

2015

Crop Insurance Workshop

**RISK MANAGEMENT DECISIONS
FOR TOMORROW**

**EVIDENCE FROM THE PAST
PRESENT FARM FINANCIAL CONDITIONS
DATA TECHNOLOGY & MARKET OUTLOOK**

November 10, 2015

Brush, CO

Event Center

Brush Fairgrounds

Only 70 miles from Denver Airport

November 11, 2015

Grand Island, NE

College Park

3180 W Highway 34

November 12, 2015

Salina, KS

Ambassador Hotel

1616 W. Crawford

November 13, 2015

Enid, OK

Autry Technology Ctr.

1201 W. Willow

Beef Cattle Market Outlook

Glynn Tonsor

**Dept. of Agricultural Economics
Kansas State University**



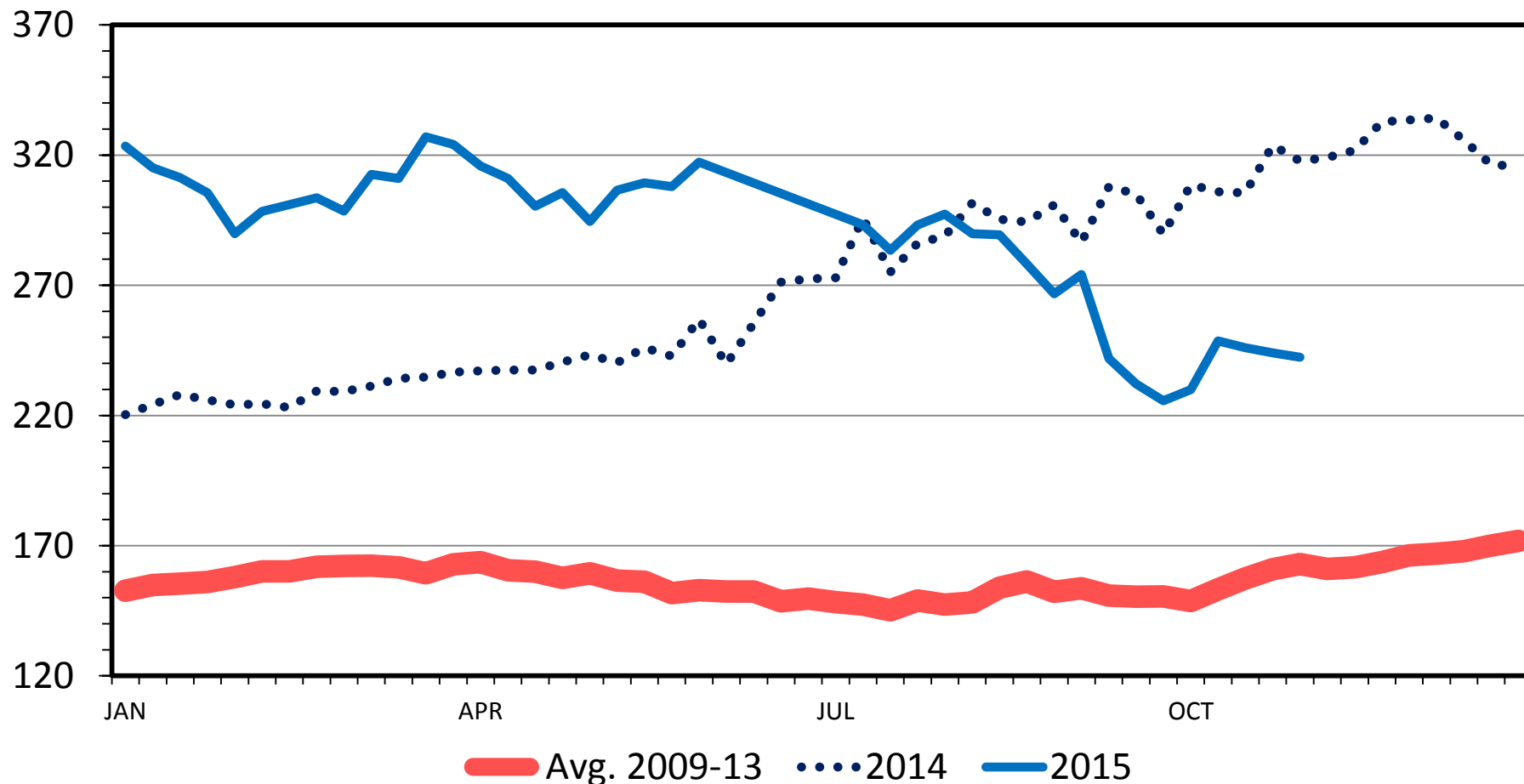
Overarching Beef Industry Economic Outlook

- Supplies
 - Historically tight
 - Herd expansion well underway
- Demand
 - Confusing yet largely been positive
 - Recent concerns have driven market
- Combined
 - Heartburn or excitement depending on perspective...

MED. & LRG. #1 STEER CALF PRICES

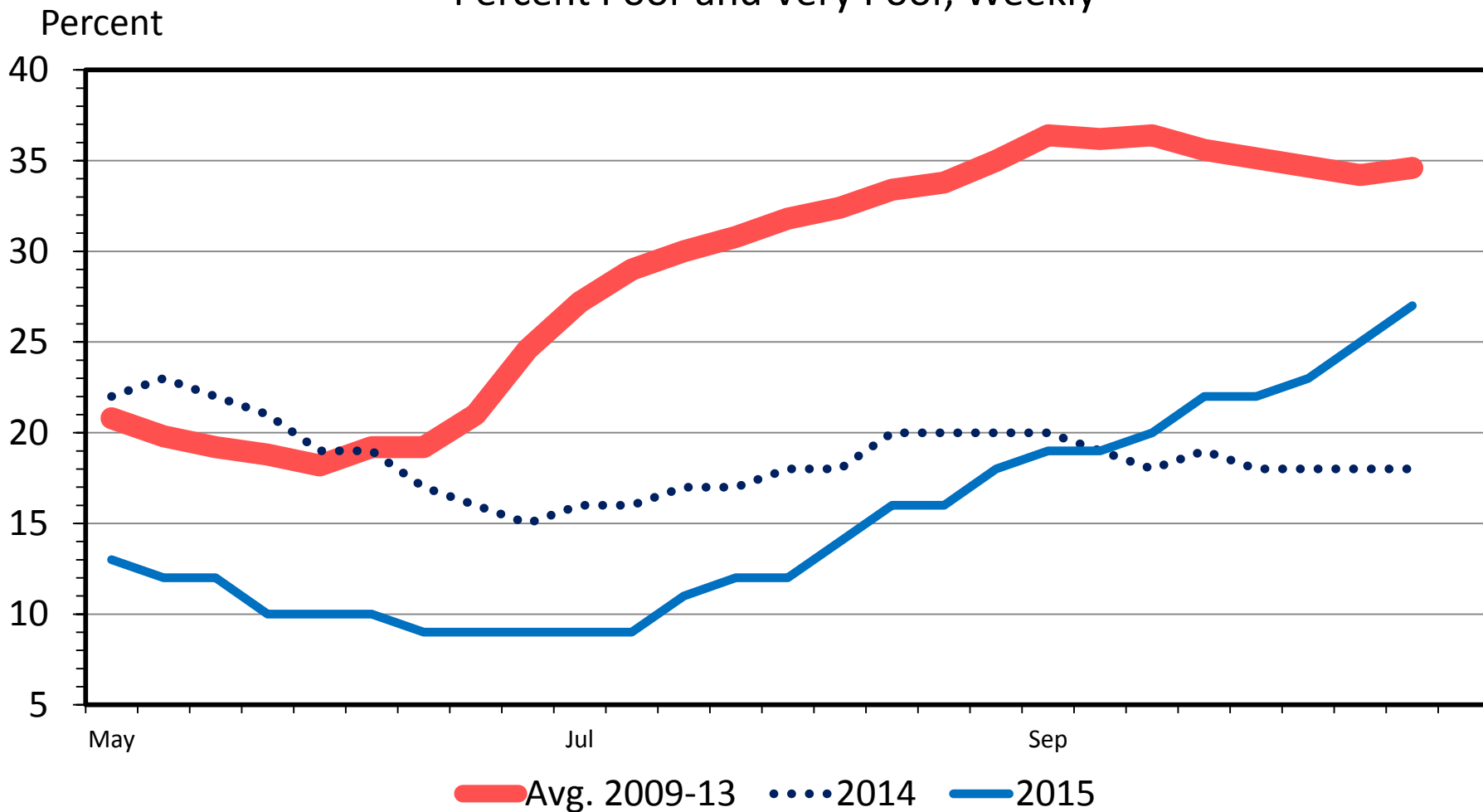
400-500 Pounds, Southern Plains, Weekly

\$ Per Cwt.



US RANGE AND PASTURE CONDITION

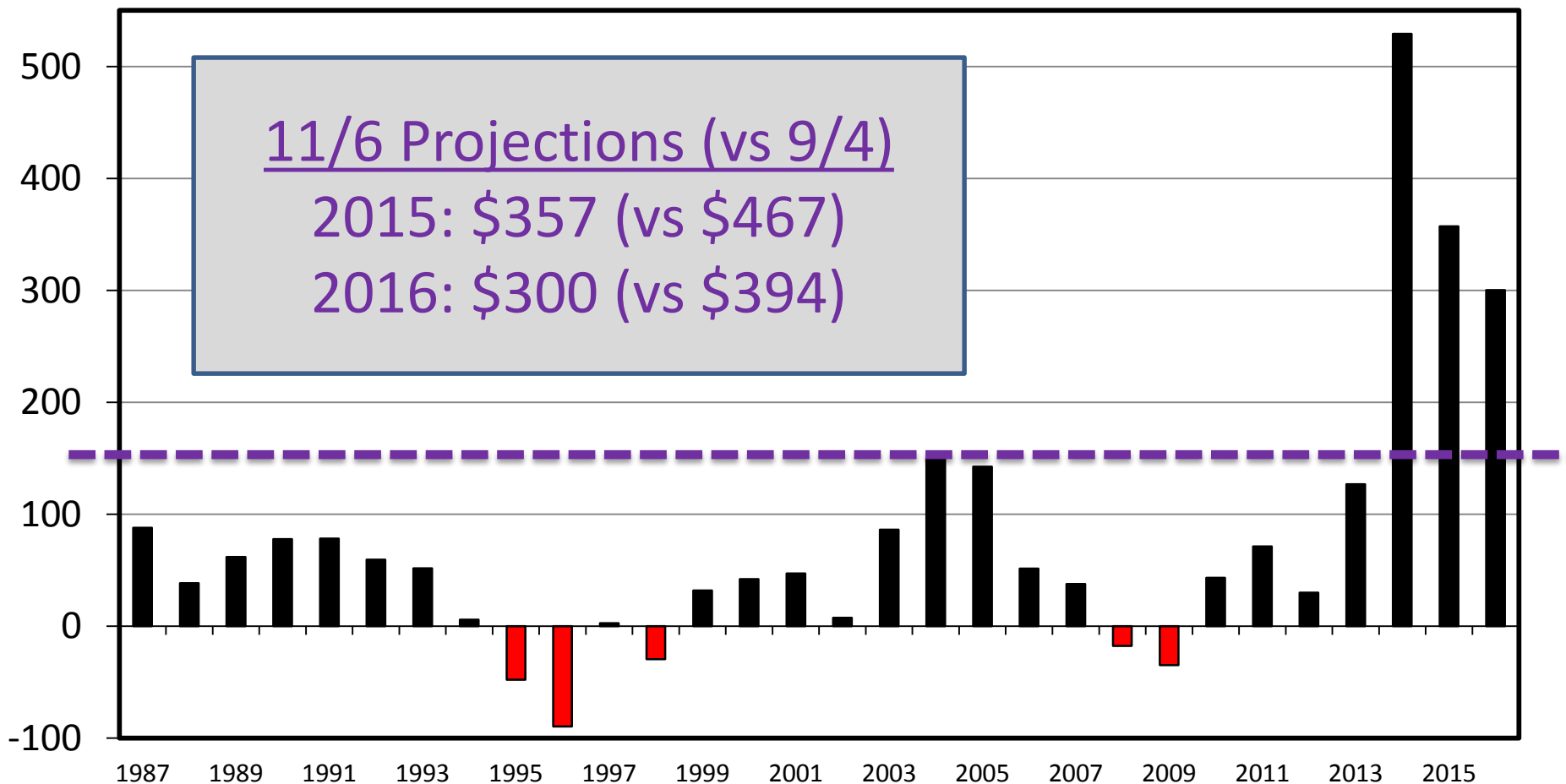
Percent Poor and Very Poor, Weekly



ESTIMATED AVERAGE COW CALF RETURNS

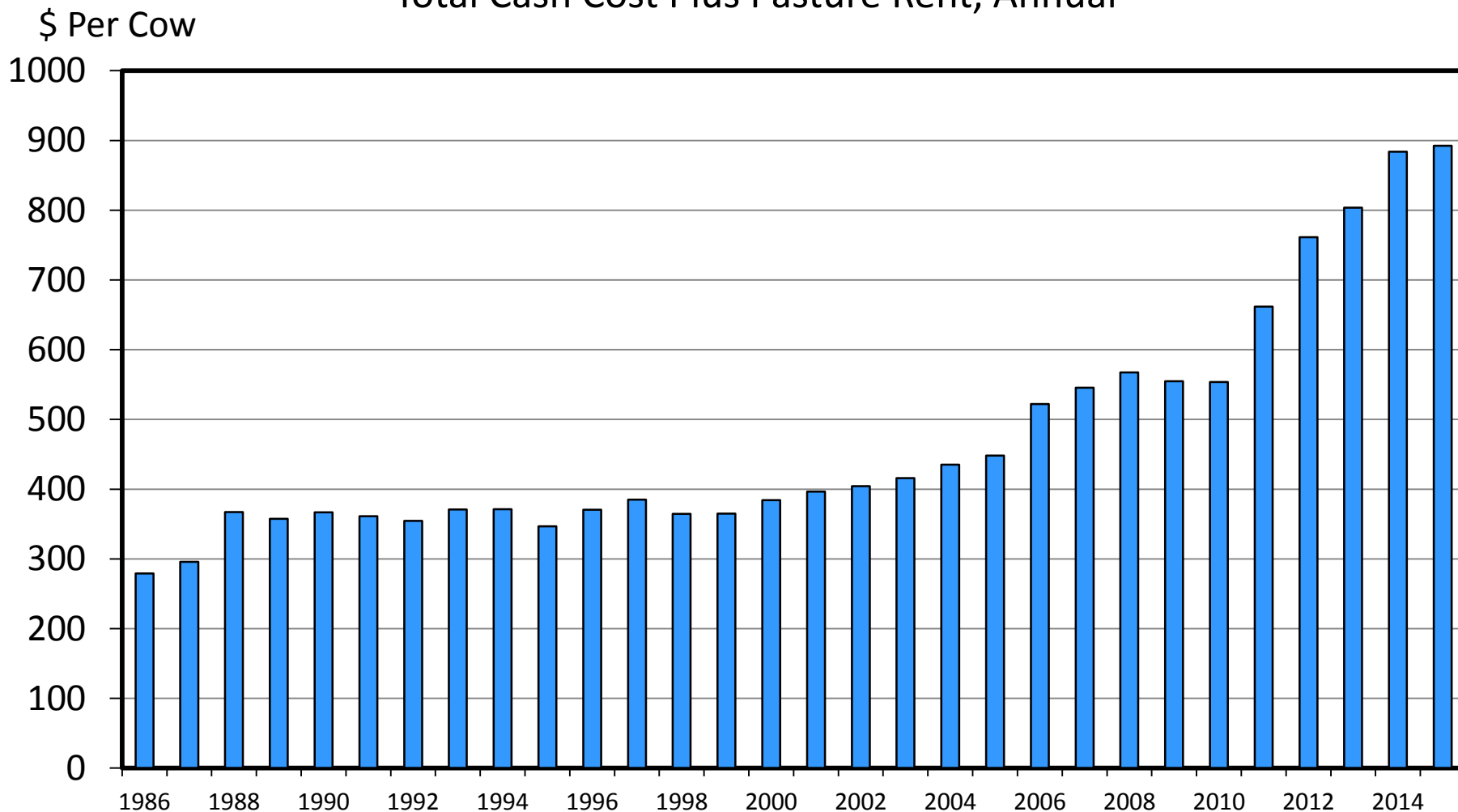
Returns Over Cash Cost (Includes Pasture Rent), Annual

\$ Per Cow



ESTIMATED AVERAGE COW CALF COSTS

Total Cash Cost Plus Pasture Rent, Annual



Data Source: USDA & LMIC, Compiled by LMIC

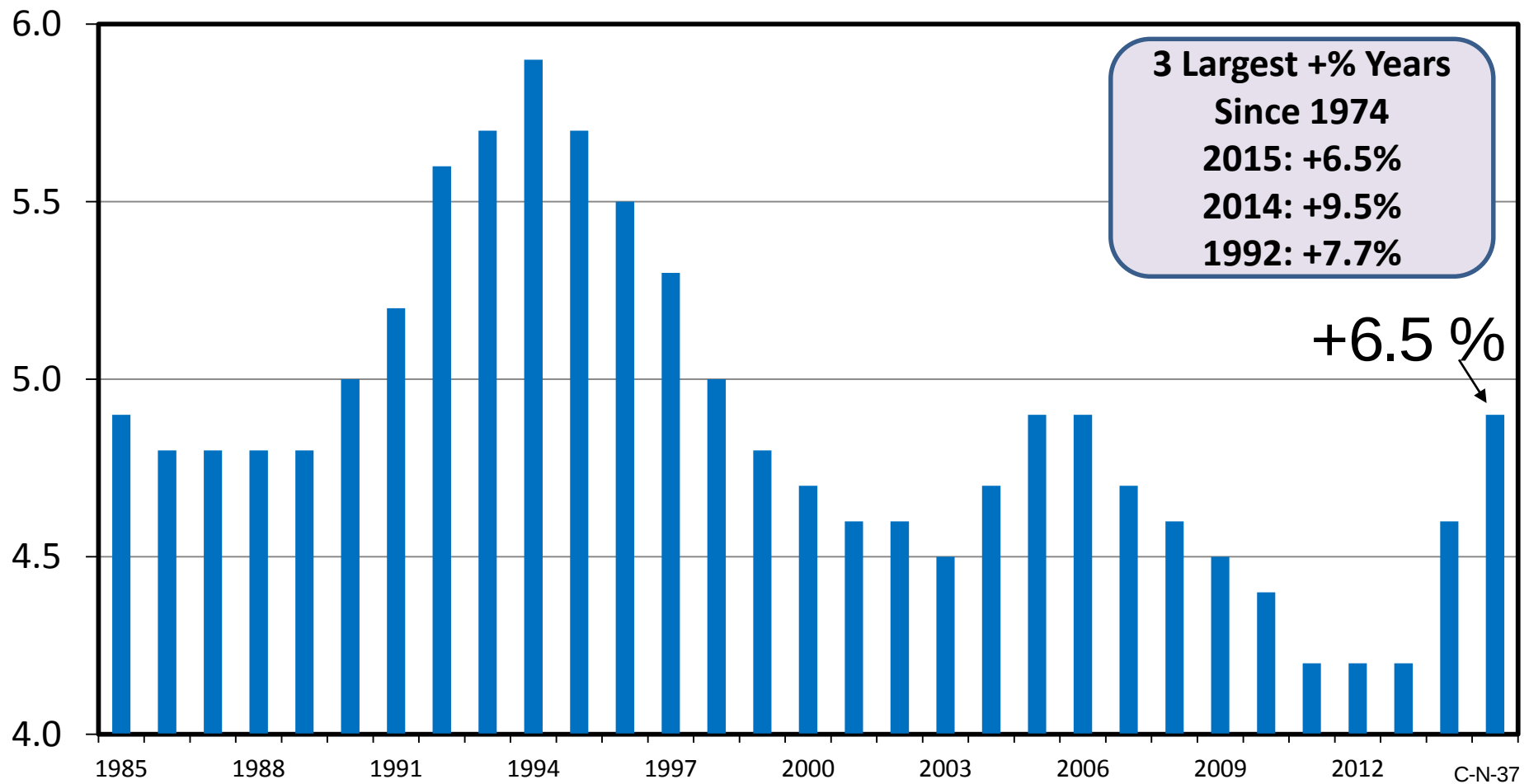
Livestock Marketing Information Center

11/06/15

HEIFERS HELD AS BEEF COW REPLACEMENTS

July 1, U.S.

Mil. Head



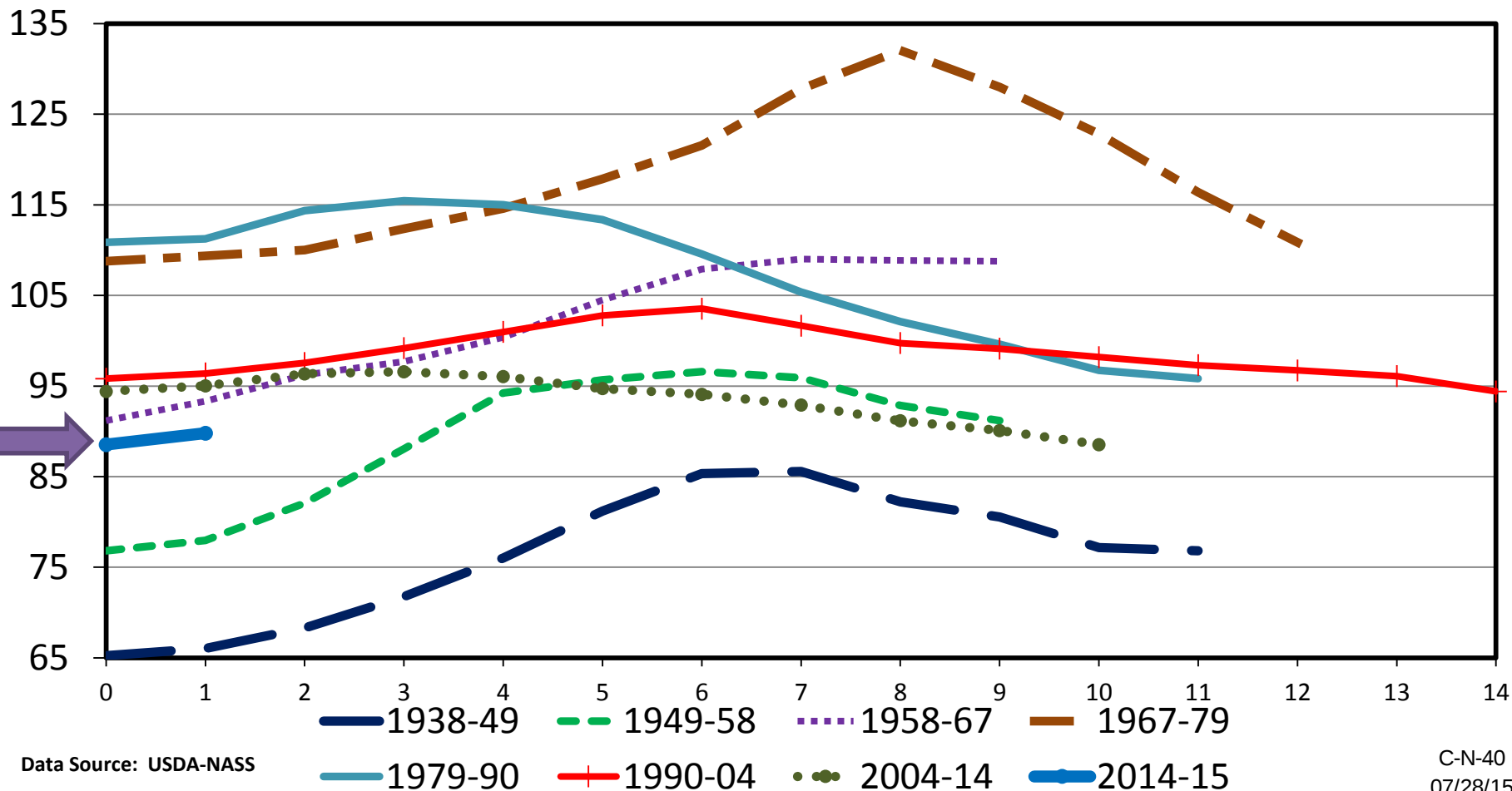
Data Source: USDA-NASS Livestock Marketing Information Center

C-N-37
07/28/15

TOTAL CATTLE INVENTORY BY CYCLE

U.S., January 1

Mil. Head



Data Source: USDA-NASS

Livestock Marketing Information Center

C-N-40
07/28/15

Economic Outlook Overview: Stockers

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

- Salina, KS 11/12/15 situation:
 - Buy 575 lb steer on 11/18/15 (\$170)
 - Sell 800 lb steer on 03/08/16 (\$152) {2.01 ADG}
 - VOG: \$106/cwt
 - IF COG \$80/cwt THEN Exp. Profit = +/- \$59/hd

Stocker - Feeder Cattle Output Price Hedging Considerations (as of 11/12/15)

- Salina, KS situation:
 - Plan to sell 800 lb steers on 3/8/16
 - Current Exp. Price = \$152/cwt
 - Interested in downside price protection

–USE:

FeederCattleRiskMgmtTool.xlsx

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

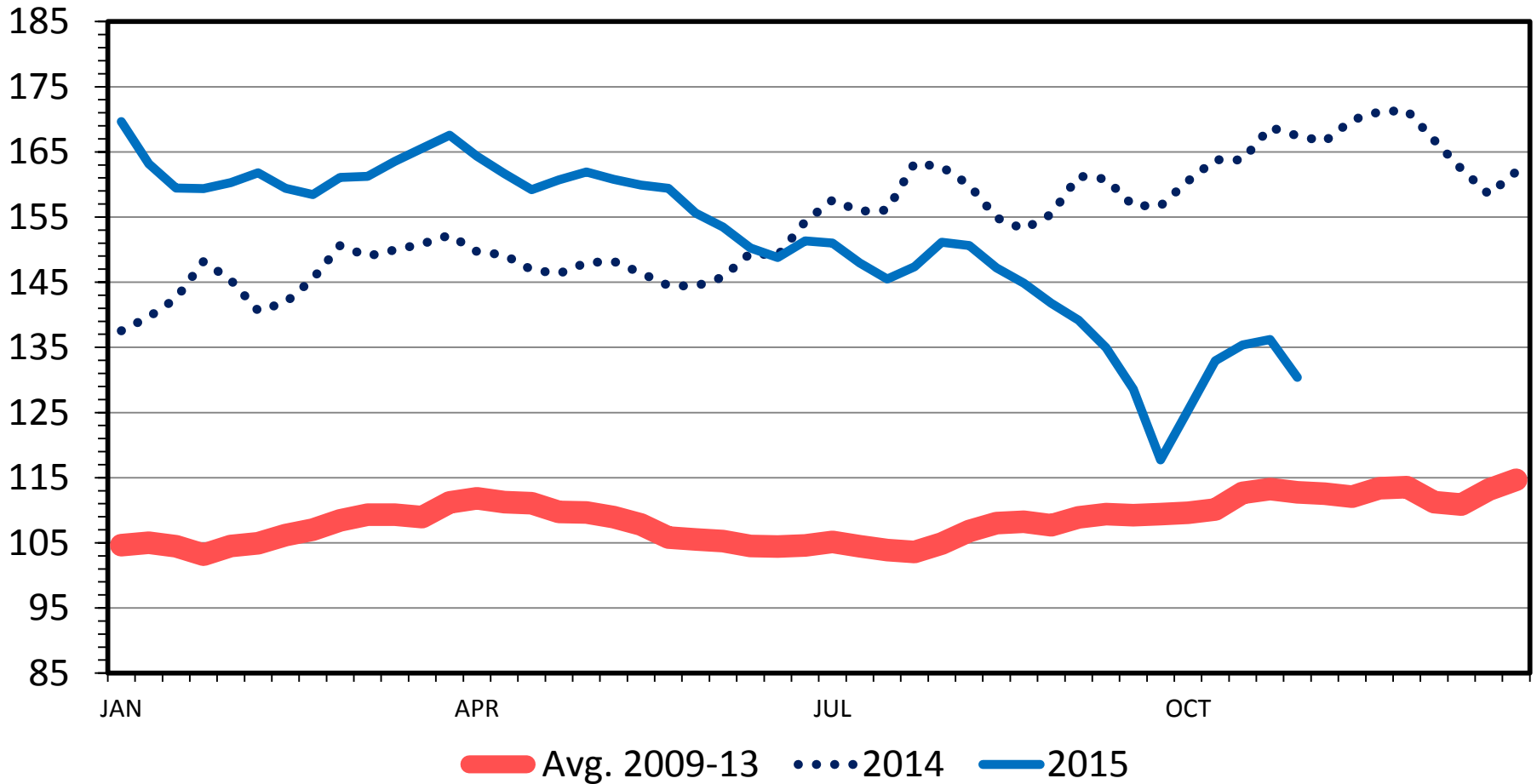
Economic Outlook Overview: Feedlots

- 2015 cash returns continue to worsen
 - “Extra heavy” situation ...
- Structural concerns persist:
 - Excess capacity
 - Heifer Retention, Plant Closures, MCOOL, ...

SLAUGHTER STEER PRICES

5 Market Weighted Average, Weekly

\$ Per Cwt.



Data Source: USDA-AMS

Livestock Marketing Information Center

11/09/15

Feedlots, Heavy-Weights in Aug-Oct 15'

Jan 10'-July 15'

- 5 Mkt: 1,366 lbs; \$126.22
- TX/OK/NM:1,271 lbs;\$125.55
- KS: 1,337 lbs; \$126.02
- NE: 1,407 lbs; \$126.45
- CO: 1,372 lbs; \$126.74
- IA/MN: 1,411 lbs; \$126.11

Aug 15'-Oct 15'

- 5 Mkt: 1,468 lbs; \$138.23
- TX/OK/NM:1,356 lbs;\$138.99
- KS: 1,399 lbs; \$139.18
- NE: 1,471 lbs; \$138.77
- CO: 1,444 lbs; \$139.79
- IA/MN: 1,499 lbs; \$136.83

Feedlots, Heavy-Weights in Aug-Oct 15'

(Mkt Share of 5 Mkt Avg - Negotiated)

Jan 10'-July 15'

- 5 Mkt: 1,366 lbs; \$126.22
- TX/OK/NM:1,271 lbs;\$125.55
 - (17%)
- KS: 1,337 lbs; \$126.02
 - (33%)
- NE: 1,407 lbs; \$126.45
 - (25%)
- CO: 1,372 lbs; \$126.74
 - (6%)
- IA/MN: 1,411 lbs; \$126.11
 - (19%)

Aug 15'-Oct 15'

- 5 Mkt: 1,468 lbs; \$138.23
- TX/OK/NM:1,356 lbs; \$138.99
 - (4%)
- KS: 1,399 lbs; \$139.18
 - (15%)
- NE: 1,471 lbs; \$138.77
 - (36%)
- CO: 1,444 lbs; \$139.79
 - (5%)
- IA/MN: 1,499 lbs; \$136.83
 - (41%)

Historical and Projected Kansas Feedlot Net Returns (as of 11/11/15')

(<http://www.agmanager.info/livestock/marketing/outlook/newsletters/FinishingReturns/default.asp>)

Sept. 15': -\$357/steer

SEPT-2015 Summary

Revenue: \$2,002/steer (1,450 lbs @ \$138.06/cwt)

Feeder Cattle Purchase: \$1,811/steer (848 lbs @ \$213.60/cwt)

Gross Margin (Fat-Feeder): \$191/hd

Break-Even COG (602 lbs added): \$0.21/lb

VS

Estimated COG: \$0.82/lb

= -\$357/steer margins

Historical and Projected Kansas Feedlot Net Returns (as of 11/11/15')

(<http://www.agmanager.info/livestock/marketing/outlook/newsletters/FinishingReturns/default.asp>)

Sept. 15': -\$357/steer

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

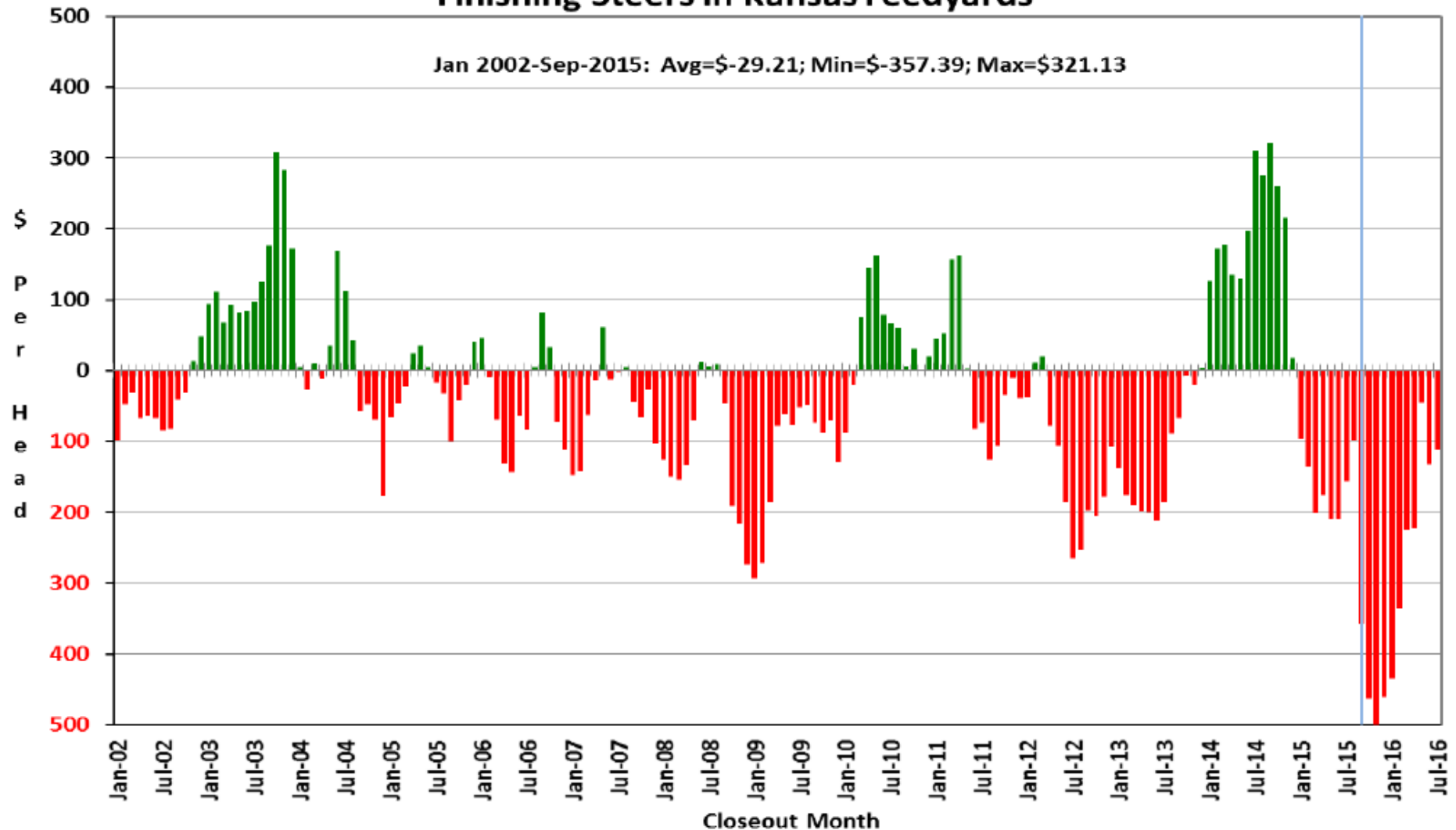
Closeout Mo-Yr	Net Return	FCOG**	Fed Price	Feeder Price	Breakeven FCOG**	Breakeven Fed Price	Breakeven Feeder Price
Oct-15	-462.51	84.73	133.20	215.75	5.65	165.25	161.85
Nov-15	-499.65	84.43	132.36	219.15	-2.22	167.33	160.52
Dec-15	-461.06	85.74	134.13	212.71	3.73	165.97	160.67
Jan-16	-435.38	86.51	135.29	208.73	4.76	165.76	160.17
Feb-16	-334.95	86.82	135.92	203.72	27.90	159.52	164.34
Mar-16	-224.79	86.40	137.01	190.58	44.41	153.10	164.49
Apr-16	-222.92	85.19	128.58	181.71	46.40	144.47	154.80
May-16	-45.52	85.16	131.21	163.29	77.02	134.45	157.92
Jun-16	-131.70	85.43	124.43	162.02	62.14	133.70	146.62
Jul-16	-111.29	86.01	125.38	158.17	65.77	133.05	145.81

Representative Barometer for Trends in Profitability

Historical and Projected Kansas Feedlot Net Returns (as of 11/11/15')

(<http://www.agmanager.info/livestock/marketing/outlook/newsletters/FinishingReturns/default.asp>)

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



Historical and Projected Kansas Feedlot Net Returns (as of 11/11/15')

(<http://www.agmanager.info/livestock/marketing/outlook/newsletters/FinishingReturns/default.asp>)

Rolling 12-month average Net Return:

Dec 2014: **\$195**

Jan 2015: **\$176**

July 2015: **-\$8**

Sept 2015: **-\$96**

April 2015 (projected): **-\$306**

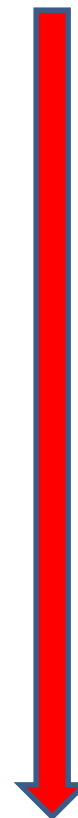
Previous worst (**-\$193**) was July 2013

Quarterly Forecasts (LMIC: 11/5/15)

		% Chg.	Average	% Chg.	Comm'l	% Chg.
Year	Comm'l	from	Dressed	from	Beef	from
Quarter	Slaughter	Year Ago	Weight	Year Ago	Production	Year Ago
2015						
I	6,967	-5.5	813.0	2.2	5,664	-3.5
II	7,227	-7.8	810.1	2.7	5,855	-5.3
III	7,288	-4.5	832.4	2.8	6,066	-1.8
IV	7,350	0.3	840.4	2.3	6,177	2.6
Year	28,832	-4.4	824.1	2.5	23,762	-2.0
2016						
I	7,166	2.9	821.9	1.1	5,890	4.0
II	7,417	2.6	813.0	0.4	6,030	3.0
III	7,623	4.6	835.6	0.4	6,370	5.0
IV	7,550	2.7	838.0	-0.3	6,327	2.4
Year	29,756	3.2	827.3	0.4	24,617	3.6
2017						
I	7,447	3.9	827.3	0.7	6,161	4.6
II	7,720	4.1	815.9	0.4	6,299	4.5
III	7,815	2.5	839.3	0.4	6,559	3.0
IV	7,891	4.5	841.3	0.4	6,639	4.9
Year	30,873	3.8	831.1	0.5	25,658	4.2

Quarterly Forecasts (LMIC: 11/5/15)

	Live Sltr.	% Chg.	Feeder Steer Price	
Year	Steer Price	from	Southern Plains	
Quarter	5-Mkt Avg	Year Ago	7-800#	5-600#
2015				
I	162.43	11.0	215.87	276.14
II	158.11	7.0	225.29	279.32
III	144.22	-9.0	214.38	246.04
IV	136-138	-17.3	186-189	220-224
Year	150-151	-2.6	210-211	254-258
2016				
I	142-145	-11.7	184-189	226-232
II	145-149	-7.0	187-192	229-237
III	139-144	-1.9	183-189	225-234
IV	140-146	4.4	179-186	217-226
Year	142-146	-4.3	184-188	225-231
2017				
I	139-146	-0.7	176-184	220-230
II	139-147	-2.7	177-186	223-234
III	134-145	-1.4	174-184	217-230
IV	136-146	-1.4	170-182	211-225
Year	139-144	-1.7	176-182	220-228

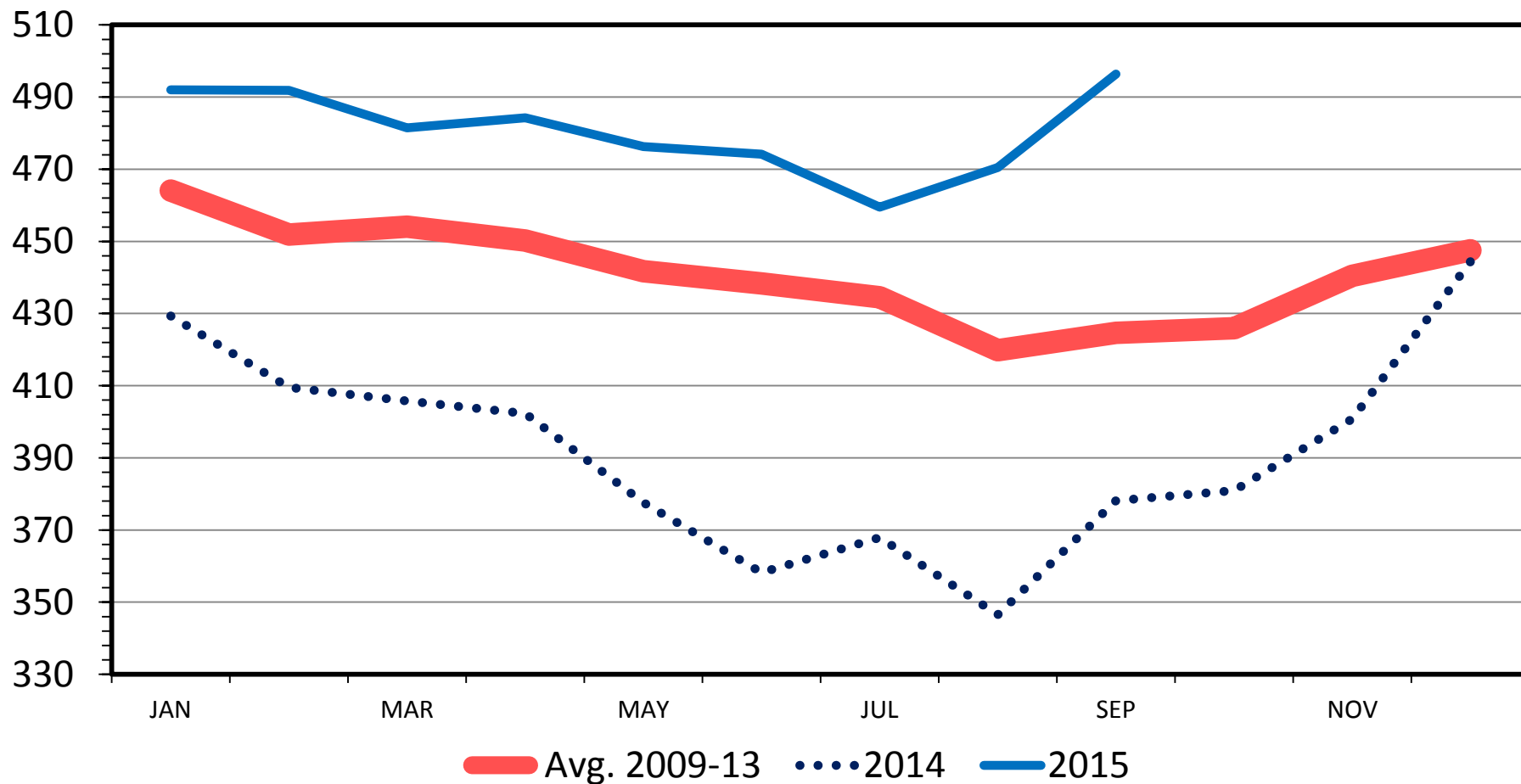


Trade & Meat Supplies
Maintain Context

BEEF IN COLD STORAGE

End of the Month

Mil. Pounds



Data Source: USDA/NASS

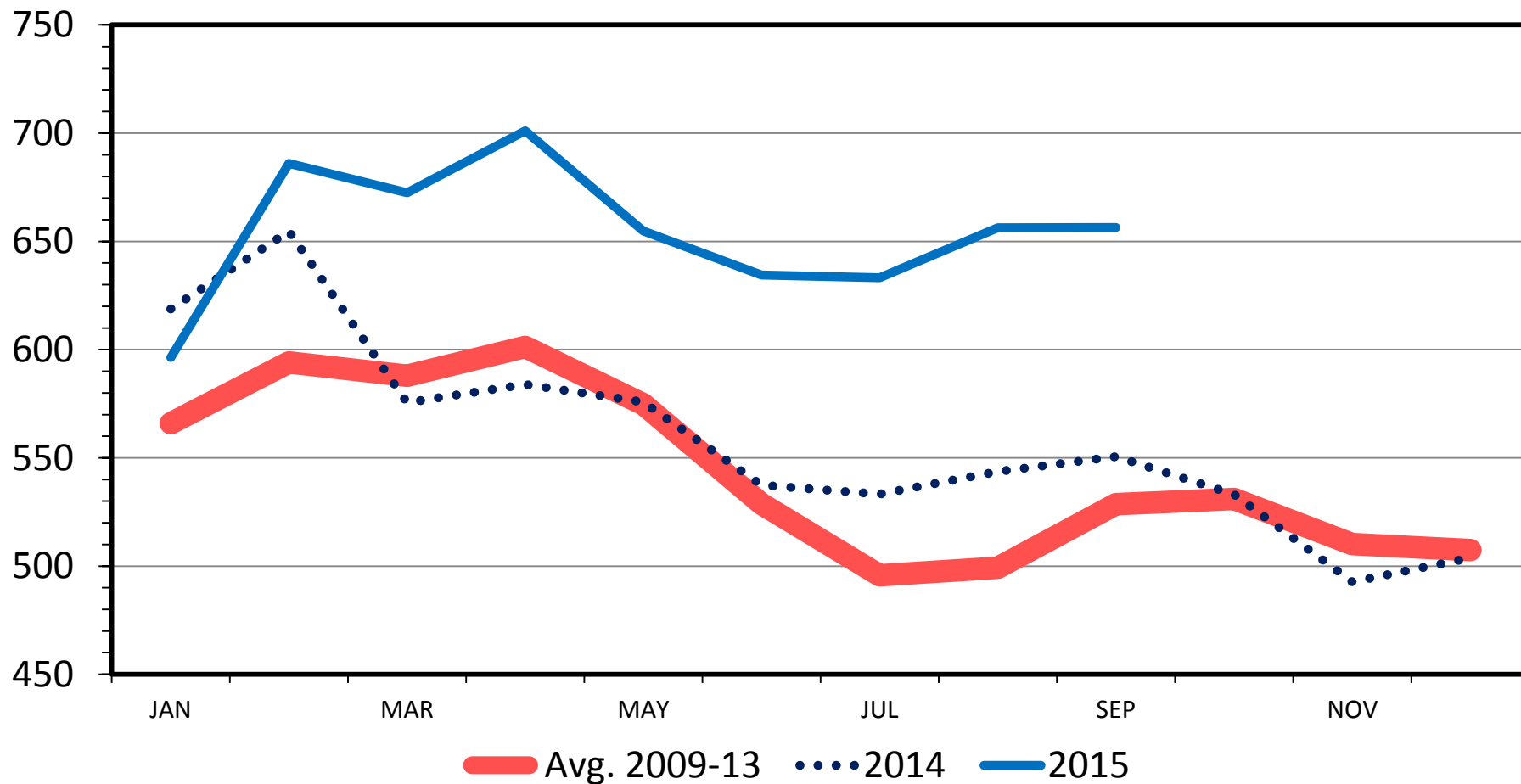
Livestock Marketing Information Center

M-S-09
10/22/15

PORK IN COLD STORAGE

Frozen and Cured, End of the Month

Mil. Pounds



Data Source: USDA/NASS

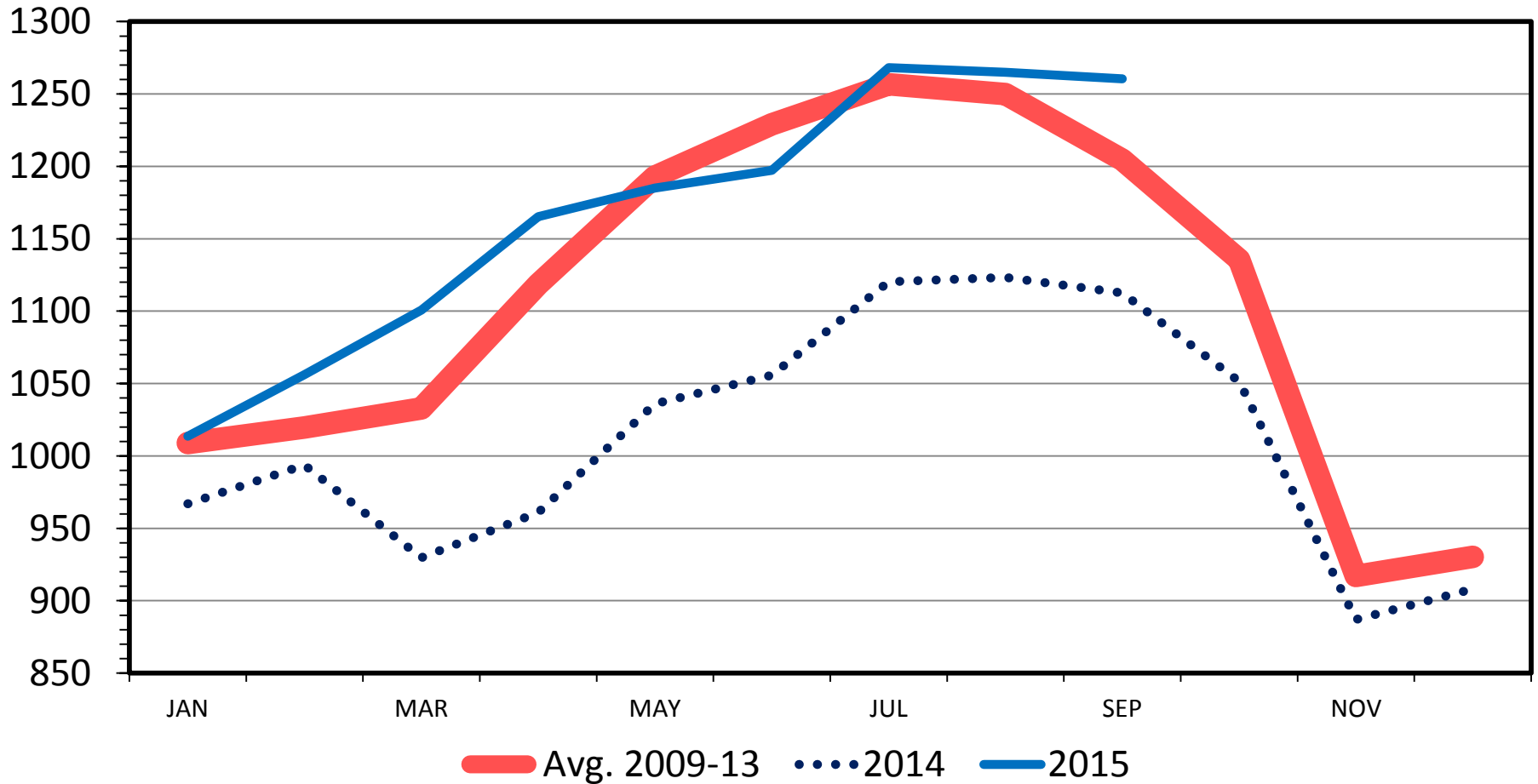
Livestock Marketing Information Center

M-S-10
10/22/15

TOTAL POULTRY IN COLD STORAGE

End of the Month

Mil. Pounds



Data Source: USDA/NASS

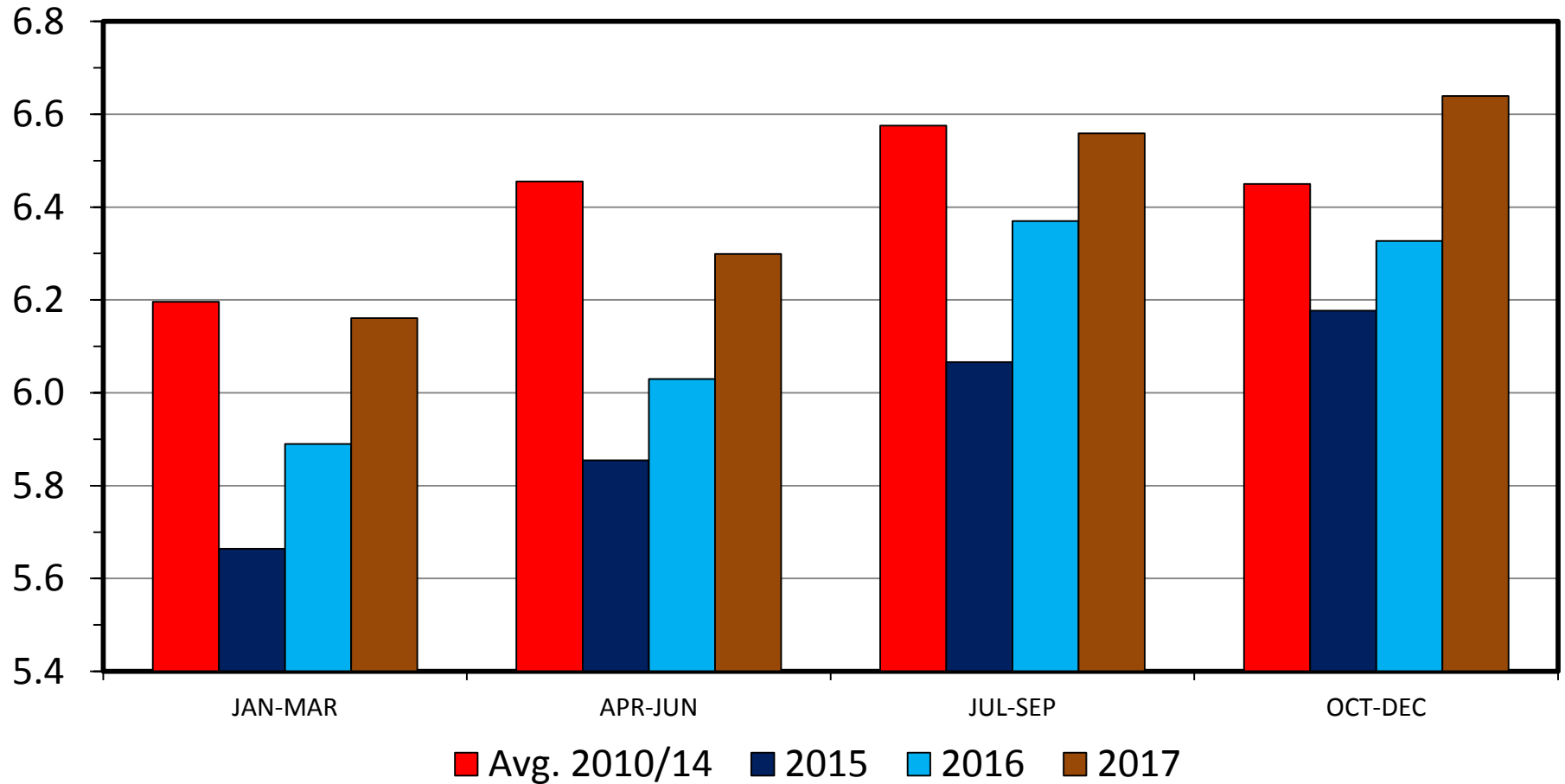
Livestock Marketing Information Center

P-S-03
10/22/15

COMMERCIAL BEEF PRODUCTION

US, Quarterly

Bil. Pounds



Data Source: USDA-NASS;; Forecasts: LMIC

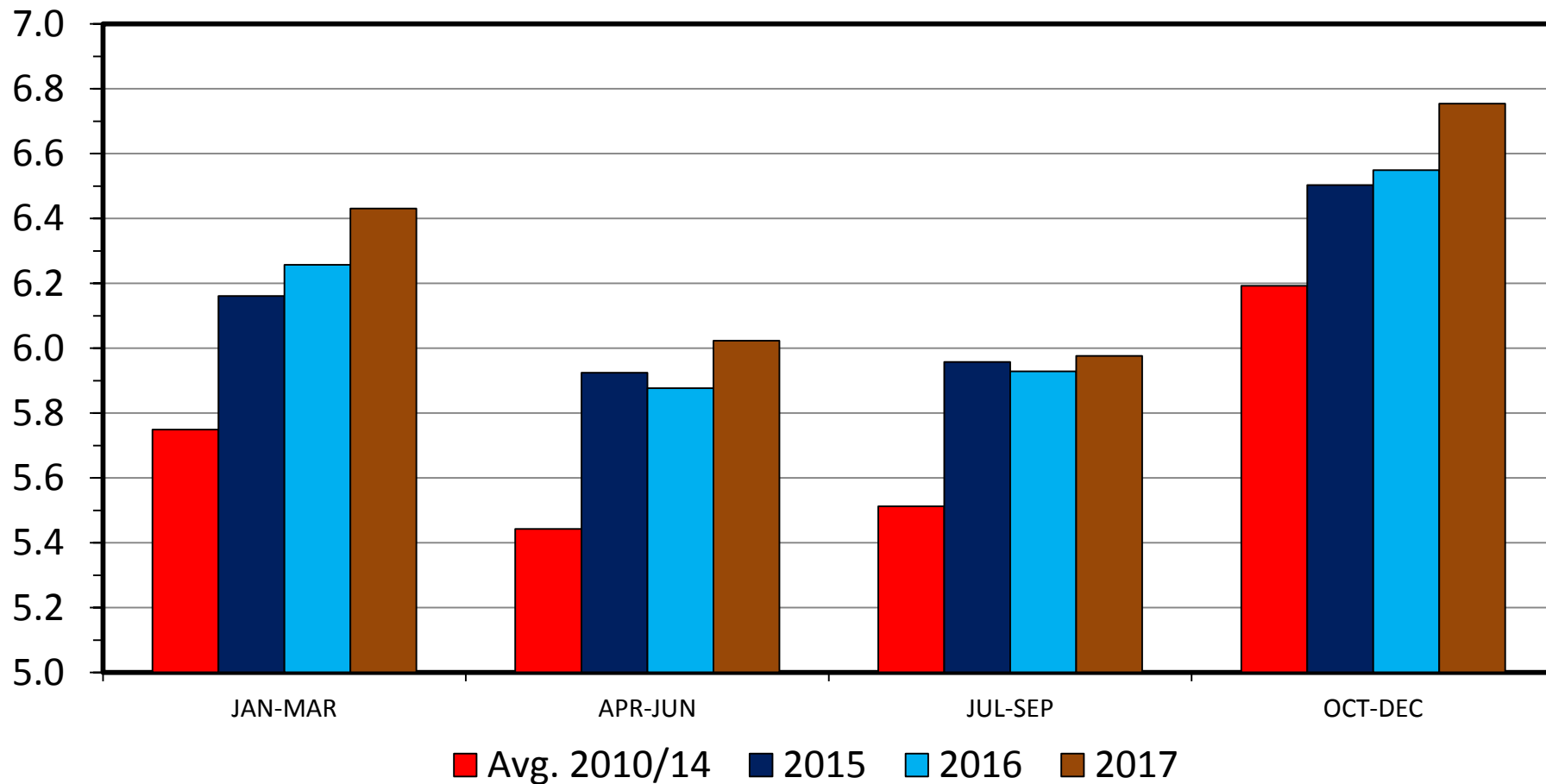
Compiled and Forecasts by: LMIC

M-S-01
11/05/15

COMMERCIAL PORK PRODUCTION

US, Quarterly

Bil. Pounds



Data Source: USDA-NASS;; Forecasts: LMIC

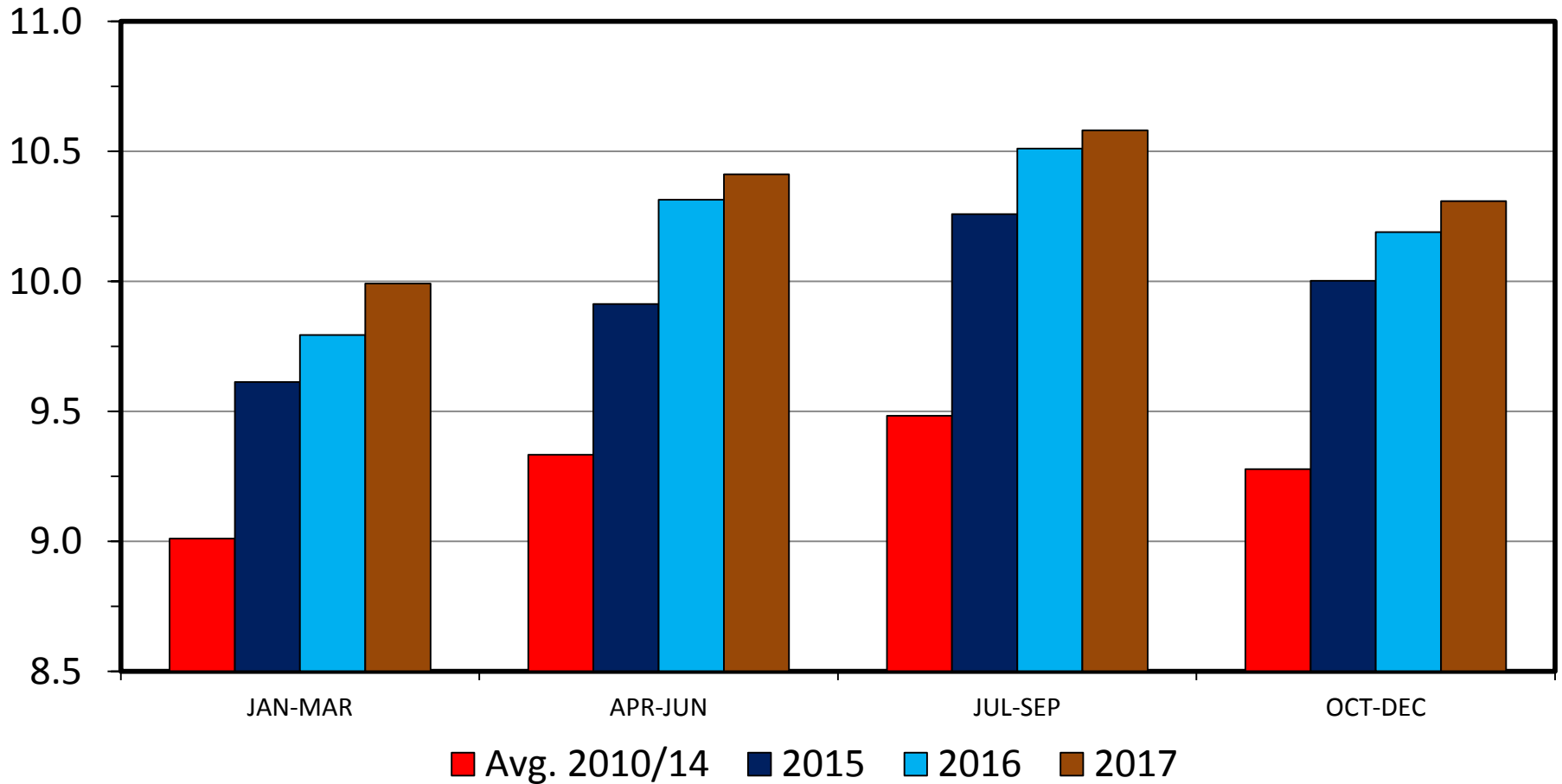
Compiled and Forecasts by: LMIC

M-S-06
11/05/15

RTC BROILER PRODUCTION

US, Quarterly

Bil. Pounds



Data Source: USDA-NASS;; Forecasts: LMIC

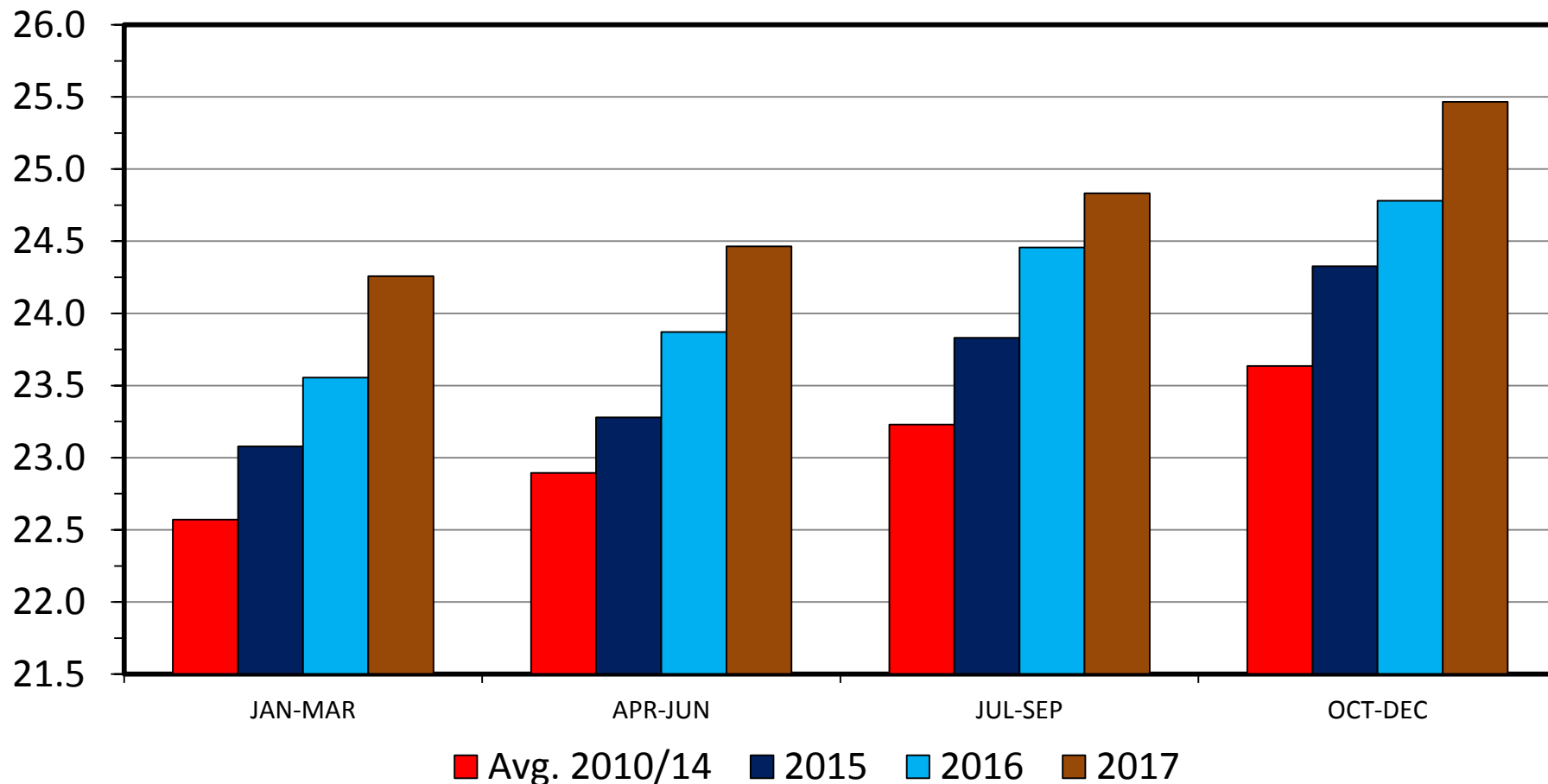
Compiled and Forecasts by: LMIC

M-S-30
11/05/15

TOTAL RED MEAT & POULTRY PRODUCTION

US, Quarterly

Bil. Pounds



Data Source: USDA-NASS;; Forecasts: LMIC

Compiled and Forecasts by: LMIC

M-S-31
11/05/15

USDA Long-Term projections (2015-2024)

Feb. 11, 2015 report (<http://www.usda.gov/oce/commodity/projections/index.htm>)

Recent

NEXT 5 YEARS

10 Yrs Out

Per capita meat consumption, retail weight

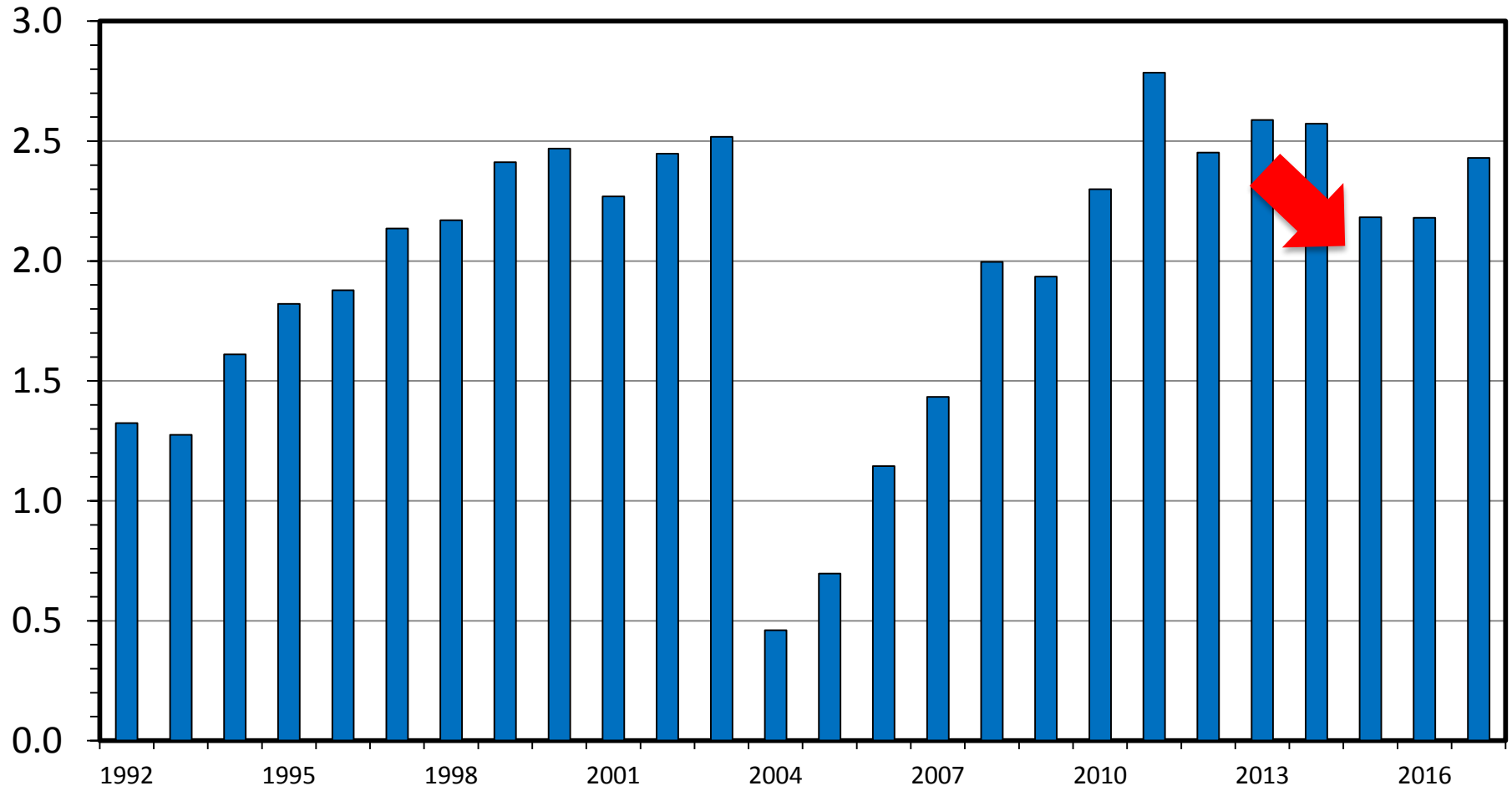
	Red Meat	Poultry	Total
1995	120	87	208
2008	113	103	216
2013	104	99	204
2014	102	100	202
2015	105	105	210
2024	103	112	215

**2024 (215 lbs) <
2008 (216 lbs)**

US BEEF AND VEAL EXPORTS

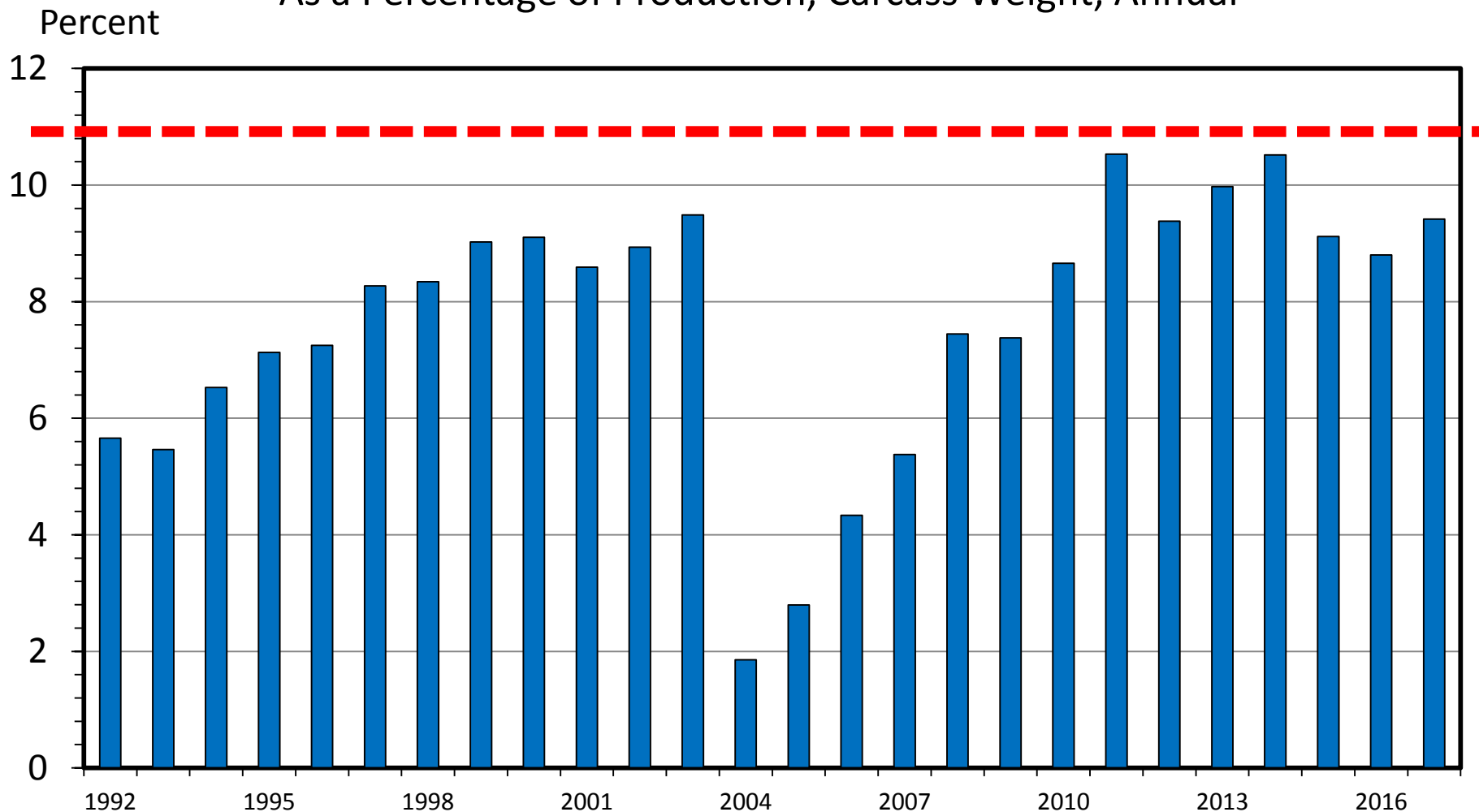
Carcass Weight, Annual

Bil. Pounds



US BEEF AND VEAL EXPORTS

As a Percentage of Production, Carcass Weight, Annual



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

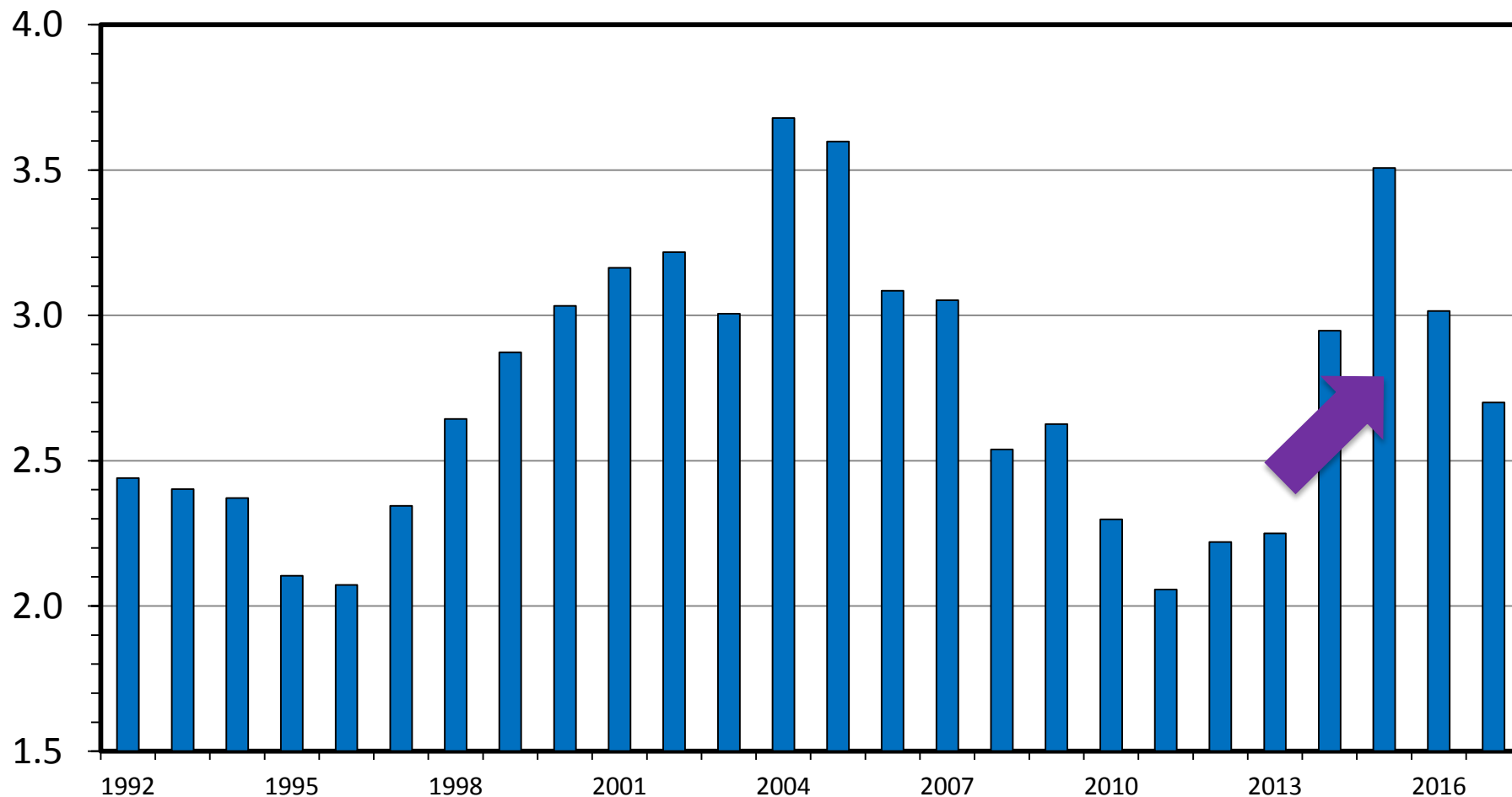
Livestock Marketing Information Center

I-N-07
10/13/15

US BEEF AND VEAL IMPORTS

Carcass Weight, Annual

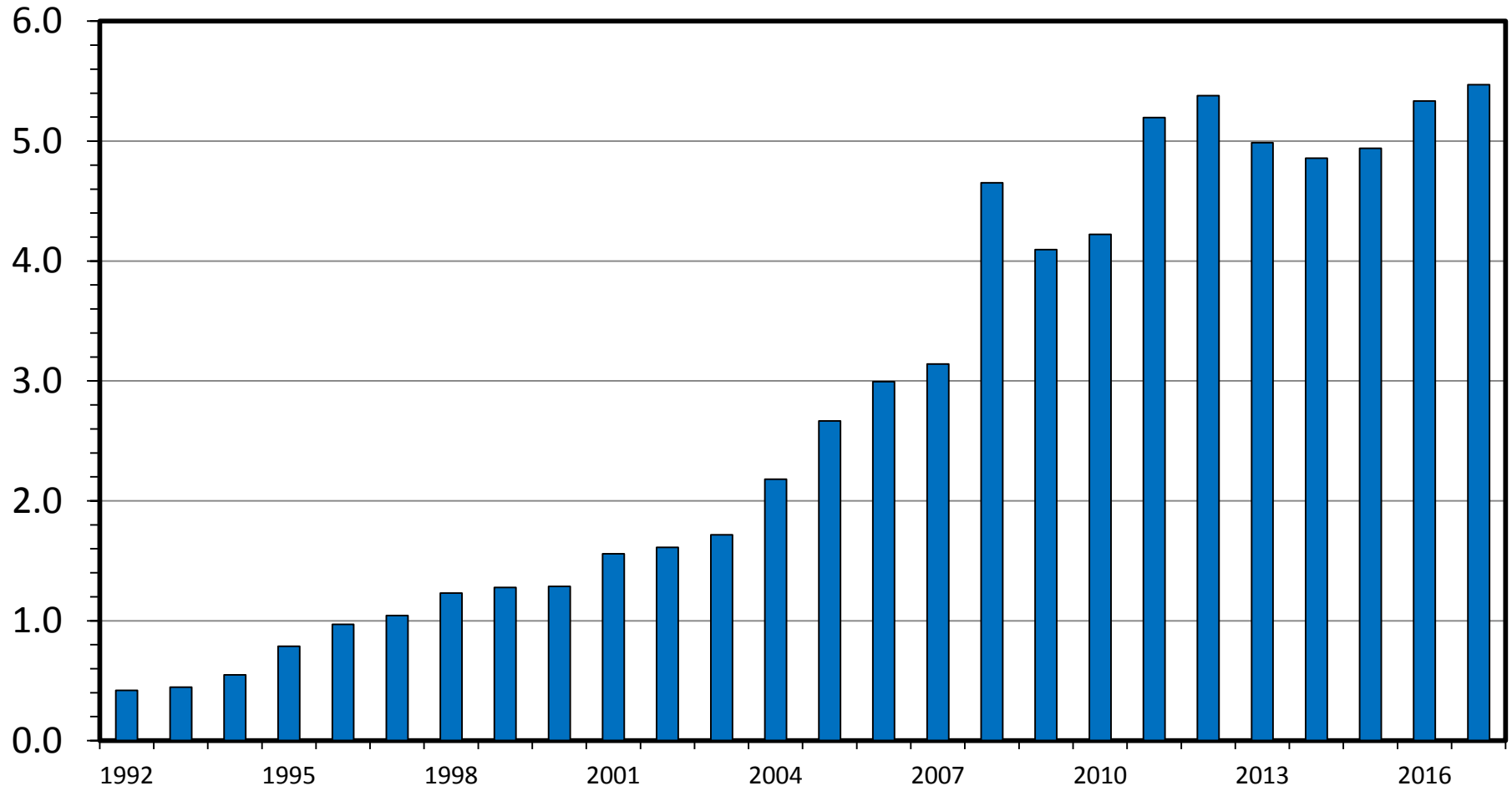
Bil. Pounds



US PORK EXPORTS

Carcass Weight, Annual

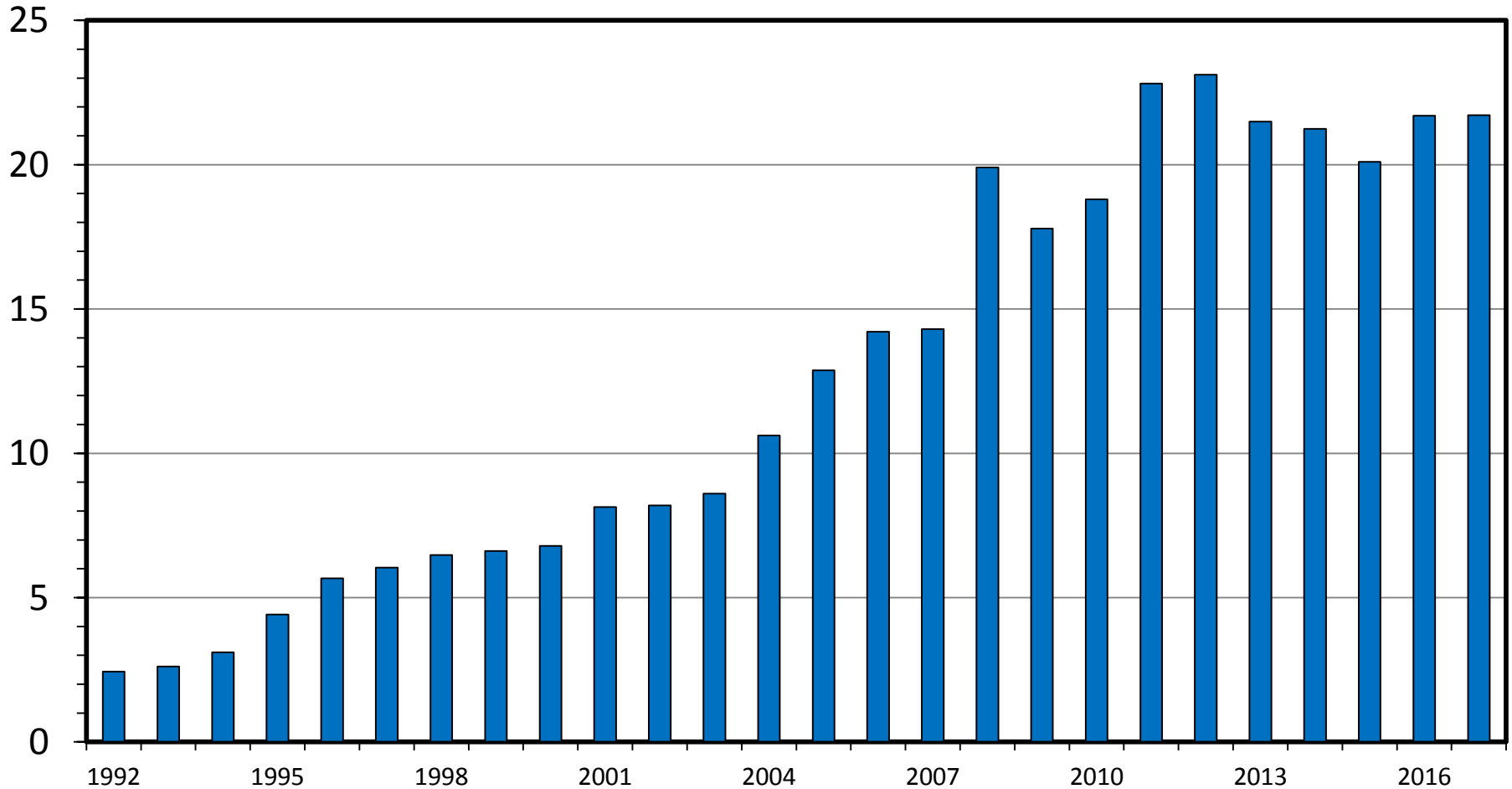
Bil. Pounds



US PORK EXPORTS

As a Percentage of Production, Carcass Weight, Annual

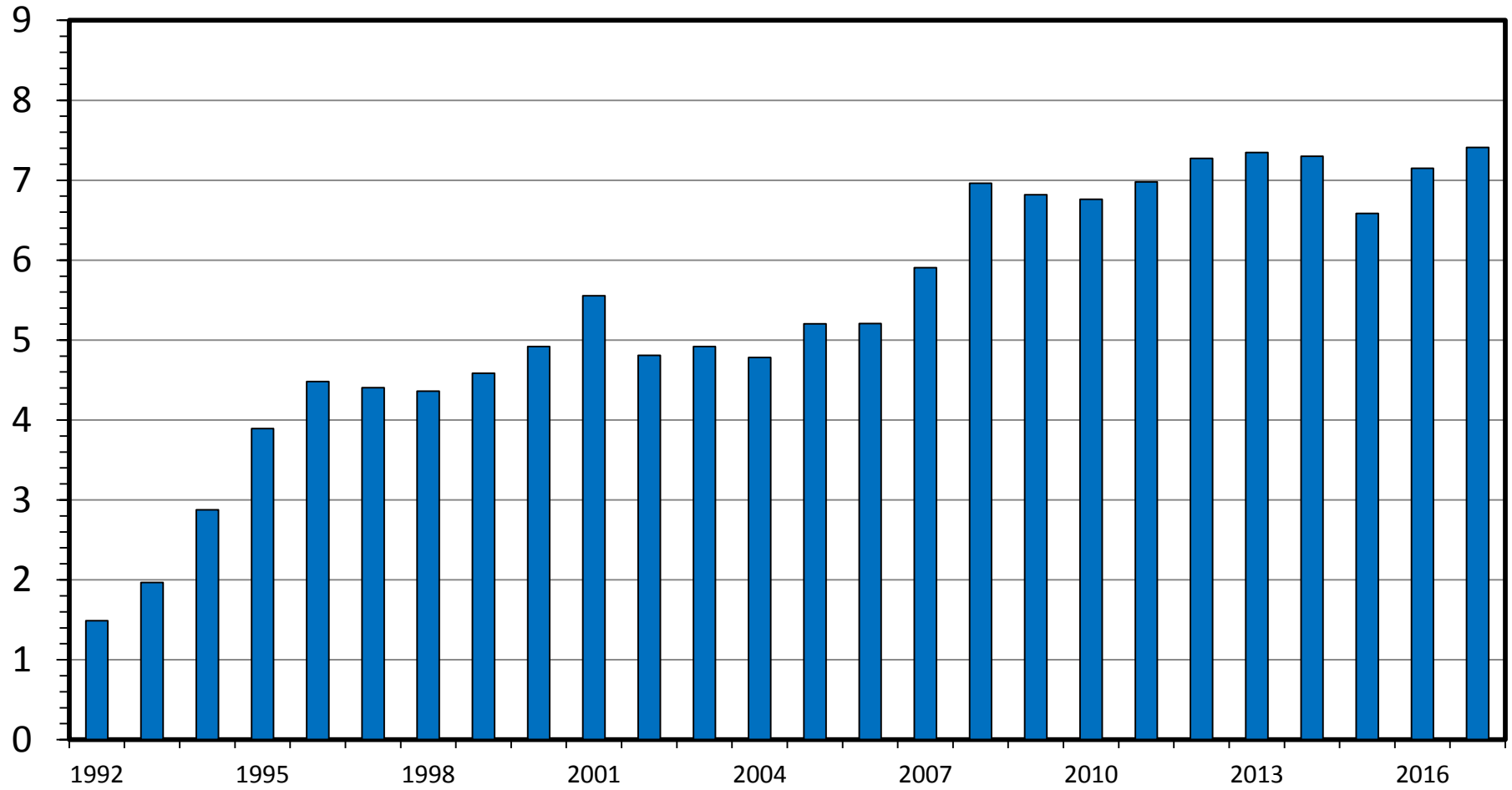
Percent



US BROILER EXPORTS

RTC, Annual

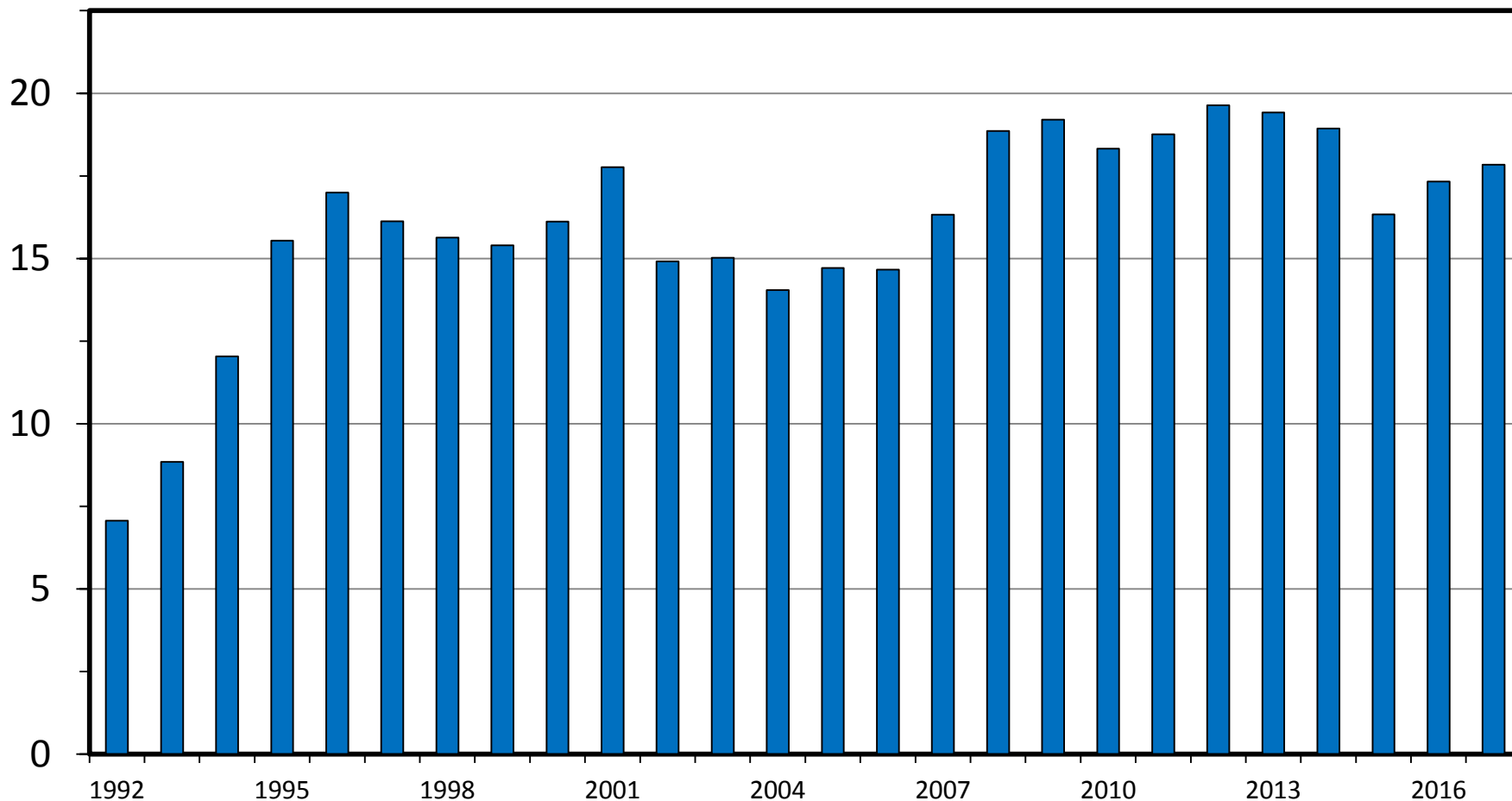
Bil. Pounds



US BROILER EXPORTS

As a Percentage of Broiler Production, RTC, Annual

Percent



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

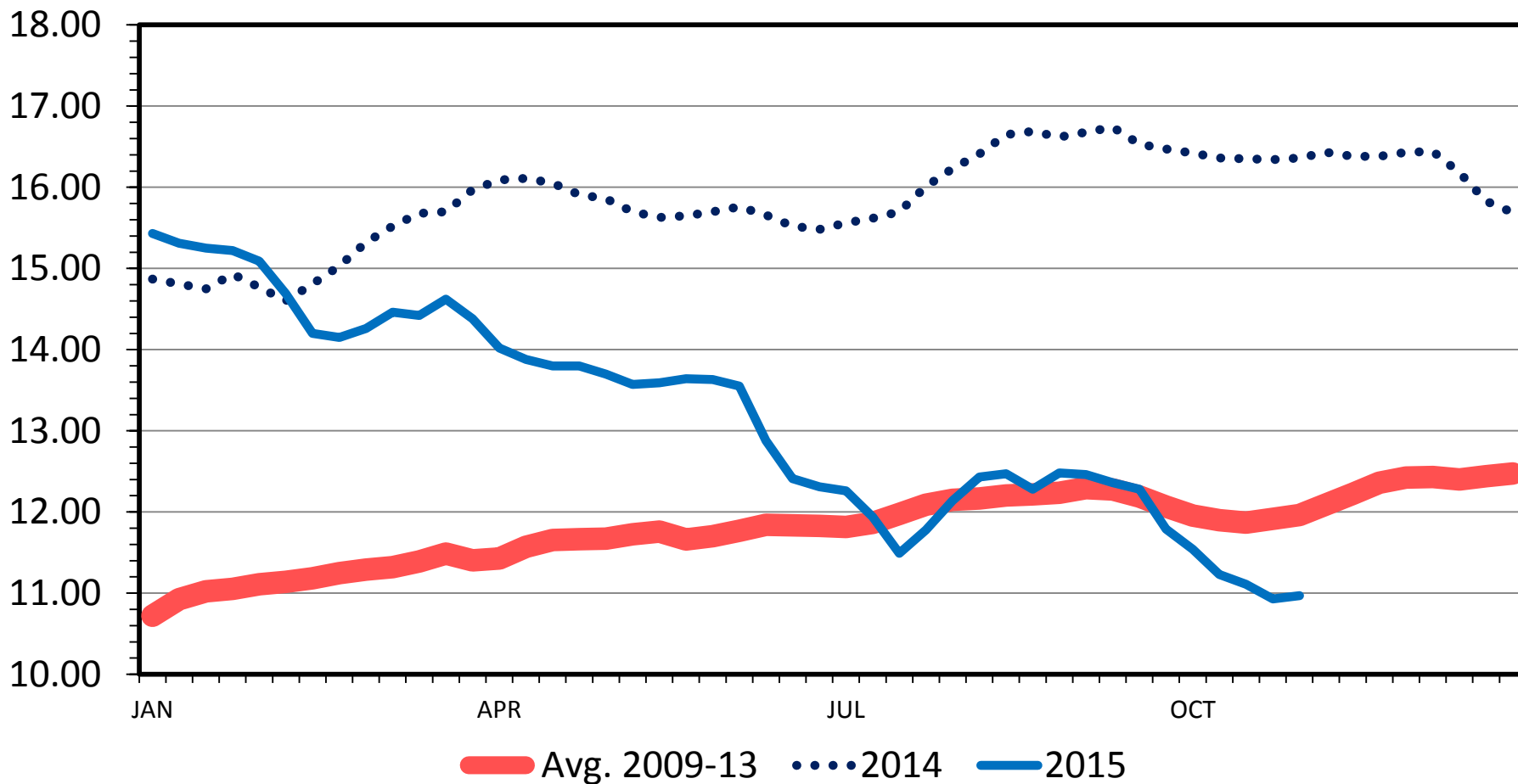
Livestock Marketing Information Center

I-N-51
10/13/15

STEER HIDE AND OFFAL VALUE

Live Animal Basis, Weekly

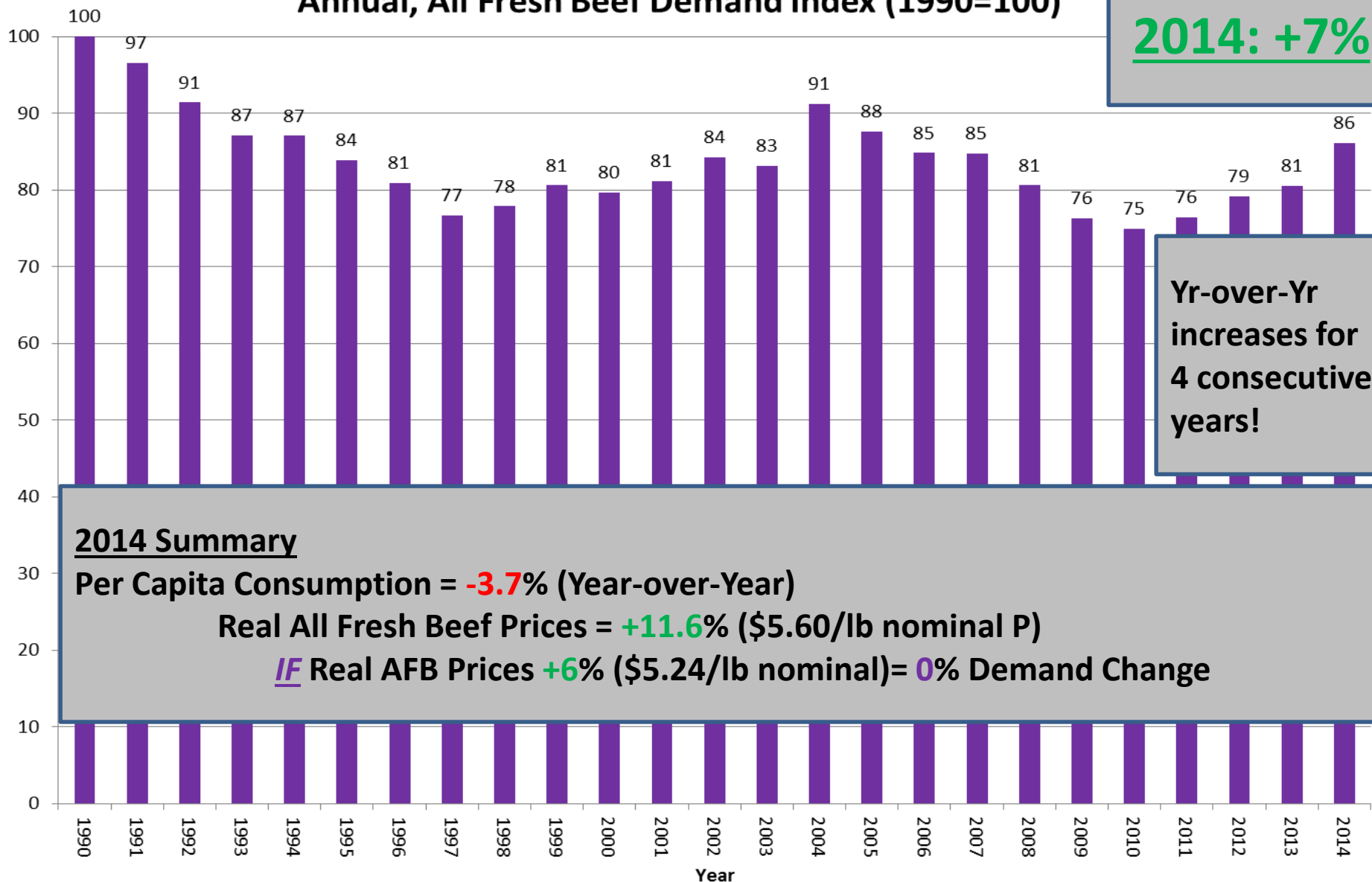
\$ Per Cwt.



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

2014: +7%

Demand Index (1990=100)



**Yr-over-Yr
increases for
4 consecutive
years!**

2014 Summary

Per Capita Consumption = -3.7% (Year-over-Year)

Real All Fresh Beef Prices = +11.6% (\$5.60/lb nominal P)

IF Real AFB Prices +6% (\$5.24/lb nominal)= 0% Demand Change

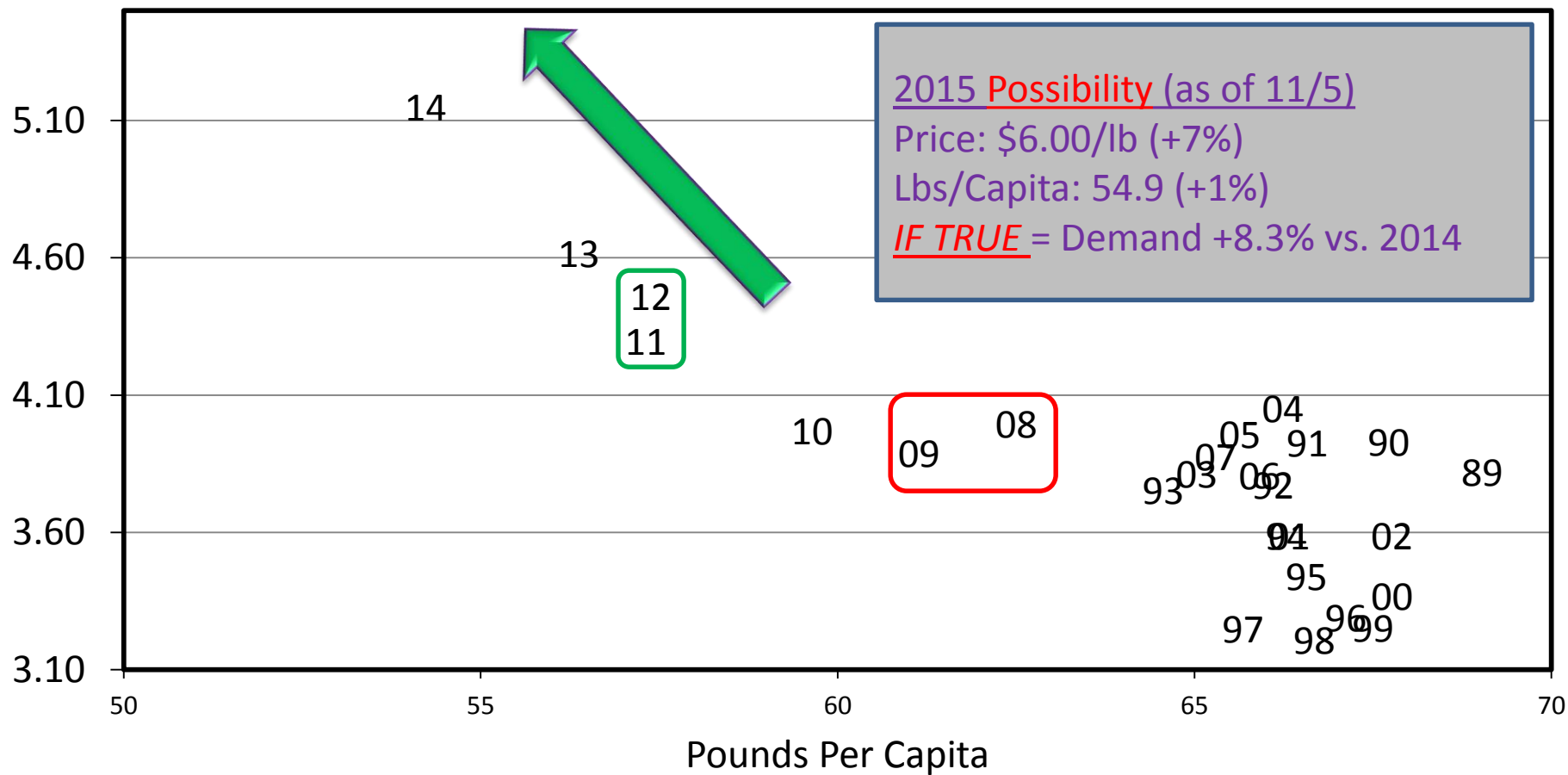
Source: Glynn T. Tonsor, Kansas State University, Jan. 2015

<http://www.agmanager.info/livestock/marketing/Beef%20Demand/default.asp>

BEEF PRICE-QUANTITY RELATIONSHIP

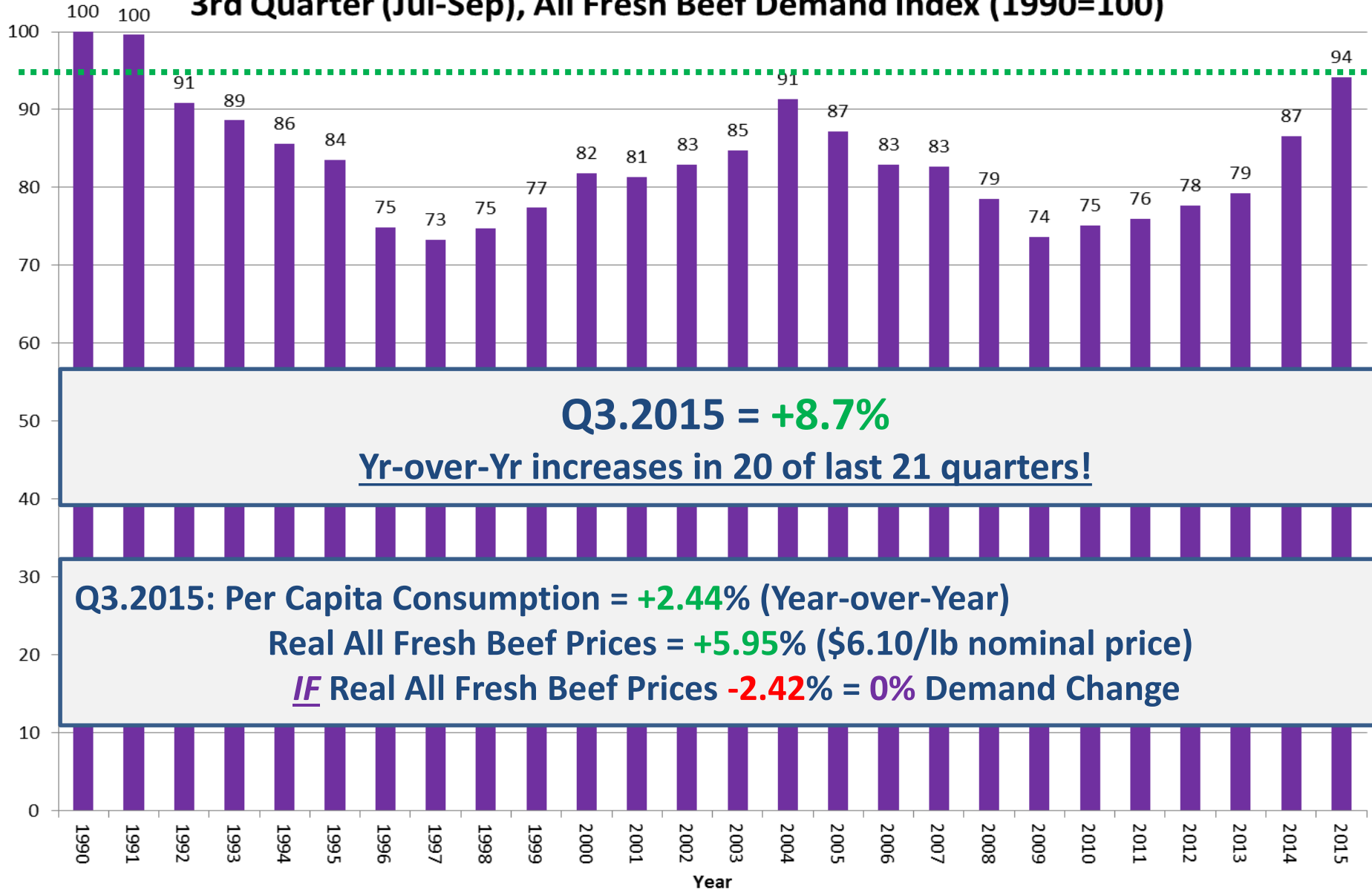
Annual, Retail Weight, Deflated All Fresh Retail Price

\$ Per Pound



3rd Quarter (Jul-Sep), All Fresh Beef Demand Index (1990=100)

Demand Index (1990=100)



Source: Glynn T. Tonsor, Kansas State University, Oct. 2015

Take-Home Summary Points

- Industry at tipping point on role of tight supplies
- **Demand's role will become clearer going forward**
 - http://www.agmanager.info/livestock/marketing/Beef%20Demand/BeefDemand_08-28-15.pdf
- Identifying & acting upon comparative advantage will increasingly be key!

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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