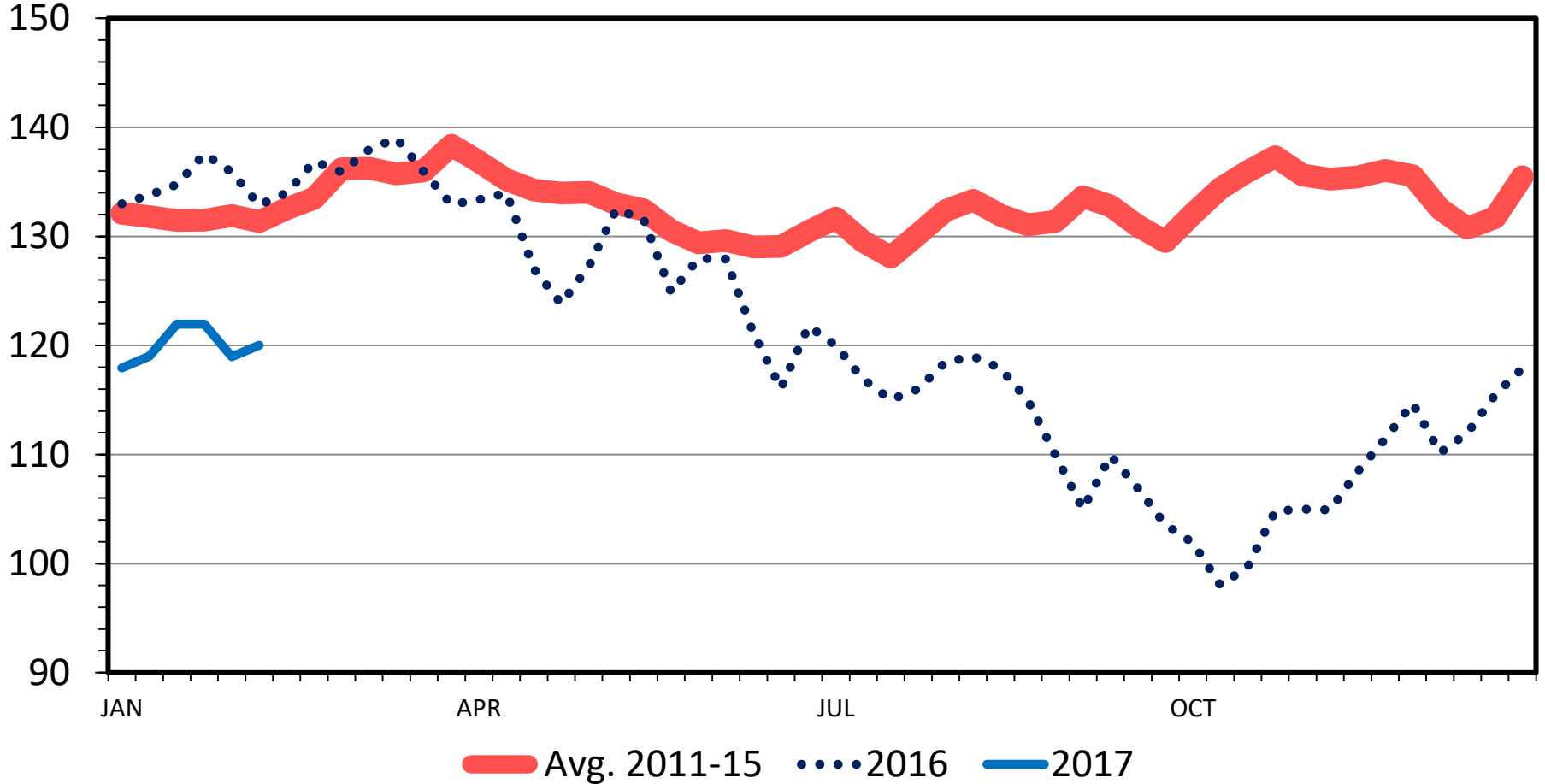
Southern Plains, 85-90% Lean, Weekly



SLAUGHTER STEER PRICES

Southern Plains, Weekly

\$ Per Cwt.



Data Source: USDA-AMS

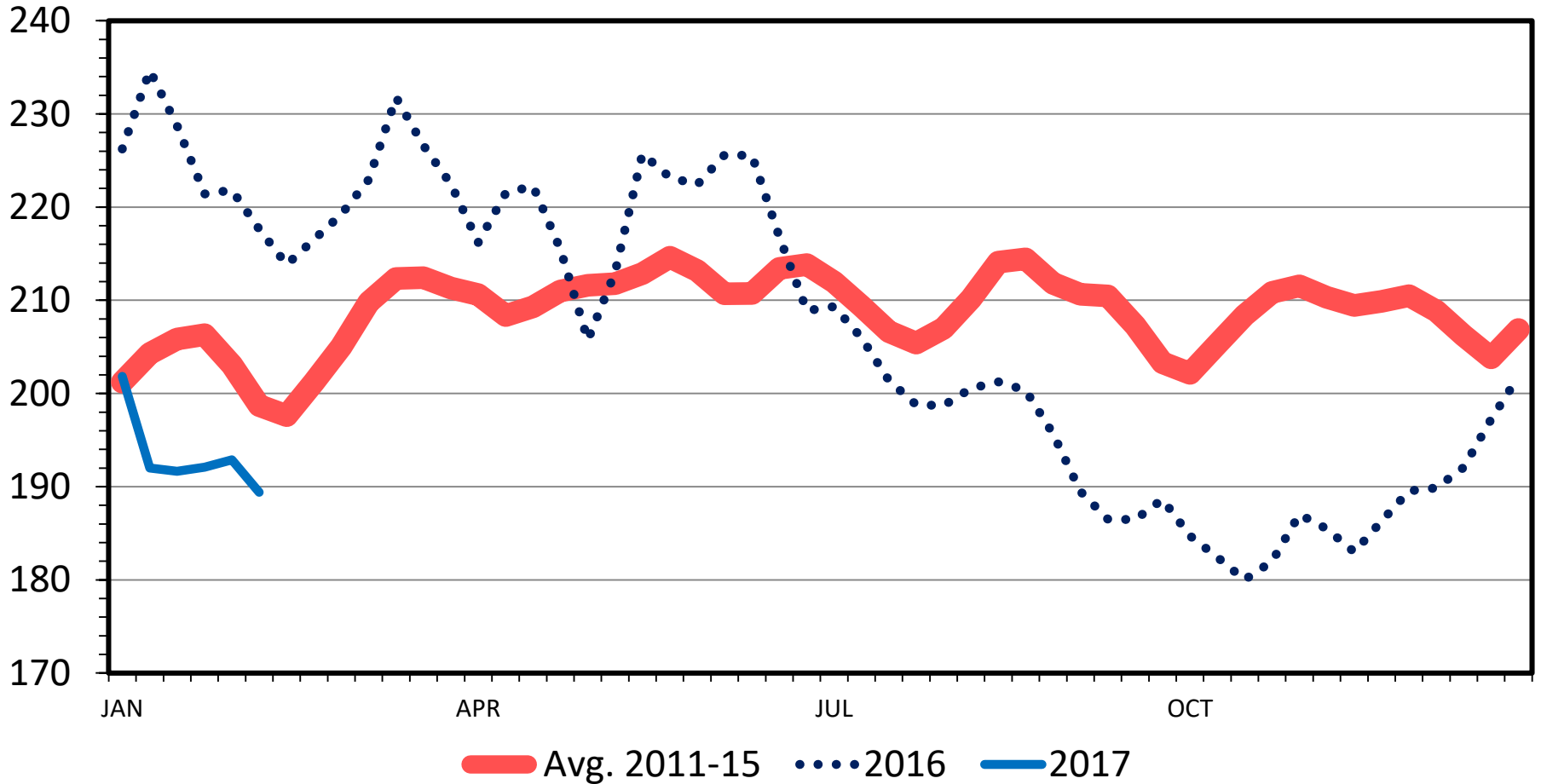
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C-P-52
02/13/17

BOXED BEEF CUTOUT VALUE

Choice 600-900 Lbs., Carcass, Weekly

\$ Per Cwt.



Data Source: USDA-AMS

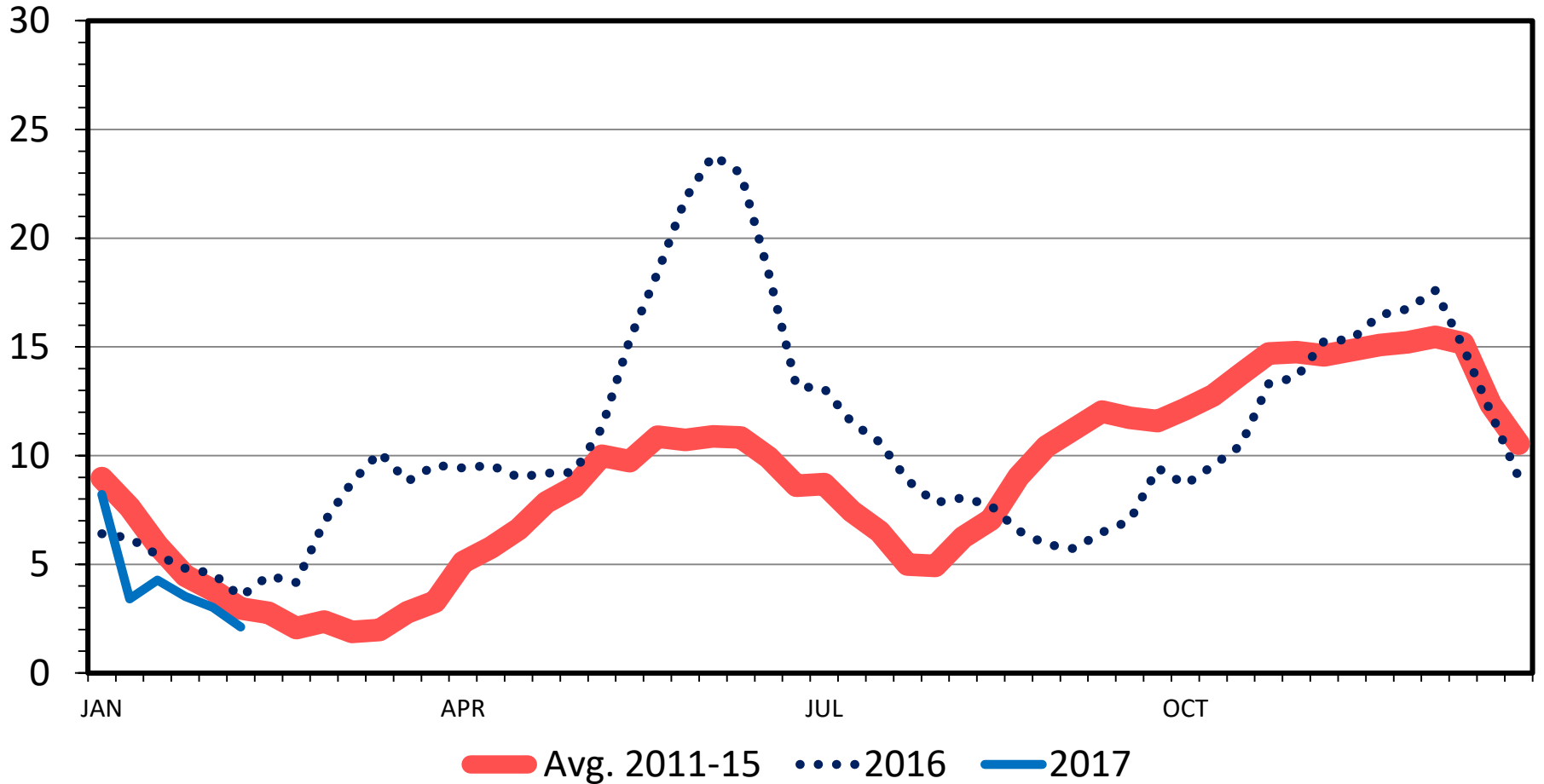
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C-P-62
02/13/17

CHOICE MINUS SELECT BEEF PRICES

Carcass Cutout Value 600-900 Lbs., Weekly

\$ Per Cwt.



Data Source: USDA-AMS

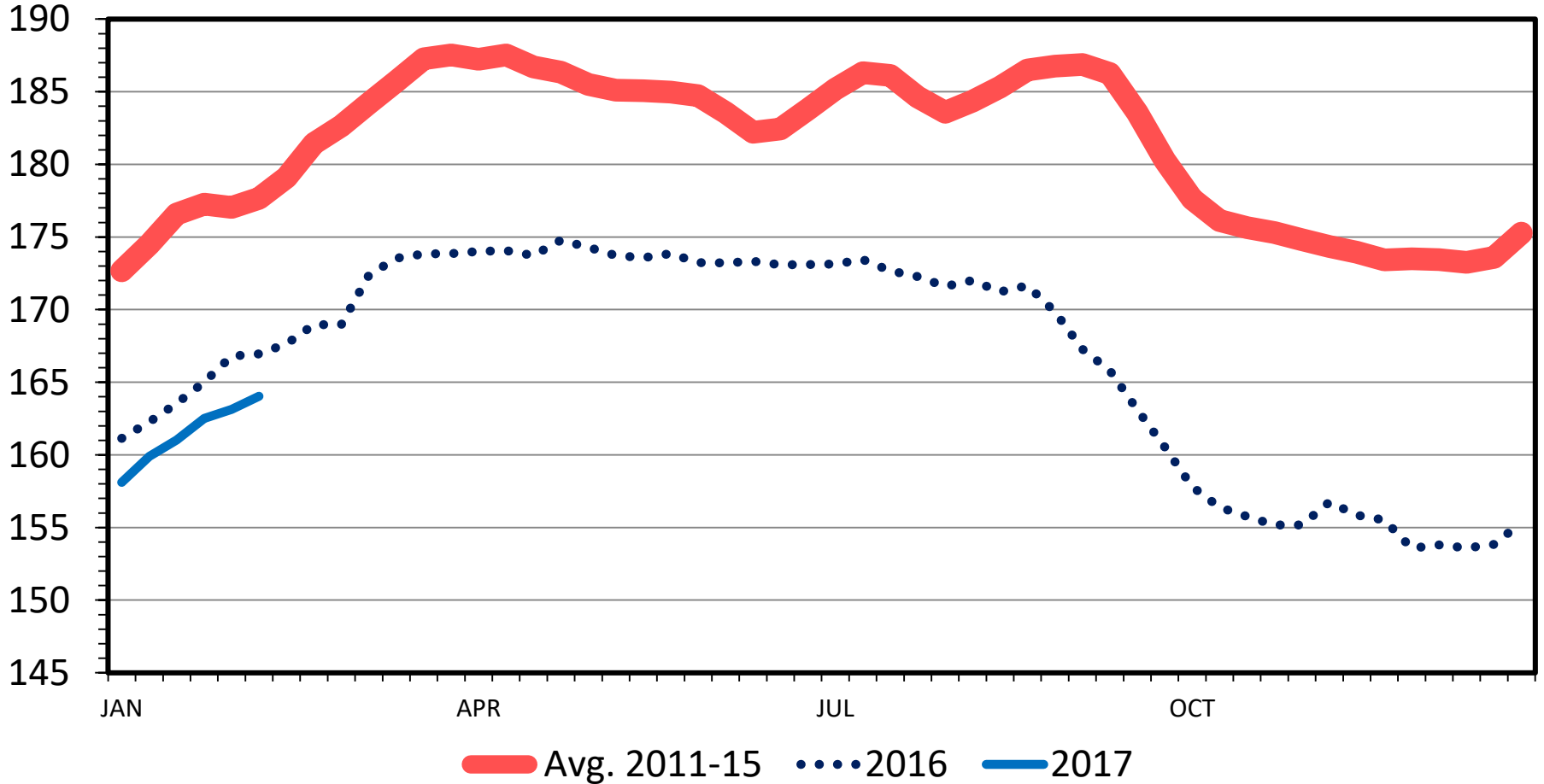
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C-P-68
02/13/17

BOXED COW-BEEF CUTOUT VALUE

Cutter Cow, Weekly

\$ Per Cwt.



Data Source: USDA-AMS

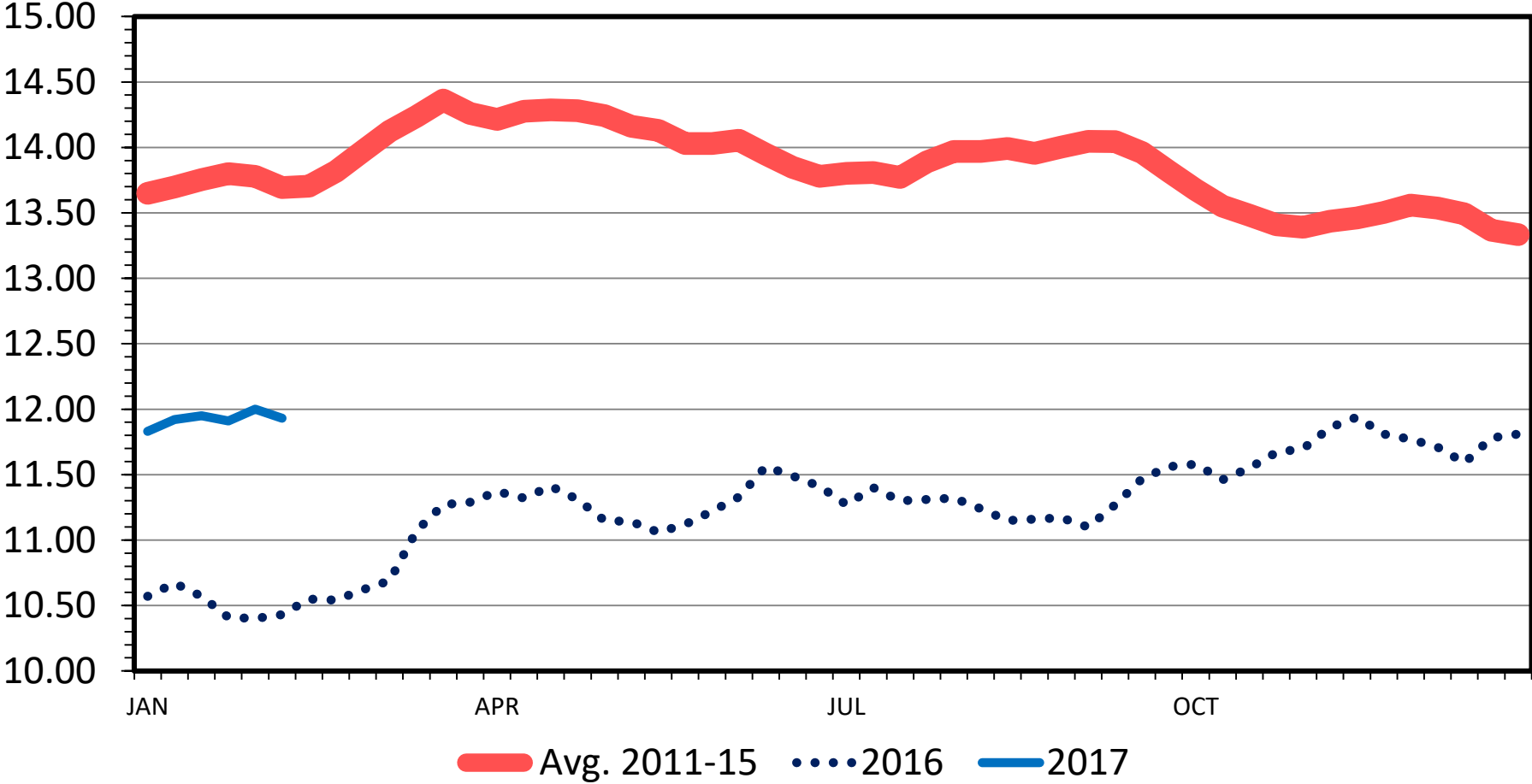
02/13/17

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STEER HIDE AND OFFAL VALUE

Live Animal Basis, Weekly

\$ Per Cwt.



Data Source: USDA-AMS

Livestock Marketing Information Center

C-P-39
02/13/17

Cow-Calf Output Price Hedging Considerations

- Salina, KS situation:
 - Sell 800 lb yearlings in May
- Considering price protection on May sale
 - Or for stocker/feedlots consider for buy in May
 - **USE: *FeederCattleRiskMgmtTool.xlsx***

Cow-Calf Output Price Hedging Considerations

FeederCattleRiskMgmtTool.xlsx

Add to Favorites (<http://www.agmanager.info>)

K-State Feeder Cattle Risk Management Tool

September 30, 2016

Glynn Tonsor

Kevin Dhuyvetter

An Excel spreadsheet for evaluating feeder cattle risk management strategies

<http://www.agmanager.info/Tools/default.asp#LIVESTOCK>