MARKET ADVISOR

by Tim Petry, North Dakota State University Extension Service

Cattle price volatility continues

This column is somewhat of a challenge for me to write as it is the middle of June, and you likely won't be reading it until August. So, with how quickly supply and demand fundamentals are changing, some of the issues raised may be much different by the time you read this.

Several producers have expressed their frustration with the volatility in cattle prices. Price movements of several dollars can occur from one day to the next, and cash and futures market prices even seem to move in opposite directions at times. Of course, uncertainty causes market volatility, and with a number of supply and demand challenges adding to the uncertainty.

Drought conditions

By mid-June, expanding drought conditions put about 25% of the U.S. beef cow herd in an area experiencing drought. The worst conditions are in the Southwest starting in northern Texas, western Oklahoma and Kansas, and moving to the West. The U.S. Drought Monitor shows D4 Exceptional Drought (the worst drought category) in several of those states. Moderate drought is also occurring in the far Northern Plains.

Drought conditions pose the threat of forced herd liquidation and early movement of calves to market. Beef cow slaughter was up over 12% from last year during the first six months of 2018. Drought in the winter wheat grazing area of the Southern Plains caused early movement of calves into feedlots. On March 1, there were almost 9% more cattle on feed than last year.

That led to a 9% surge in cattle slaughter in May and June, averaging 650,000 head per week. Weekly slaughter levels were the highest since 2013. Fed heifer slaughter was up about 16% indicating a slowdown in beef herd expansion.

As of mid-June, the U.S. corn crop was off to the best start in many years. USDA's weekly crop report rated 78% of the crop in good or excellent condition with near ideal weather conditions. That, along with large corn carryover stocks and escalating trade issues with China and NAFTA countries, December corn futures prices declined about 50 cents per bushel. This is supportive of feeder cattle prices. Generally, a 10-cent-per-bushel change in corn prices causes about a $1 change in fall calf prices in the opposite direction.

Record highs

Record highs also create market uncertainty. U.S. pork, broiler and total meat production were at a record high in 2017. This year is projected to follow suit, including U.S. beef production. There will be record amounts of meat to consume either domestically or in the export market. Unless demand increases, this results in low livestock prices.

On the domestic demand side, a strengthening U.S. economy has bolstered consumer incomes and reduced unemployment levels. The recently enacted tax cut putting more money in consumer's pockets was expected to support meat demand. However, the increase in gasoline prices has largely offset that.

Continuing the "record high" theme, U.S. beef exports were such in 2017, supporting cattle prices. Last year's prices averaged higher than in 2016 even with higher numbers and increased meat production. Beef exports are projected to be record high again in 2018.

The ever-changing trade negotiations with several important trade countries is a major cause for market volatility in both grain and livestock markets the past few months. Positive outcomes with trade agreements are important to our beef industry so record beef exports, along with robust exports of competing meats, can continue. Until the trade disputes are resolved, expect volatility to continue. AJ

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