

Beef-Cattle

Market Outlook Update

2014 Wheat Pasture and Stocker Cattle Management Seminar
Greensburg, KS Kiowa County Research and Extension
November 4, 2014

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Dept. of Agricultural Economics Kansas State University



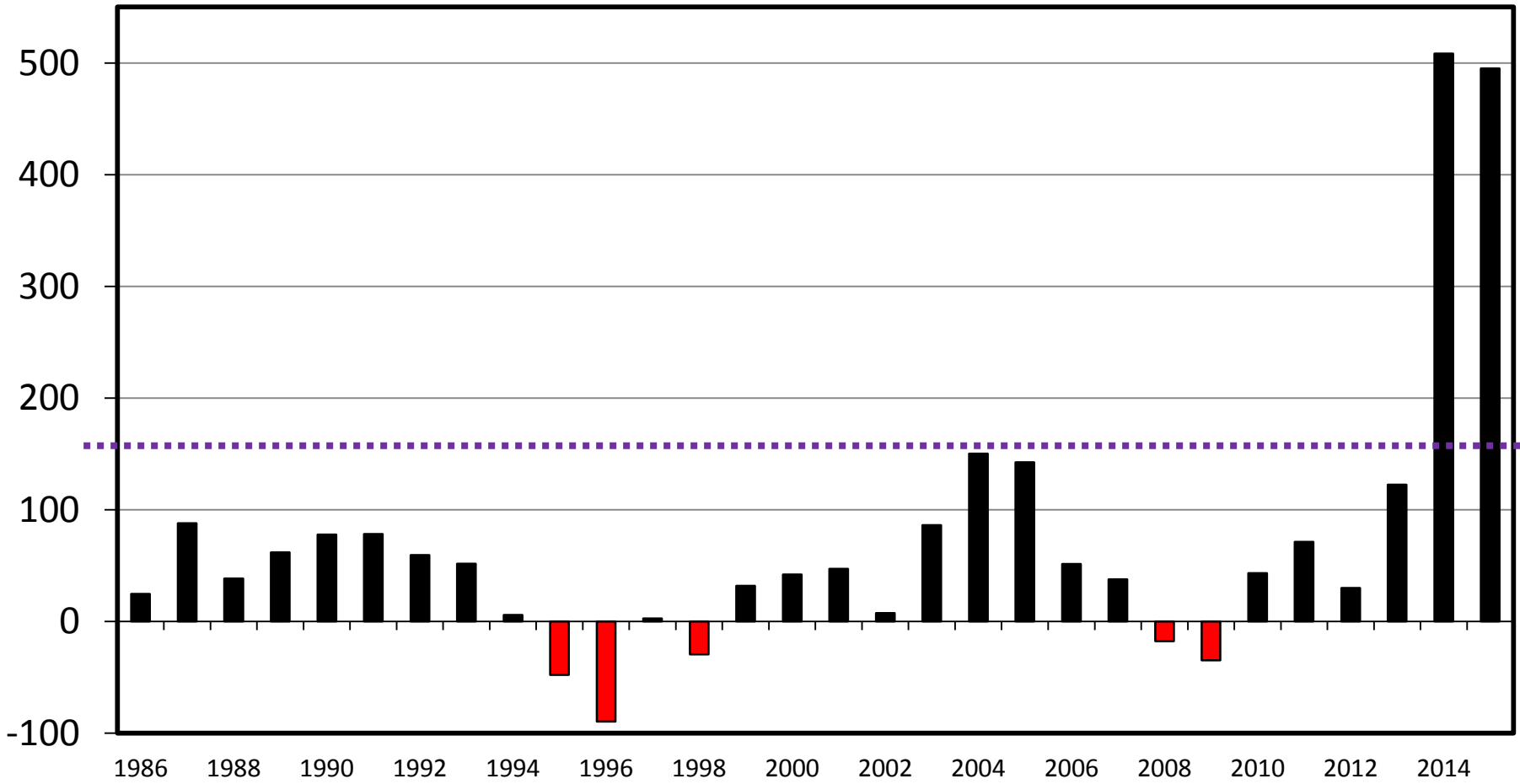
Overarching Beef Industry Economic Outlook

- Supplies
 - Continued pull down, both in # of head & beef lbs
 - Mixed herd expansion signals...
- Demand
 - Confusing yet positive: Q3.2014 continued trend
 - Far less certain (and understood) than supply situation...
- Combined:
 - “Historic” price levels, excitement, & uncertainty...

ESTIMATED AVERAGE COW CALF RETURNS

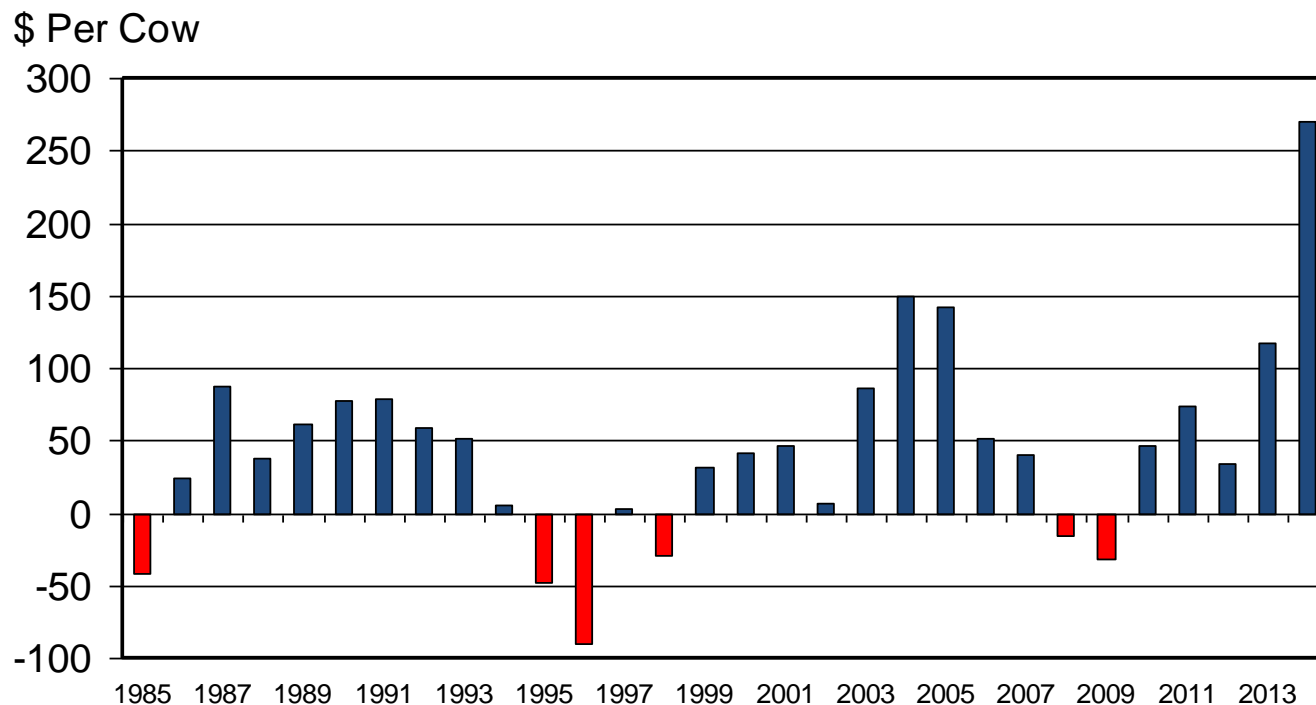
Returns Over Cash Cost (Includes Pasture Rent), Annual

\$ Per Cow



What will it take to trigger herd expansion?

ESTIMATED AVERAGE COW CALF RETURNS Returns Over Cash Cost (Includes Pasture Rent), Annual



Livestock Marketing Information Center

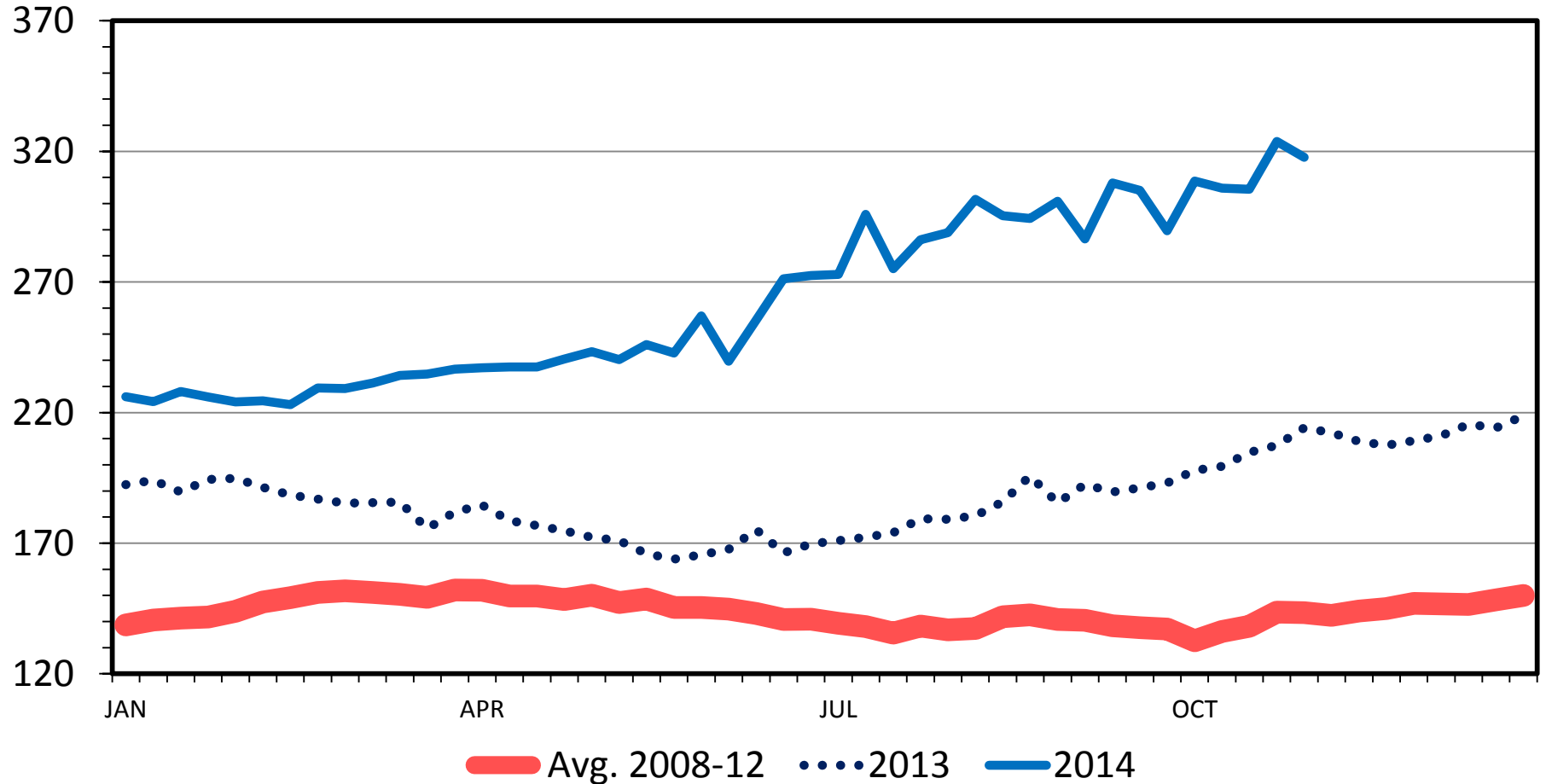
Data Source: USDA-AMS & USDA-NASS, Compiled & Analysis by LMIC

C-P-66
07/31/13

MED. & LRG. #1 STEER CALF PRICES

400-500 Pounds, Southern Plains, Weekly

\$ Per Cwt.



C-P-49A

11/03/14

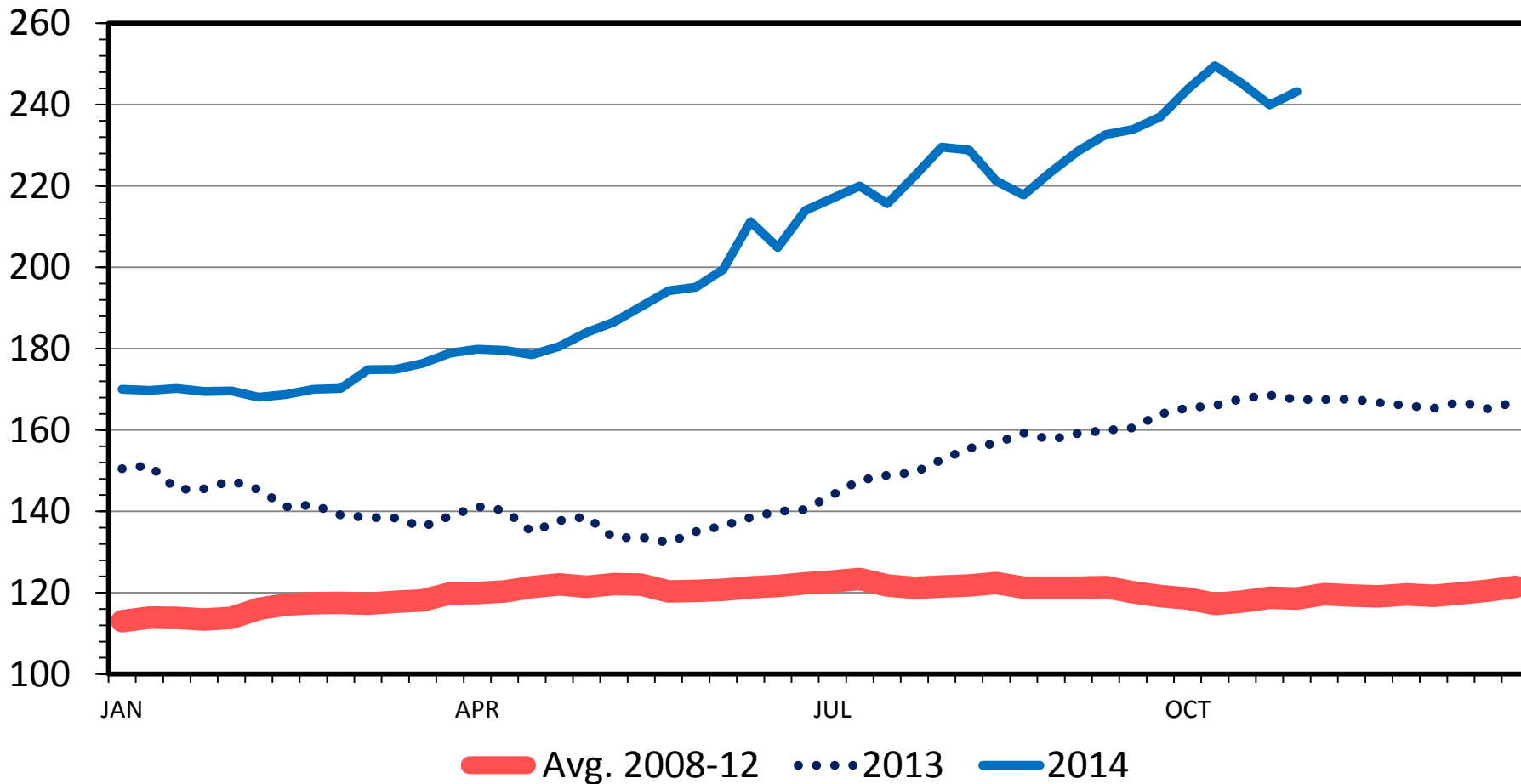
Data Source: USDA-AMS, Compiled & Analysis by LMIC

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MED. & LRG. #1 FEEDER STEER PRICES

700-800 Pounds, Southern Plains, Weekly

\$ Per Cwt.



KS Steers Assessment

400-500 cwt vs. 700-800 cwt Relationships

- \$/cwt price spread has increased = sticker shock...
- BUT look at relative price ...
 - Old rules of thumb need not apply

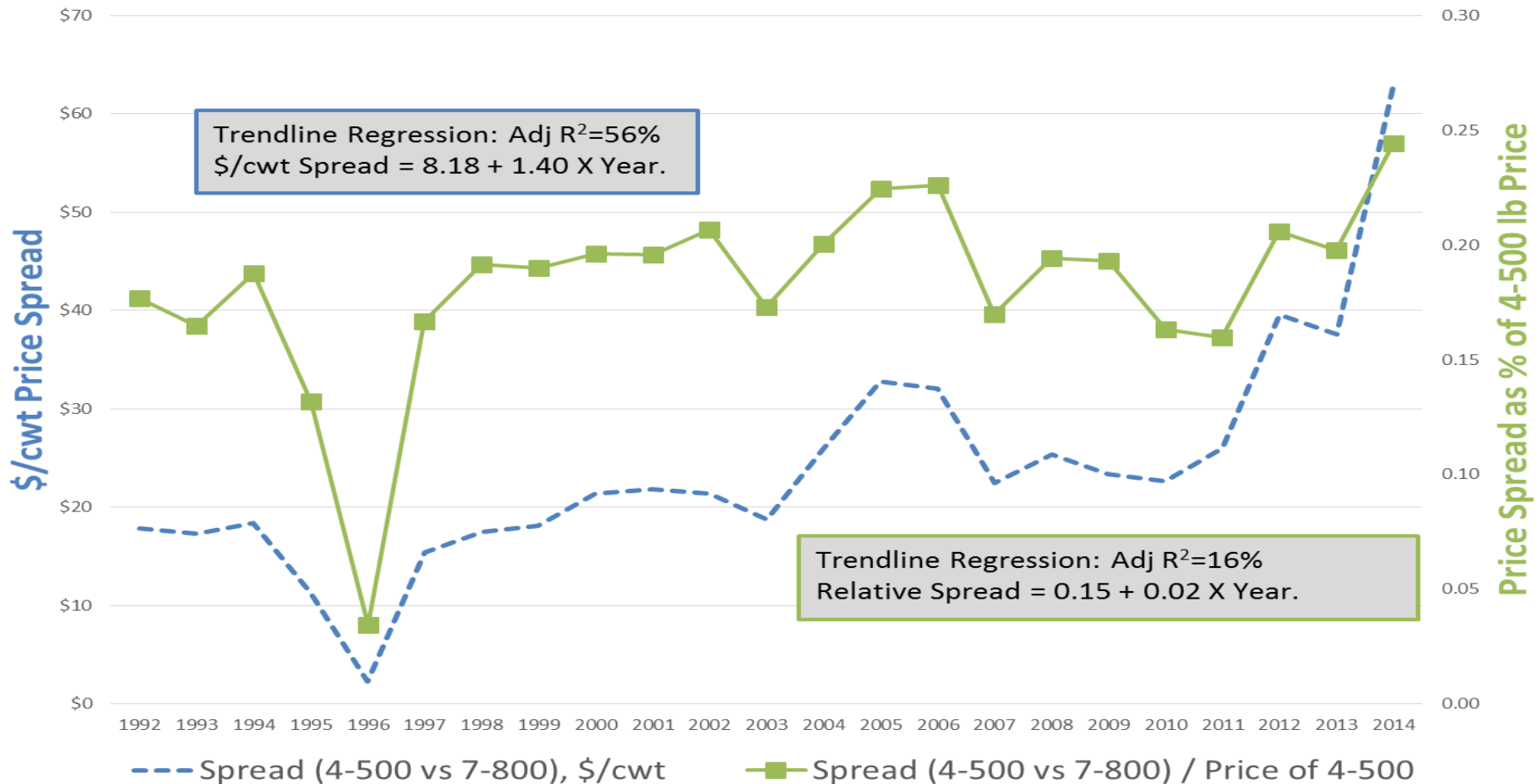
Year	Spread (4-500 vs 7-800), \$/cwt	Spread (4-500 vs 7-800) / Price of 4-500
1992-1995	16.20	0.17
1996-2000	14.92	0.16
2001-2005	24.13	0.20
2006-2010	25.17	0.19
2011	25.99	0.16
2012	39.53	0.21
2013	37.57	0.20
2014	62.69	0.24

KS Steers Assessment

400-500 cwt vs. 700-800 cwt Relationships

– Old rules of thumb need not apply ([Peel, 9/22 Cow-Calf Corner](#))

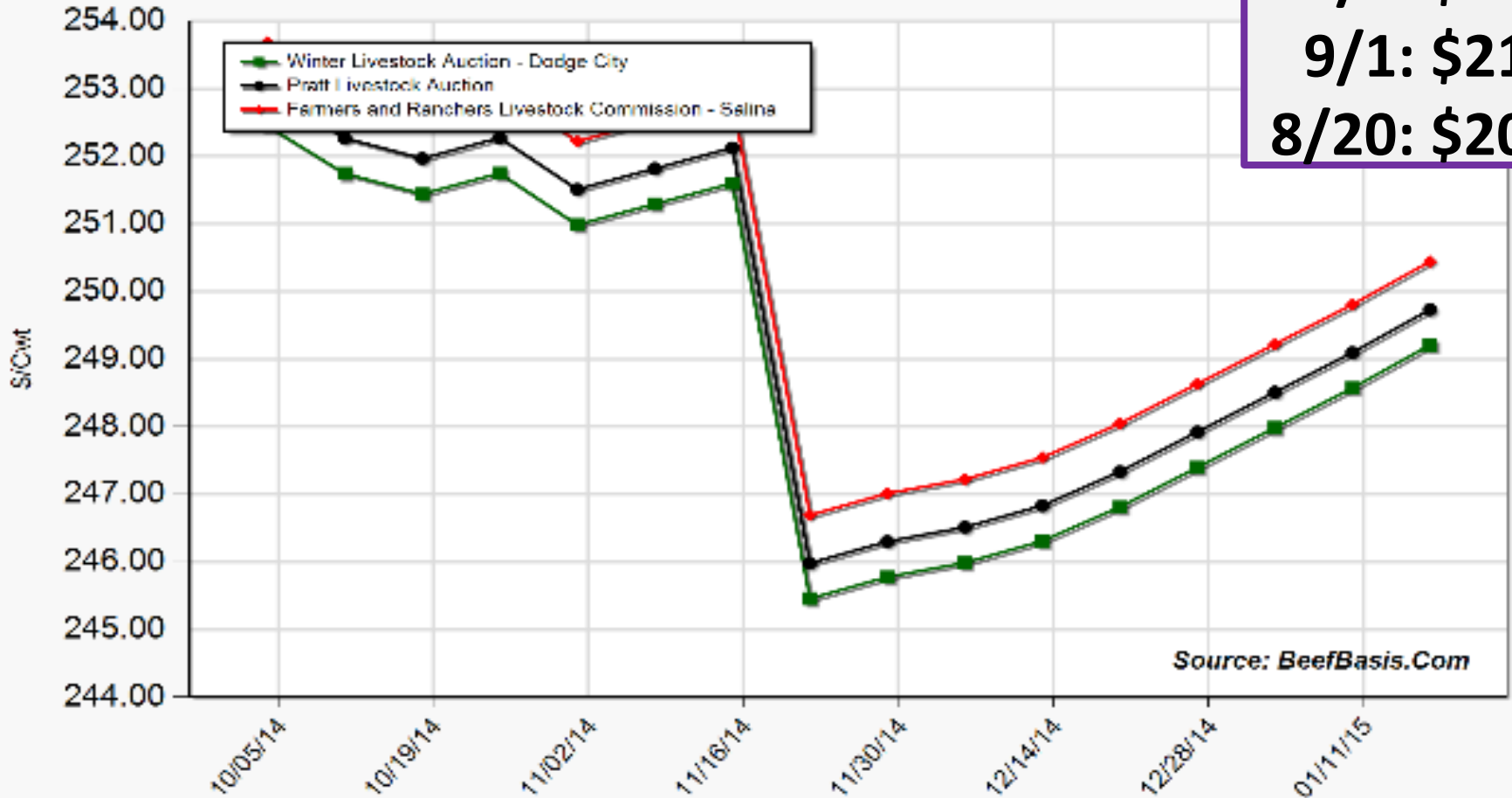
KS Steers 400-500 cwt & 700-800 cwt,
Relative Price Relationships



As of: 10/3/14'

Nov FC:
11/4: \$236
10/1: \$235
9/1: \$217
8/20: \$209

Projected Price for 550 Lb Steer at Selected Kansas Auctions

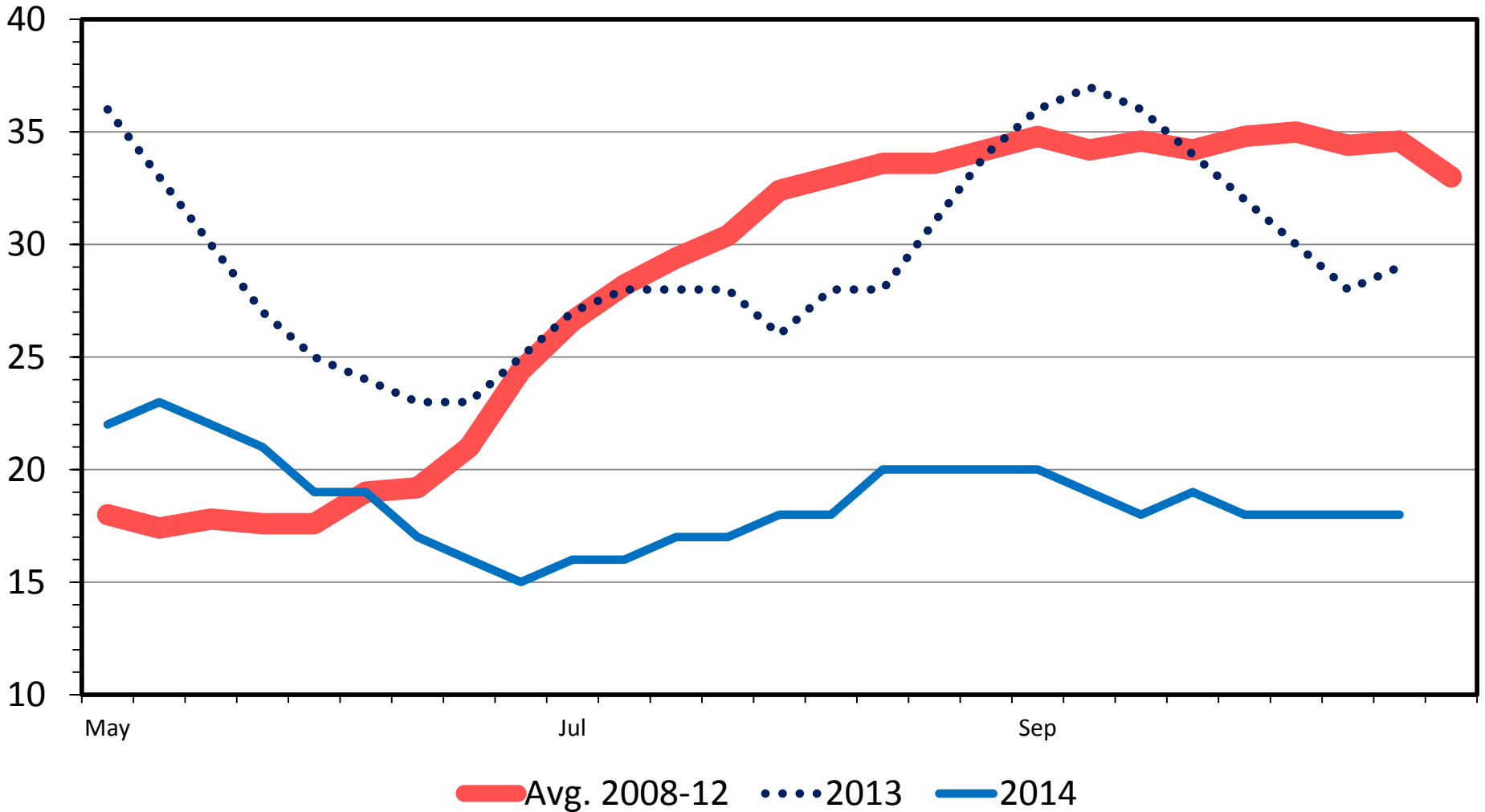


Source: BeefBasis.Com

US RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly

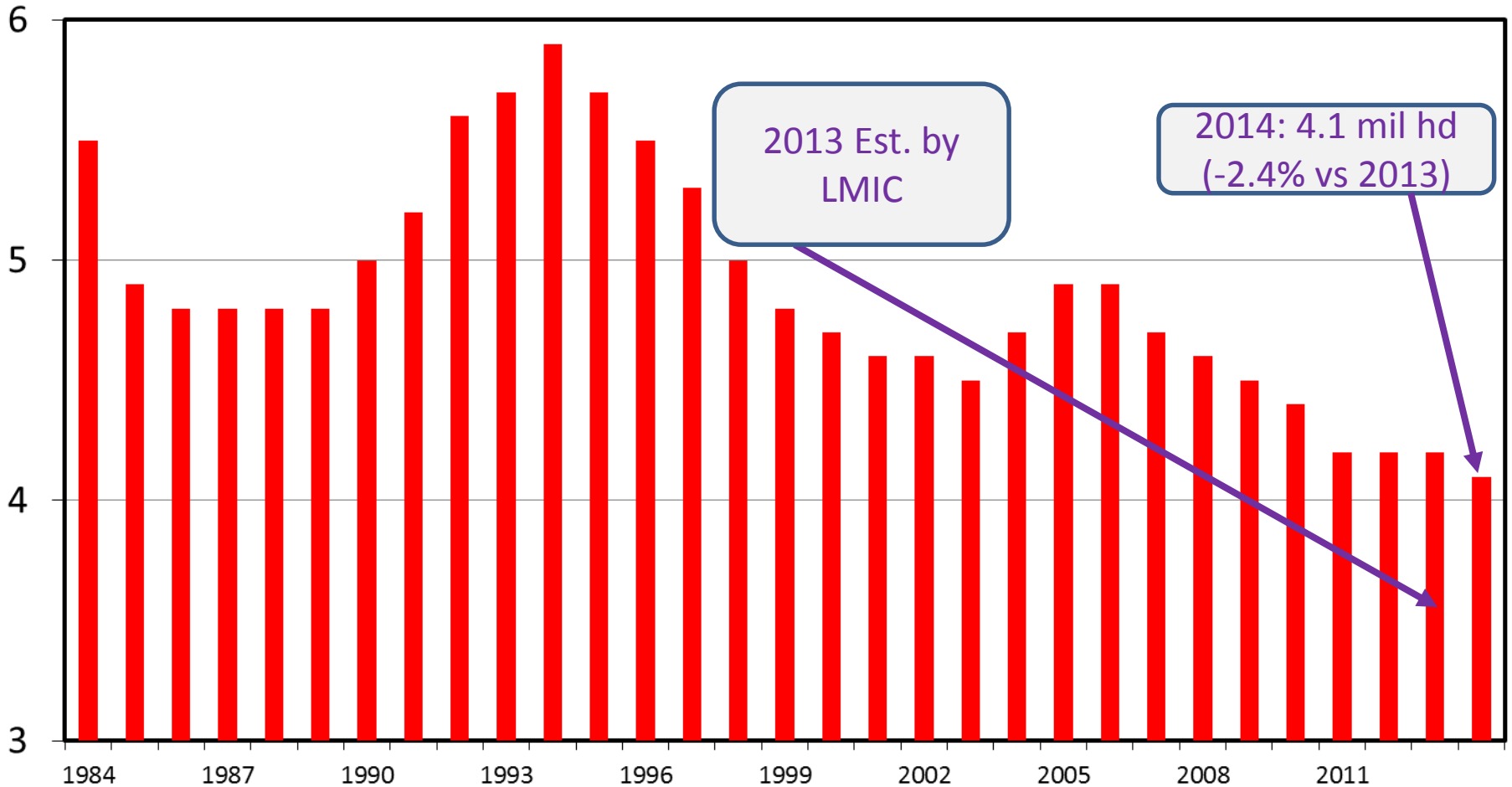
Percent



HEIFERS HELD AS BEEF COW REPLACEMENTS

July 1, U.S.

Mil. Head



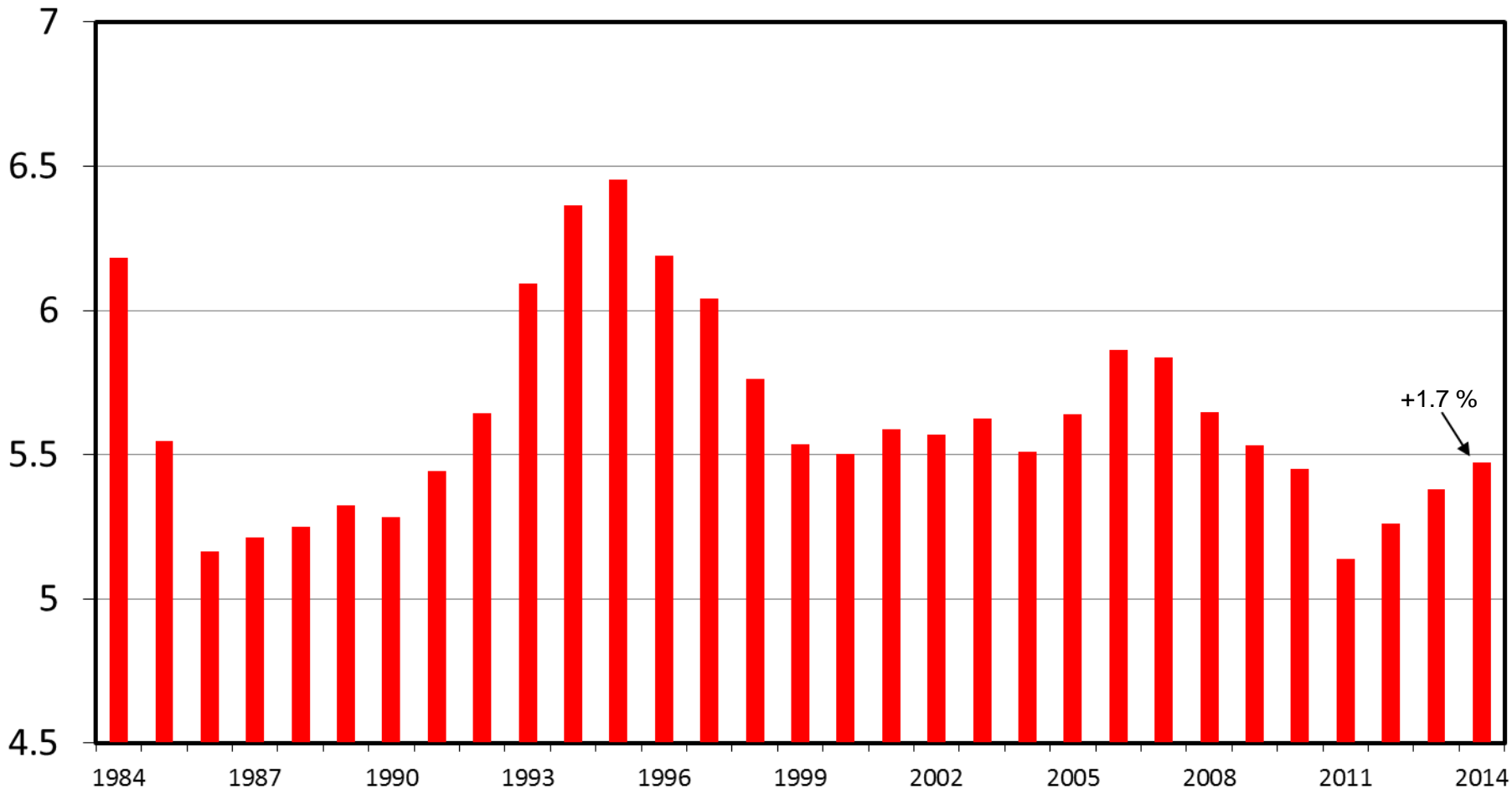
2013 Est. by LMIC

2014: 4.1 mil hd (-2.4% vs 2013)

HEIFERS HELD AS BEEF COW REPLACEMENTS

January 1, U.S.

Mil. Head



+1.7%

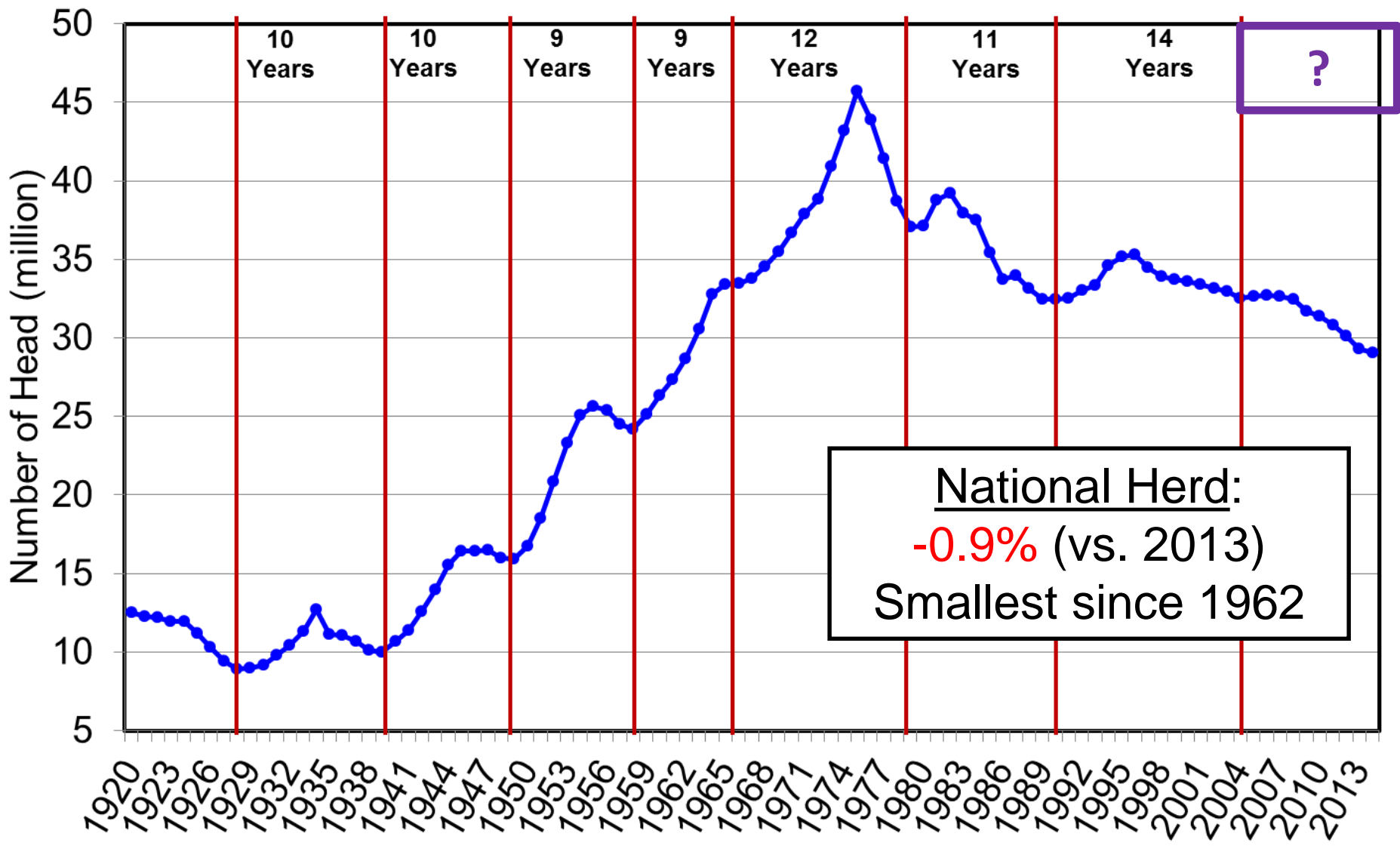
Data Source: USDA-NASS

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C-N-38
07/28/14

Pending Expansion? – How Fast?, How Large?, How Long?...

January 1 U.S. Beef Cow Inventory



How Much Expansion? ERS & FAPRI Herd Projections

<http://www.ers.usda.gov/publications/oc-usda-agricultural-projections.aspx>

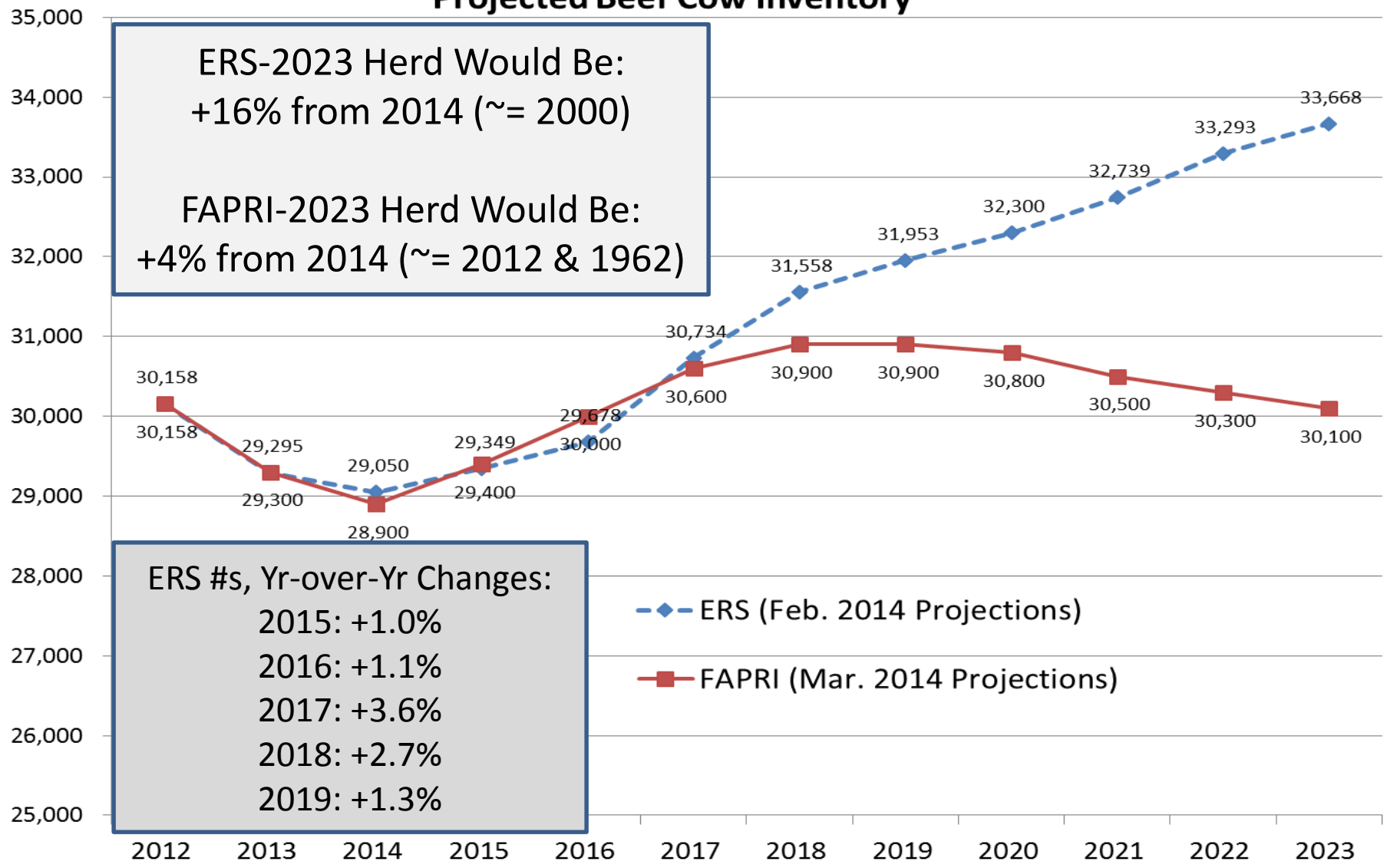
[http://www.fapri.missouri.edu/outreach/publications/2014/FAPRI MU Report 02 14.pdf](http://www.fapri.missouri.edu/outreach/publications/2014/FAPRI_MU_Report_02_14.pdf)

Projected Beef Cow Inventory

ERS-2023 Herd Would Be:
+16% from 2014 (~= 2000)

FAPRI-2023 Herd Would Be:
+4% from 2014 (~= 2012 & 1962)

Beef Cow Inventory (1,000 head)



ERS #s, Yr-over-Yr Changes:

- 2015: +1.0%
- 2016: +1.1%
- 2017: +3.6%
- 2018: +2.7%
- 2019: +1.3%

—◆— ERS (Feb. 2014 Projections)
—■— FAPRI (Mar. 2014 Projections)

Economic Outlook Overview: Stockers

- Attractive Values of Gain (VOG) vs. COG
 - For those in many stocker/backgrounding areas ...
 - Notably higher VOGs than feedlot COG projections (+/- \$82-85/cwt)
- Dodge City, KS 11/04/14 situation:
 - Buy 550 lb steer on 11/07/14 (\$248.64)
 - Sell 750 lb steer on 2/13/15 (\$221.21) {2.02 ADG}
 - VOG: \$145.80/cwt
 - ***IF COG \$90/cwt*** THEN Expected Profit = +/- \$110/hd
 - Note Total Cost > \$1,500/hd, reduces ROI for given \$X/hd

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Current Basis Projections
Understate Prices by \$30
(550lb) & \$15 (750lb)?
Drops Exp. VOG by
\$26/cwt

Economic Outlook Overview: Stockers

- **What about adding 100 more pounds?**

- Dodge City, KS 11/04/14 situation:

- Buy 550 lb steer on 11/07/14 (\$248.64)

- Sell 850 lb steer on 4/3/15 (\$213.40) {2.03 ADG}

- VOG: \$148.80/cwt

Economic Outlook Overview: Stockers

What about targeting lower ADG?

- Dodge City, KS 11/04/14 situation:
 - Buy 550 lb steer on 11/07/14 (\$248.64)
 - Sell 750 lb steer on 4/3/15 (\$221.91) {1.35 ADG}
 - VOG: \$148.41/cwt

Note this add 100 lbs less & ties up \$ same period as prior slide's case...

Economic Outlook Overview: Feedlots

- 2014 to-date has been MUCH better than 2013
- Fed-cattle break-even prices have risen rapidly...
- Excess capacity concerns persist:
 - Calf Crop, Heifer Retention, Plant Closures, & MCOOL...

Historical and Projected Kansas Feedlot Net Return (as of 10/08/14')

(<http://www.agmanager.info/livestock/marketing/outlook/newsletters/FinishingReturn>)

Dec LC:
11/4: \$166
10/1: \$164
9/1: \$155
8/1: \$156

Aug 14': +\$275/steer
(8th straight mo > \$125/steer – first sequence ever)

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

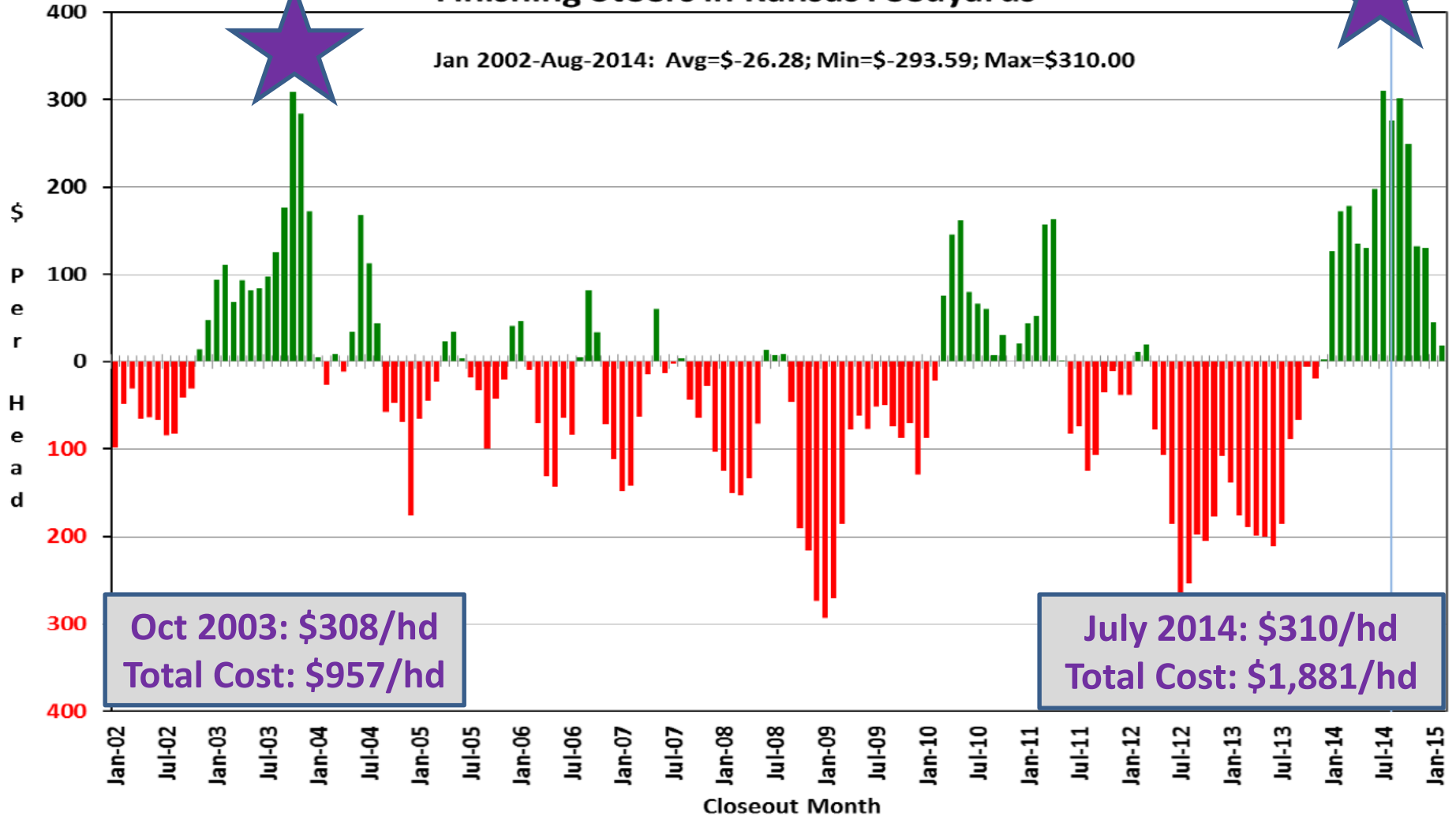
Closeout Mo-Yr	Net Return	FCOG**	Fed Price	Feeder Price	Breakeven FCOG**	Breakeven Fed Price	Breakeven Feeder Price
Sep-14	300.98	89.36	161.18	172.76	140.34	139.88	209.34
Oct-14	248.46	88.86	169.42	189.56	133.27	151.87	218.60
Nov-14	131.97	86.44	169.91	205.56	110.23	160.47	221.24
Dec-14	129.92	85.04	168.02	209.45	106.14	159.06	225.02
Jan-15	45.42	82.97	167.78	218.18	90.75	164.55	223.72
Feb-15	18.76	81.70	168.26	224.67	84.84	166.93	226.97

Representative Barometer for Trends in Profitability

Historical and Projected Kansas Feedlot Net Returns (as of 10/8/14')

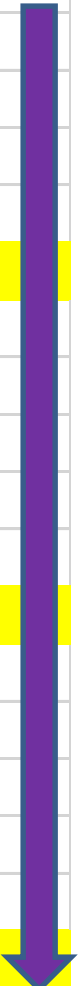
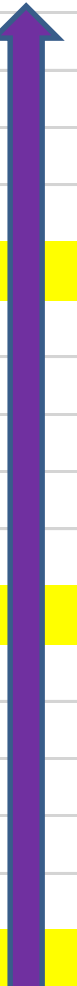
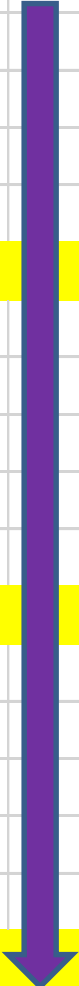
(<http://www.agmanager.info/livestock/marketing/outlook/newsletters/FinishingReturns/default.asp>)

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



Quarterly Forecasts (LMIC: 10/29/14)

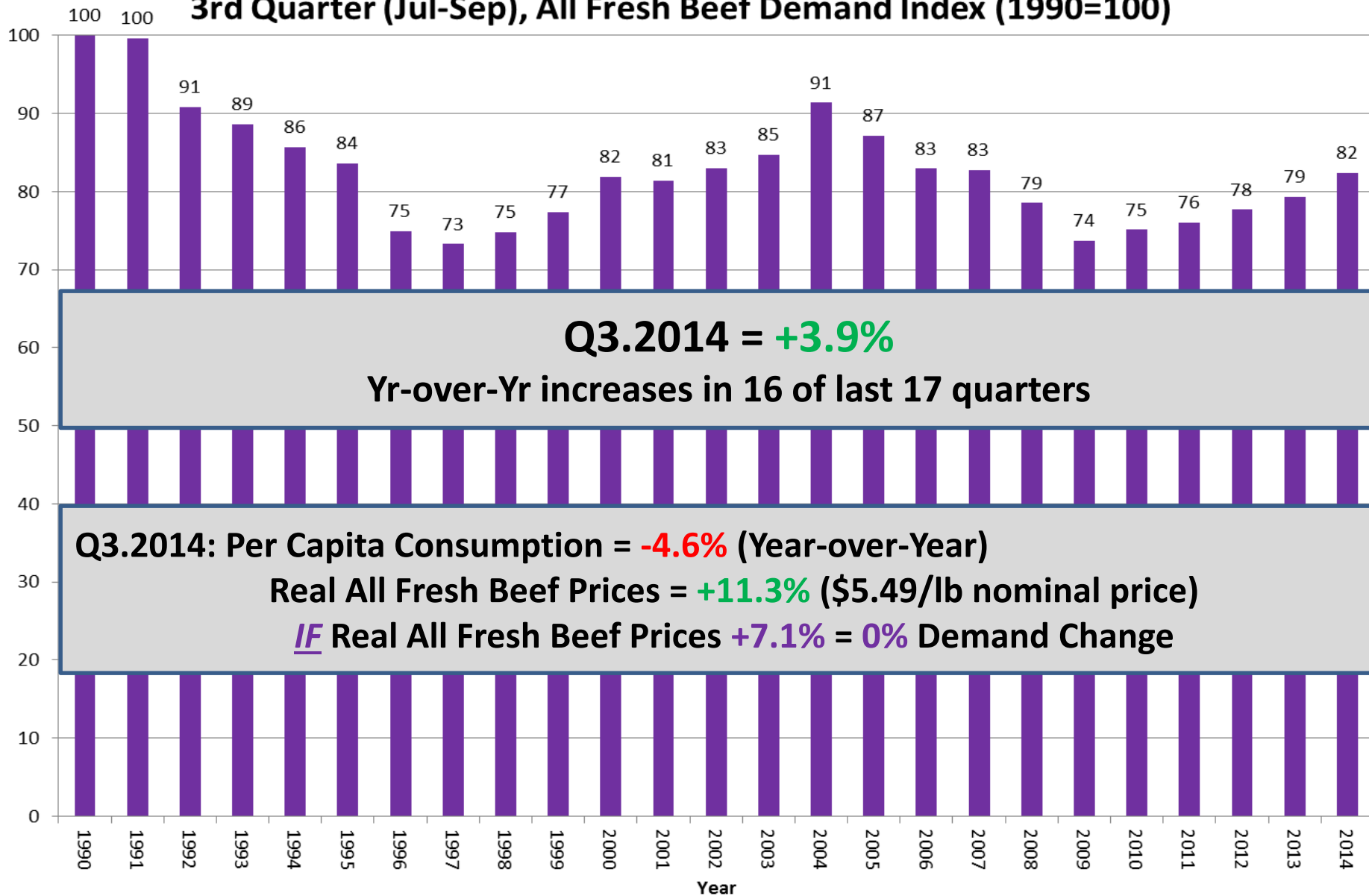
		% Chg.	Average	% Chg.	Comm'l	% Chg.
Year	Comm'l	from	Dressed	from	Beef	from
Quarter	Slaughter	Year Ago	Weight	Year Ago	Production	Year Ago
2014						
I	7,375	-5.2	795.7	0.3	5,868	-5.0
II	7,836	-5.9	789.0	0.9	6,183	-5.1
III	7,630	-8.3	809.6	1.9	6,178	-6.5
IV	7,517	-6.5	820.1	2.6	6,165	-4.0
Year	30,358	-6.5	803.5	1.4	24,394	-5.2
2015						
I	7,135	-3.3	812.6	2.1	5,798	-1.2
II	7,602	-3.0	799.5	1.3	6,078	-1.7
III	7,445	-2.4	814.8	0.6	6,066	-1.8
IV	7,414	-1.4	823.4	0.4	6,105	-1.0
Year	29,596	-2.5	812.5	1.1	24,047	-1.4
2016						
I	7,145	0.1	817.5	0.6	5,841	0.7
II	7,325	-3.6	804.9	0.7	5,896	-3.0
III	7,573	1.7	822.3	0.9	6,227	2.7
IV	7,333	-1.1	828.9	0.7	6,078	-0.4
Year	29,376	-0.7	818.4	0.7	24,042	0.0



Quarterly Forecasts (LMIC: 10/29/14)

Year Quarter	Live Sltr.	% Chg.	Feeder Steer Price	
	Steer Price	from	Southern Plains	
	5-Mkt Avg	Year Ago	7-800#	5-600#
2014				
I	146.34	16.6	171.77	209.30
II	147.82	18.3	193.16	227.67
III	158.49	29.6	225.93	263.14
IV	164-166	26.2	236-239	270-274
Year	154-155	22.7	206-208	242-244
2015				
I	164-167	13.1	232-236	274-280
II	164-168	12.3	234-240	278-285
III	161-166	3.2	230-237	271-280
IV	163-169	0.6	226-234	264-273
Year	163-167	6.8	231-236	272-279
2016				
I	164-171	1.2	225-234	272-283
II	164-172	1.2	228-238	275-288
III	160-169	0.6	226-237	268-282
IV	160-170	-0.6	220-232	262-277
Year	163-169	0.6	226-234	271-281

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



Q3.2014 = +3.9%
 Yr-over-Yr increases in 16 of last 17 quarters

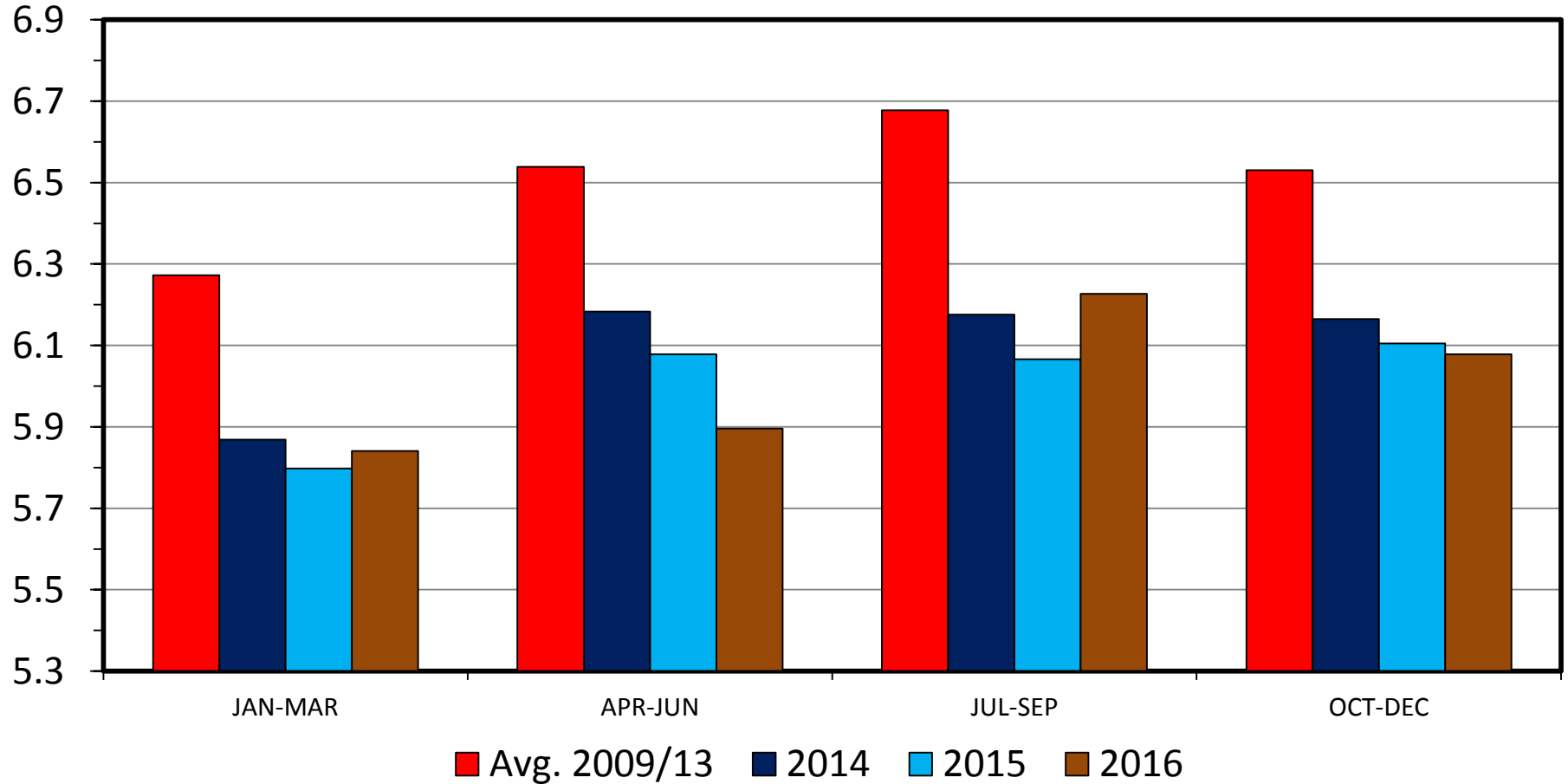
Q3.2014: Per Capita Consumption = -4.6% (Year-over-Year)
Real All Fresh Beef Prices = +11.3% (\$5.49/lb nominal price)
IF Real All Fresh Beef Prices +7.1% = 0% Demand Change

Source: Glynn T. Tonsor, Kansas State University, Oct. 2014

COMMERCIAL BEEF PRODUCTION

Quarterly

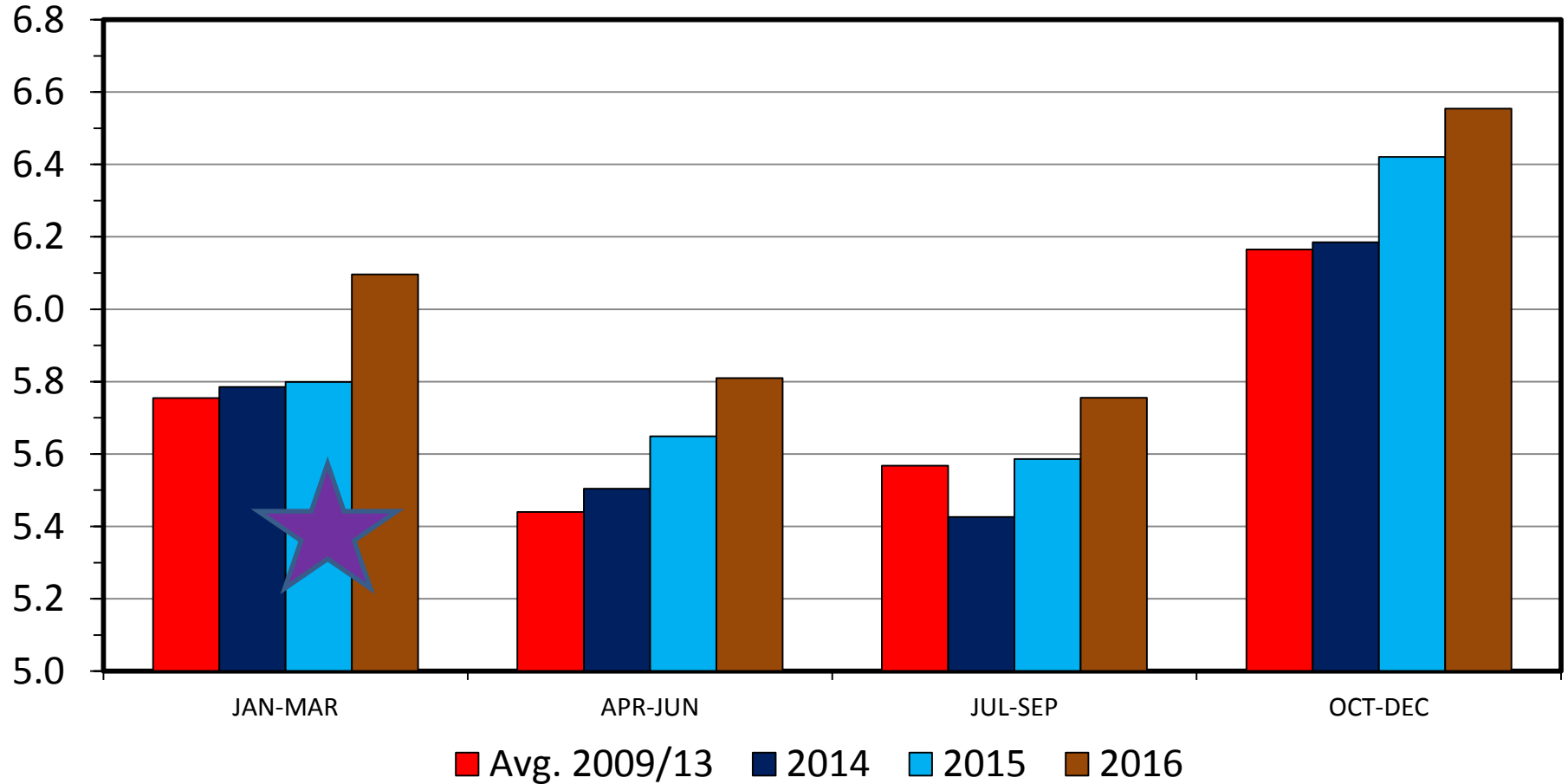
Bil. Pounds



COMMERCIAL PORK PRODUCTION

Quarterly

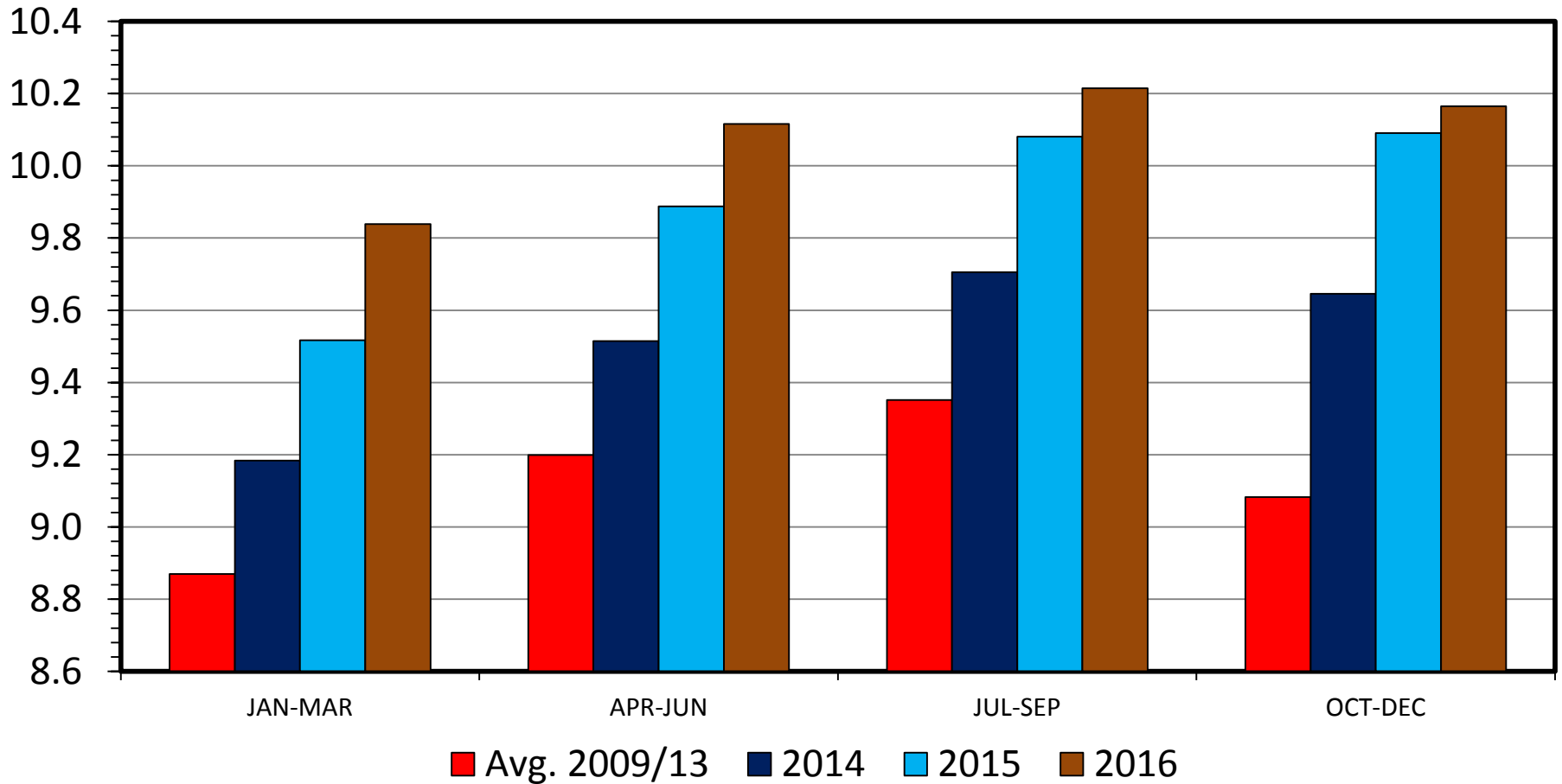
Bil. Pounds



RTC BROILER PRODUCTION

Quarterly

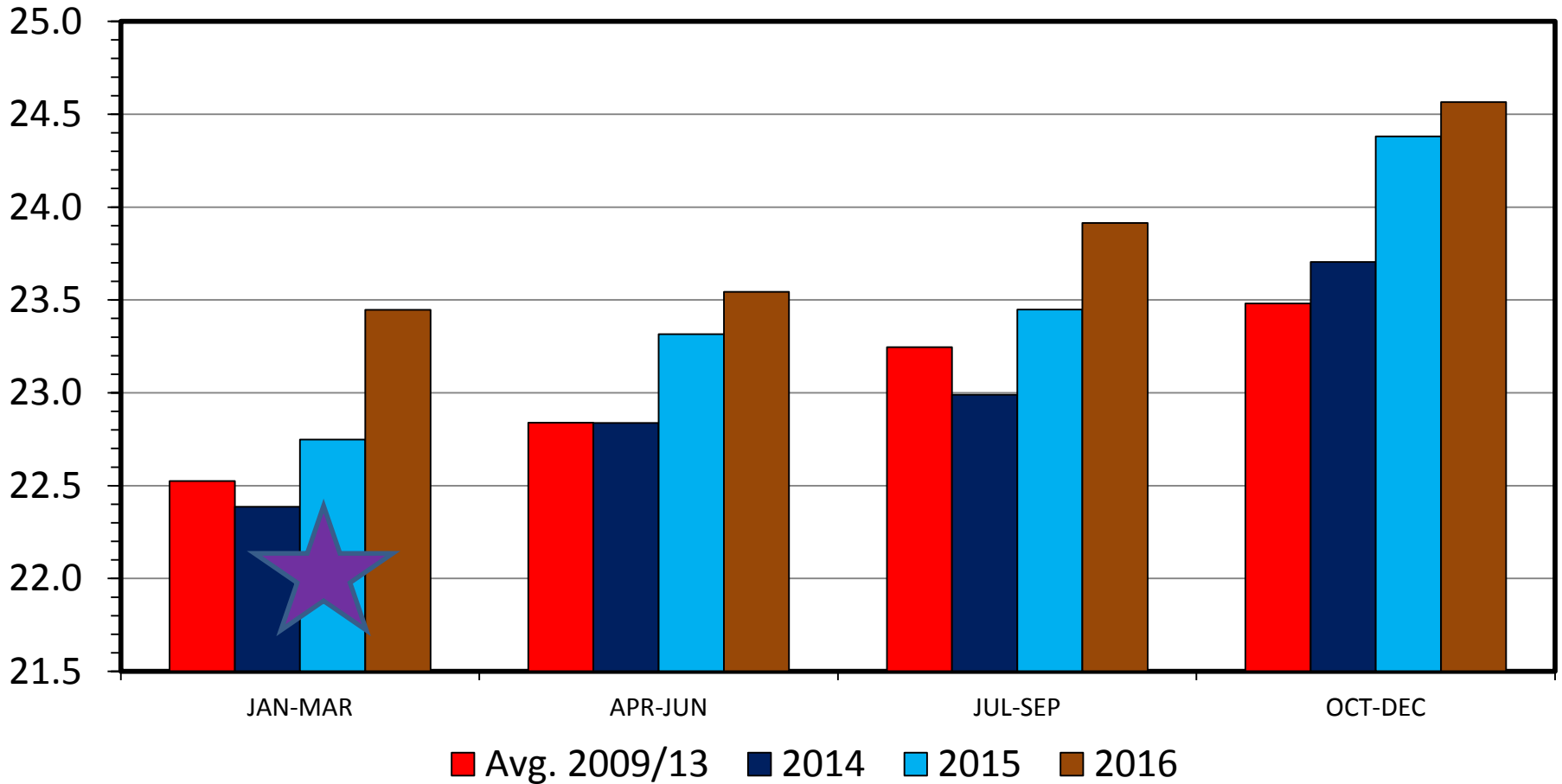
Bil. Pounds



TOTAL RED MEAT & POULTRY PRODUCTION

Quarterly

Bil. Pounds



Take-Home Summary Points

- Tight meat & live animal supplies +
- Strong retail meat demand +
- Pending (slow?) herd expansion =
- Record:
 - Prices throughout industry
 - Cash at-stake (so ROI may not be record)
 - Opportunity/Threat ... in the eye of the beholder...

Take-Home Summary Points: Wheat Pasture & Stocker Placement

- High expected VOG across various in/out wt/date scenarios
- Increasingly competitive COG #s from feedlots
- Old rules of thumb on \$/cwt “rollbacks” no longer apply
- Like other segments, capital requirements & exposure continue to increase...

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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November 11th

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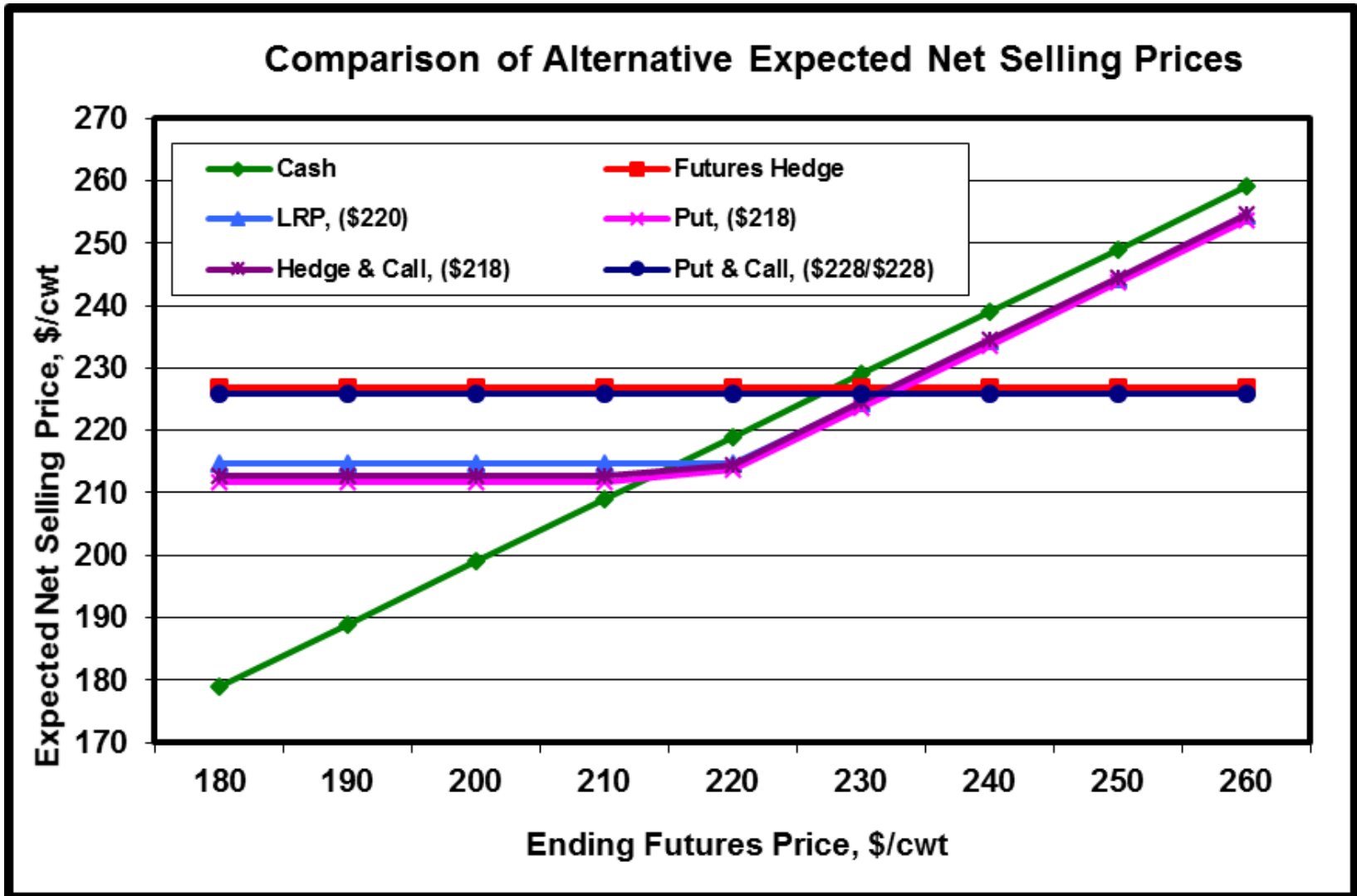
Stockers Output Price Hedging Considerations (as of 11/4/14)

- Dodge City, KS 11/04/14 situation:
 - Buy 550 lb steer on 11/07/14
 - Sell 750 lb steer on 2/13/15
- Considering price protection on Feb. sale
 - USE: *FeederCattleRiskMgmtTool.xlsx*

Stockers Output Price Hedging Considerations (as of 11/4/14)

- Case of 200 hd @ 750 lbs =
 - Compare: a) 200 hd on LRP, b) 3 FC Futures Contracts, c) 3 FC Options Contracts or d) Cash
 - MAR FC: \$228.00 Exp. Basis: -\$1.00
 - LRP Exp. Ending Value: \$229.403 Premium: \$4.68
 - MAR Put @ \$218: \$5.28 premium

Stockers Output Price Hedging Considerations (as of 11/4/14)



Stockers Output Price Hedging Considerations (as of 11/4/14)

- Case of 100 hd @ 750 lbs =
 - Compare: a) 100 hd on LRP, b) 1 FC Futures Contracts, c) 1 FC Options Contracts or d) Cash

