Beef Cattle Market Outlook

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FEATURING...
- Grain Market Outlook for 2016
- Precision Ag Technology and Data
- Pasture Leases in Kansas
- Animal Health
- Farm Management Budgets
- Beef Cattle Market Outlook for 2016
- Macro and Interest Rate Outlook

K-State SW Research Extension Center
Garden City, September 29, 2015

International Grain Program Conference Center
Manhattan, September 30, 2015
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.

JAN  APR  JUL  OCT

Avg. 2009-13 •• 2014 • 2015

Data Source: USDA-AMS, Compiled & Analysis by LMIC
Livestock Marketing Information Center

Beef Basis, Salina KS Projections (as of 9/28):
Oct. 1: $212
Nov. 2: $209
Dec. 1: $205
US RANGE AND PASTURE CONDITION
Percent Poor and Very Poor, Weekly

Data Source: USDA-NASS, Compiled & Analysis by LMIC
Livestock Marketing Information Center
ESTIMATED AVERAGE COW CALF RETURNS
Returns Over Cash Cost (Includes Pasture Rent), Annual

$ Per Cow

9/24 Projections (vs 9/4)
2015: $398 (vs $467)
2016: $330 (vs $394)

Data Source: USDA & LMIC, Compiled by LMIC
Livestock Marketing Information Center
ESTIMATED AVERAGE COW CALF RETURNS
Returns Over Cash Cost (Includes Pasture Rent), Annual

$ Per Cow

Data Source: USDA & LMIC, Compiled by LMIC
Livestock Marketing Information Center
HEIFERS HELD AS BEEF COW REPLACEMENTS
July 1, U.S.

Data Source: USDA-NASS Livestock Marketing Information Center

3 Largest +% Years Since 1974
2015: +6.5%
2014: +9.5%
1992: +7.7%

+6.5 %
TOTAL CATTLE INVENTORY BY CYCLE

U.S., January 1

Data Source: USDA-NASS
Livestock Marketing Information Center

C-N-40
07/28/15
Economic Outlook Overview: Stockers


• Salina, KS 9/28/15 situation:
  – Buy 575 lb steer on 10/14/15 ($193)
  – Sell 800 lb steer on 02/01/16 ($167) {2.03 ADG}
  • VOG: $100/cwt

• IF COG $80/cwt THEN Exp. Profit = +/- $50/hd
Salina, KS 9/23/15 situation:

– Plan to sell 800 lb steers on 2/1/16
– Current Exp. Price = $169/cwt
– Interested in downside price protection

–USE:

*FeederCattleRiskMgmtTool.xlsx*

http://www.agmanager.info/Tools/default.asp#LIVESTOCK
Stocker - Feeder Cattle Output Price Hedging Considerations (as of 9/23/15)

• Sell 800 lb steers on 2/1/16
• Compare alternatives:
  - 250 hd on LRP:
    - Coverage Price $161.01 & Premium of $3.114
  - 4 FC Futures Contracts (+/- 63 hd per contract)
    - MAR FC @ $176 & Exp. Basis: -$7.42
  - 4 FC Options Contracts
    - MAR Put @ $168 & Premium of $5.525
  - Cash
    - Expected Price of $169/cwt

http://www.agmanager.info/Tools/default.asp#LIVESTOCK
(FeederCattleRiskMgmtTool.xlsx)
### Stocker - Feeder Cattle Output Price Hedging Considerations (as of 9/23/15)

<table>
<thead>
<tr>
<th>Futures</th>
<th>LRP</th>
<th>Put</th>
<th>Call</th>
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<td>Premium, $/cwt</td>
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### Expected Net Selling Prices

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<td>$172.55</td>
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$10.00 $\leq$ futures price increment

Signifies maximum price in row

http://www.agmanager.info/Tools/default.asp#LIVESTOCK
(FeederCattleRiskMgmtTool.xlsx)
Stocker - Feeder Cattle Output Price
Hedging Considerations (as of 9/23/15)

Comparison of Alternative Expected Net Selling Prices

- Cash
- Futures Hedge
- LRP, ($161)
- Put, ($168)
- Hedge & Call, ($180)
- Put & Call, ($168/$178)

http://www.agmanager.info/Tools/default.asp#LIVESTOCK
(FeederCattleRiskMgmtTool.xlsx)
Stocker Research of Note:
Emily Mollohan’s MS Thesis

• 1993-2013 Calf (500#) and Yearling (700#) Prices

• 1% increase in corn price:
  – Drops Calf-Yearling price spread by 0.37%

• 1% increase in expected fed cattle price:
  – Expands Calf-Yearling price spread by 1.17%
Stocker Research of Note: Emily Mollohan’s MS Thesis

• 1993-2013 Calf (500#) and Yearling (700#) Prices
• +1% corn price: -0.37% price spread
• +1% expected fed cattle price: +1.17% price spread

• Consider 9/1 to 9/24 Changes:
  – Dec. C: +3.3% ($3.80 vs. $3.68) = -1.2% calf-yearling spread
  – Feb. LC: -5.6% ($135 vs $143) = -6.5% calf-yearling spread

• 9/1 to 9/18 KS (Combined Auctions) 500-550 vs 700-750:
  – -$6.93/cwt ($32 vs $39)
Economic Outlook Overview: Feedlots

• 2015 cash returns continue to worsen

• 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
Historical and Projected Kansas Feedlot Net Returns  
(as of 9/10/15’)

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

**July 15’: -$156/steer**

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

<table>
<thead>
<tr>
<th>Closeout Mo-Yr</th>
<th>Net Return</th>
<th>FCOG**</th>
<th>Fed Price</th>
<th>Feeder Price</th>
<th>Breakeven FCOG**</th>
<th>Breakeven Fed Price</th>
<th>Breakeven Feeder Price</th>
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<td>Aug-15</td>
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*Representative Barometer for Trends in Profitability
Historical and Projected Kansas Feedlot Net Returns (as of 9/10/15)

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

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

Jan 2002-Jul 2015: Avg=$-26.77; Min=$-293.59; Max=$321.13
Historical and Projected Kansas Feedlot Net Returns (as of 9/10/15’)

(https://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

Feb 2016 (projected): -$211
Previous worst ($-193) was July 2013
Cattle on Feed (9/18 report)

• Sept 1 On Feed: +3%
  – Vs. +3.7% pre-report est. (+2.2%, +4.0%)
    • KS: Flat @ 100% of last year

• Aug. Placements: -5%
  – Vs. +0.3% pre-report est. (-2.3%, +3.2%)
    • KS: -10% vs. last yr; largest drop of 3 main states

• Aug. Marketings: -6%
  – Vs. -6.2% pre-report est. (-6.6%, -3.7%)
    • KS: -10% (NE: -4%, TX -7%)

➢ KS #s consistent w/ “heavy cattle stacking up” in Aug-Sep
## Quarterly Forecasts (LMIC: 9/28/15)

<table>
<thead>
<tr>
<th>Year Quarter</th>
<th>Comm'l from Slaughter</th>
<th>% Chg. from Year Ago</th>
<th>Average Dressed Weight</th>
<th>% Chg. from Year Ago</th>
<th>Comm'l from Beef Production</th>
<th>% Chg. from Year Ago</th>
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<tr>
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### Quarterly Forecasts (LMIC: 9/28/15)

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<th>Quarter</th>
<th>Live Sltr. Steer Price 5-Mkt Avg</th>
<th>% Chg. Year Ago</th>
<th>Feeder Steer Price from Southern Plains</th>
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<th>5-600#</th>
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Trade & Meat Supplies
Maintain Context
2015 To-Date & 2014 Choice Cutout Values

Source: USDA
LM_XB403, LMIC, Tonsor Analysis

**Choice Cutout Value - 2014**

- Equation: $y = 0.0968x - 3808.6$
- $R^2 = 0.5509$

**Choice Cutout Value - 2015 To-Date**

- Equation: $y = -0.0554x + 2582.2$
- $R^2 = 0.2023$
## 2015 To-Date & 2014 Choice Cutout Values

### Choice Cutout Value Changes (as of 9/22/15)

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<th>RIB</th>
<th>CHUCK</th>
<th>ROUND</th>
<th>LOIN</th>
<th>BRISKET</th>
<th>PLATE</th>
<th>FLANK</th>
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<td>Since 9/1/15:</td>
<td><strong>-$18.44</strong></td>
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<td><strong>-$13.24</strong></td>
<td><strong>-$14.17</strong></td>
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<td><strong>-$12.13</strong></td>
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<td><strong>-10%</strong></td>
<td><strong>-7%</strong></td>
<td><strong>-7%</strong></td>
<td><strong>-8%</strong></td>
<td><strong>-7%</strong></td>
<td><strong>-4%</strong></td>
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<td><strong>-12%</strong></td>
<td><strong>-13%</strong></td>
<td><strong>-12%</strong></td>
<td><strong>-12%</strong></td>
<td><strong>-9%</strong></td>
<td><strong>-8%</strong></td>
<td><strong>-20%</strong></td>
<td><strong>-21%</strong></td>
</tr>
<tr>
<td>Since 1/2/15:</td>
<td><strong>-$25.06</strong></td>
<td><strong>-$25.40</strong></td>
<td><strong>-$35.20</strong></td>
<td><strong>-$35.90</strong></td>
<td><strong>$10.75</strong></td>
<td><strong>-$64.54</strong></td>
<td><strong>-$33.02</strong></td>
<td><strong>-$13.86</strong></td>
</tr>
<tr>
<td></td>
<td><strong>-10%</strong></td>
<td><strong>-8%</strong></td>
<td><strong>-16%</strong></td>
<td><strong>-15%</strong></td>
<td><strong>4%</strong></td>
<td><strong>-29%</strong></td>
<td><strong>-19%</strong></td>
<td><strong>-11%</strong></td>
</tr>
<tr>
<td>9/22/15 Values:</td>
<td><strong>$222.77</strong></td>
<td><strong>$307.33</strong></td>
<td><strong>$186.58</strong></td>
<td><strong>$202.67</strong></td>
<td><strong>$307.12</strong></td>
<td><strong>$156.99</strong></td>
<td><strong>$143.13</strong></td>
<td><strong>$117.02</strong></td>
</tr>
</tbody>
</table>

Source: USDA
LM_XB403, LMIC,
Tonsor Analysis
BEEF IN COLD STORAGE
End of the Month

Mil. Pounds

Data Source: USDA/NASS
Livestock Marketing Information Center
PORK IN COLD STORAGE
Frozen and Cured, End of the Month

Mil. Pounds

Data Source: USDA/NASS
Livestock Marketing Information Center
Total Red Meat in Cold Storage (End of Month)

\[ y = 0.0527x - 1118.8 \]

\[ R^2 = 0.7683 \]
COMMERCIAL BEEF PRODUCTION
US, Quarterly

Bil. Pounds

JAN-MAR | APR-JUN | JUL-SEP | OCT-DEC

Avg. 2010/14 | 2015 | 2016 | 2017

Data Source: USDA-NASS, Compiled & Analysis by LMIC
Livestock Marketing Information Center
TOTAL RED MEAT & POULTRY PRODUCTION
US, Quarterly

Bil. Pounds

JAN-MAR | APR-JUN | JUL-SEP | OCT-DEC

| Avg. 2010/14 | 2015 | 2016 | 2017 |

Data Source: USDA-NASS, Compiled & Analysis by LMIC
Livestock Marketing Information Center
### USDA Long-Term projections (2015-2024)

<table>
<thead>
<tr>
<th>Year</th>
<th>Red Meat</th>
<th>Poultry</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>120</td>
<td>87</td>
<td>208</td>
</tr>
<tr>
<td>2008</td>
<td>113</td>
<td>103</td>
<td>216</td>
</tr>
<tr>
<td>2013</td>
<td>104</td>
<td>99</td>
<td>204</td>
</tr>
<tr>
<td>2014</td>
<td>102</td>
<td>100</td>
<td>202</td>
</tr>
<tr>
<td>2015</td>
<td>105</td>
<td>105</td>
<td>210</td>
</tr>
<tr>
<td>2024</td>
<td>103</td>
<td>112</td>
<td>215</td>
</tr>
</tbody>
</table>

**Recent NEXT 5 YEARS**

Per capita meat consumption, retail weight

- **Beef**
  - 2013: 56.3 lbs
  - 2014: 54.6 lbs
  - 2015: 52.2 lbs
  - 2016: 49.4 lbs
  - 2017: 48.5 lbs
  - 2018: 49.1 lbs
  - 2019: 49.8 lbs
  - 2024: 52.4 lbs

- **Pork**
  - 2013: 46.8 lbs
  - 2014: 45.3 lbs
  - 2015: 46.6 lbs
  - 2016: 48.5 lbs
  - 2017: 48.8 lbs
  - 2018: 49.1 lbs
  - 2019: 49.3 lbs
  - 2024: 49.5 lbs

- **Total red meat**
  - 2013: 104.4 lbs
  - 2014: 101.1 lbs
  - 2015: 99.9 lbs
  - 2016: 99.0 lbs
  - 2017: 98.4 lbs
  - 2018: 99.3 lbs
  - 2019: 100.1 lbs
  - 2024: 102.9 lbs

- **Broilers**
  - 2013: 81.9 lbs
  - 2014: 83.4 lbs
  - 2015: 85.4 lbs
  - 2016: 86.7 lbs
  - 2017: 88.1 lbs
  - 2018: 89.2 lbs
  - 2019: 90.2 lbs
  - 2024: 93.1 lbs

- **Turkeys**
  - 2013: 16.0 lbs
  - 2014: 15.7 lbs
  - 2015: 15.8 lbs
  - 2016: 16.2 lbs
  - 2017: 16.5 lbs
  - 2018: 16.7 lbs
  - 2019: 16.8 lbs
  - 2024: 17.3 lbs

- **Total poultry**
  - 2013: 99.2 lbs
  - 2014: 100.3 lbs
  - 2015: 102.5 lbs
  - 2016: 104.2 lbs
  - 2017: 106.0 lbs
  - 2018: 107.3 lbs
  - 2019: 108.4 lbs
  - 2024: 111.9 lbs

- **Red meat & poultry**
  - 2013: 203.6 lbs
  - 2014: 201.4 lbs
  - 2015: 202.3 lbs
  - 2016: 203.2 lbs
  - 2017: 204.4 lbs
  - 2018: 206.5 lbs
  - 2019: 208.5 lbs
  - 2024: 214.8 lbs

**2024 (215 lbs) < 2008 (216 lbs)**
US BEEF AND VEAL EXPORTS
Carcass Weight, Annual

Bil. Pounds


Data Source: USDA-ERS & USDA-FAS, Compiled & Analysis by LMIC
Livestock Marketing Information Center
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
Data Source: USDA-ERS & USDA-FAS, Compiled & Analysis by LMIC
Livestock Marketing Information Center
STEER HIDE AND OFFAL VALUE
Live Animal Basis, Weekly

$ Per Cwt.

<table>
<thead>
<tr>
<th></th>
<th>JAN</th>
<th>APR</th>
<th>JUL</th>
<th>OCT</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-13</td>
<td>Avg.</td>
<td>2014</td>
<td>2015</td>
<td></td>
</tr>
</tbody>
</table>

Data Source: USDA-AMS
Livestock Marketing Information Center
Annual, All Fresh Beef Demand Index (1990=100)

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
Q2.2015 = +7.2%
Yr-over-Yr increases in 19 of last 20 quarters!

Q2.2015: Per Capita Consumption = -2.8% (Year-over-Year)
Real All Fresh Beef Prices = +10.5% ($6.07/lb nominal price)

*IF* Real All Fresh Beef Prices +3.1% = 0% Demand Change

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

http://www.agmanager.info/livestock/marketing/Beef%20Demand/default.asp
## 2015 (To-Date) vs. 2014 Retail Prices

<table>
<thead>
<tr>
<th>Series</th>
<th>Old</th>
<th>Fresh</th>
<th>Pork Retail</th>
<th>Broiler Retail</th>
<th>Turkey Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Beef</td>
<td>Beef</td>
<td>Price</td>
<td>Price</td>
<td>Price</td>
</tr>
<tr>
<td>2015</td>
<td>Q1</td>
<td>602.1</td>
<td>393.5</td>
<td>154.7</td>
<td>147.6</td>
</tr>
<tr>
<td></td>
<td>Q2</td>
<td>606.5</td>
<td>372.3</td>
<td>151.2</td>
<td>151.8</td>
</tr>
<tr>
<td></td>
<td>Q3 thru Aug</td>
<td>612.3</td>
<td>380.2</td>
<td>145.8</td>
<td>155.7</td>
</tr>
<tr>
<td>2014</td>
<td>Q1</td>
<td>522.1</td>
<td>377.2</td>
<td>152.6</td>
<td>171.5</td>
</tr>
<tr>
<td></td>
<td>Q2</td>
<td>548.5</td>
<td>405.5</td>
<td>153.0</td>
<td>160.6</td>
</tr>
<tr>
<td></td>
<td>Q3 thru Aug</td>
<td>567.5</td>
<td>416.4</td>
<td>153.4</td>
<td>162.3</td>
</tr>
</tbody>
</table>

### 2015 vs. 2014 ($/cwt)

<table>
<thead>
<tr>
<th></th>
<th>Q1</th>
<th>Q2</th>
<th>Q3 thru Aug</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>80.1</td>
<td>58.0</td>
<td>44.9</td>
</tr>
<tr>
<td>2014</td>
<td>16.3</td>
<td>-33.2</td>
<td>-36.2</td>
</tr>
<tr>
<td>2015 vs. 2014 (%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1</td>
<td>15%</td>
<td>4%</td>
<td>1%</td>
</tr>
<tr>
<td>Q2</td>
<td>11%</td>
<td>-8%</td>
<td>-1%</td>
</tr>
<tr>
<td>Q3 thru Aug</td>
<td>8%</td>
<td>-9%</td>
<td>-5%</td>
</tr>
</tbody>
</table>

Source: USDA/ERS
Take-Home Summary Points

• Industry at tipping point on role of tight supplies

• Demand’s role will become clearer going forward

• 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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