MARKET ADVISOR

by Tim Petry, North Dakota State University Extension Service

Calf Price Recap and a Look Ahead to 2019

The 2018 October through December traditional heavy seasonal calf marketing recorded prices near last year's levels.

Calf prices in the Northern Plains started October a few dollars higher than 2017, but saw normal seasonal pressure to end the year a few bucks lower. Heavier weight calves were even high for the year in October.

Similar prices occurred in spite of a larger calf crop. USDA National Agricultural Statistics Service (NASS) estimated the 2018 U.S. calf crop to be 36.5 million head, up about 2% or just less than 700,000 head larger than the 35.8 million head in 2017.

As discussed in previous columns, beef cow numbers reached a cyclical low on Jan. 1, 2014, of 29.1 million head. Since then, a historically rapid cyclical expansion occurred. On Jan. 1, 2018, NASS estimated the beef cow herd at 31.7 million head, which was a 2.64 million head increase in four years. Further expansion likely occurred in 2018, but at a more moderate rate. So, a larger calf crop can be expected again in 2019.

As 2018 progressed, several fundamental factors came together that supported calf and fed-cattle prices. The two most important factors that affect fall calf prices are corn and fed-cattle prices. Usually, a 10-cent-per-bushel change in corn prices causes a $1 change in calf prices in the opposite direction.

In mid-May, December corn futures prices were trading at $4.25 per bushel. By mid-September, corn futures prices had declined to $3.45 — an 80-cent-per-bushel decline, and just in time to support fall marketing season prices for calves. The NASS forecast of a large corn crop became reality with the second largest crop only behind the 2016 record crop. Trade issues also weighed on corn prices.

In spite of near-record beef and record competing meat production, fed cattle prices were supported by many positive demand factors. December 2018 live cattle futures prices increased from about $108 per cwt. in mid-May to a contract high of $120 per cwt. in December. That increase supported fall calf prices. A strengthening U.S. economy bolstered consumer incomes and reduced unemployment.

The income tax cut that was expected to support meat demand was offset by increasing gasoline prices. However, the sharp decline in gasoline prices in October and November really supported fourth-quarter holiday beef demand and helped push beef cutout values and fed cattle prices above last year.

Furthermore, U.S. beef exports were a record high in 2018, even though the U.S. started the year in trade negotiations with our top four importing customers — Japan, South Korea, Mexico and Canada.

Looking ahead to 2019, the same fundamental factors important in 2018 will need to be watched. Robust domestic and foreign demand for beef will be important because record-high beef and competing meat production is expected again in 2019.

The current trade problems with soybeans suggest an increase in planted acres of corn in 2019. Weather is always a wild card, but another large corn crop would be supportive to calf prices.

Interestingly, as I write this column in December, the November 2019 feeder cattle futures contract is the same price as the November 2018 contract (closing at $148.70), indicating the same potential prices for fall 2019. December 2018 and 2019 live cattle futures are only a couple dollars apart. USDA's fed-cattle price forecast for 2019 is $118 compared to the actual $117 in 2018.

Even though potential cattle prices may look similar for 2019, market fundamentals will change and price volatility is expected. Flexible marketing plans that include risk-management strategies that producers are familiar with are suggested. AJ

Editor's Note: Tim Petry is a livestock marketing economist with the North Dakota State University Extension Service.