MARKET ADVISOR

by Tim Petry, North Dakota State University Extension Service

Volatile Cattle Prices Likely in 2021

I have heard recent comments with the rollout of COVID-19 vaccines, consumer purchasing patterns will return to "normal," if there ever is a normal. So, less volatility in cattle prices can be expected.

However, my expectations are for cattle prices to remain volatile in 2021.

The two most important fundamental factors that affect feeder calf prices are fed cattle prices and corn prices. Both have been volatile, and that may continue in 2021.

The accompanying fed cattle price chart depicts the normal seasonal price pattern with seasonal highs in April, lows in the summer, followed by increasing prices through the year's end. So, normal seasonal price volatility exists within a year.

However, unexpected influences also affect the market. Notice the August/September 2019 decline due to the Tyson packing plant fire and closure. The 2020 COVID-19 pandemic volatility is very evident with a low in April when prices are usually seasonally high.

The 2021 live cattle futures prices shown on the chart anticipate a normal seasonal price pattern averaging \$120 compared to the actual \$109 annual average cash price in 2020. June through December 2021, futures are above the last three years which is supportive to fall 2021 calf prices. 2022 futures prices are even higher.

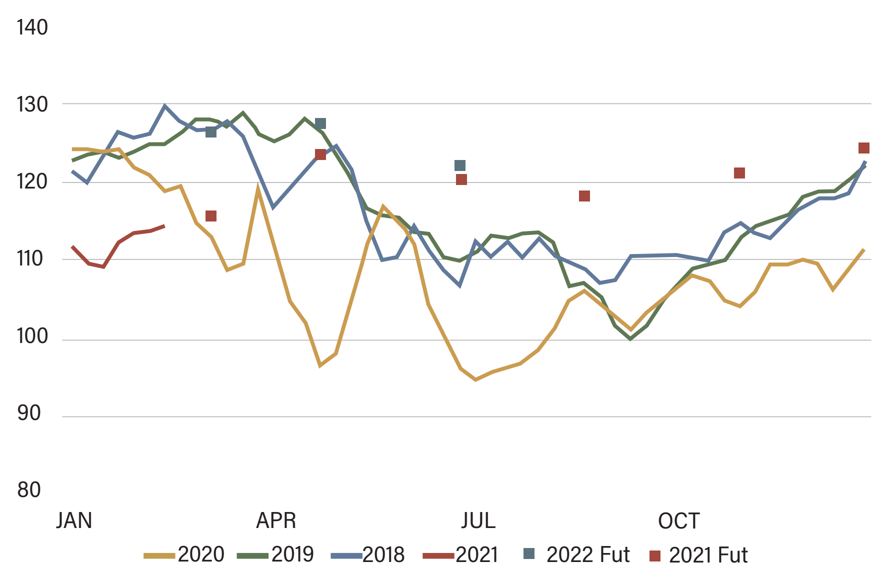
Higher fed cattle prices in the second half of 2021 are based on expected strong domestic demand, partly fueled by successful COVID vaccinations with return of the hotel, restaurant and institutional trade.

Record-high 2021 beef exports are predicted by USDA. But international trade can be affected by world geopolitical factors, and trade policies of the Biden administration are unknown.

Corn prices have increased rapidly in the last few months. Usually, a 10-cent per bushel change in corn prices causes a \$1 per hundredweight (cwt.) change in the opposite direction in calf prices. Corn futures prices are at 2021 contract and seven-year highs. Omaha corn prices have increased \$2.30 per bushel since August.

Forecasts for a record-high fall 2020 corn crop, ample U.S. and world supplies, and stable export demand caused the summer low prices. However, a severe windstorm

Figure 1: ***Fed Steer Prices, USDA 5-Market Weighted Average, Weekly***



followed by drought in portions of the western Corn Belt led to a smaller than expected crop. That, coupled with unprecedented corn purchases by China — about two times higher than historic purchases — fueled the price increase.

Corn prices are likely to be volatile now through the upcoming planting and growing season, as both U.S. and world supply and demand conditions change. USDA's recent 2021 corn crop estimate is a record 15.15 billion bushels, which would be supportive to fall calf prices.

Weather is always a wild card, not only in how it may affect the corn market, but also for cattle prices. Much of the Western United States is dry, with 50% of the U.S. beef cow herd in areas experiencing drought conditions, unlike last year when normal conditions existed.

Hopefully, ample moisture returns to the drought-affected areas. If drought conditions should worsen and expand, however, forced liquidation of cows, early marketing of calves and increasing feed prices would negatively affect cattle prices.

From a calf supply standpoint, the U.S. calf crop declined almost 1.2 million head in the last two years. A smaller calf crop is expected in 2021, which would be supportive to prices.

Volatile cattle and corn prices have heightened interest in cattle marketing plans with price risk management strategies. The feedlot sector has been using price risk management strategies, but more cow-calf, stocker and backgrounding programs may consider using them, too. AJ

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