by Tim Petry, North Dakota State University Extension Service

Demand, Trade, and Weather Impact Cattle Prices

As I write this column in mid-June, there are many unknown fundamental supply and demand factors affecting the cattle market that have the potential to either help or hurt prices. Hopefully by the time you read this, at least some of them will be resolved. Let's recap important issues from the first six months of 2019.

Fed cattle prices the first half of the year exhibited quite normal seasonal behavior. Prices increased seasonally to a normal spring peak of $129/hundredweight (cwt.), and are likely headed for mid-summer seasonal lows. Fed cattle prices averaged very close to last year in spite of increased and predicted record beef production.

Fed cattle prices were buoyed by domestic beef demand with low unemployment levels and a general strengthening economy. Beef export demand was good, but did not set record levels as originally expected. Struggling beef exports along with weaker pork and chicken exports in the first part of 2019 were the result of ongoing tariff disputes and trade negotiations with some of the major U.S. meat customers.

Trade

The top four U.S. beef customers are Japan, South Korea, Mexico and Canada. Trade negotiations have been ongoing with each, and the contentious issues are fortunately not beef related. The United States and Korea did agree on the U.S.-Korea Free Trade Agreement (KORUS) in late 2018. Increasing beef exports to Korea are a good example of what can happen when trade agreements are finally settled. In fact, latest monthly trade data show Korea importing the same level of U.S. beef as Japan, where exports have not met expectations as they did in the past.

The United States declined to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). It became effective in December 2018 and is a trade agreement among 11 countries including Japan and major U.S. beef export competitors including Australia and Canada.

Currently, U.S. beef faces a 38.5% tariff on beef exported to Japan, while the tariff for CPTPP countries is 26.6% and will gradually be reduced to 9%. The United States and Japan are in active bilateral trade negotiations at this time.

The USMCA (United States, Mexico, and Canada Agreement), while agreed upon by the Heads of State, has not been ratified by U.S. Congress. Mexico and Canada are the third and fourth best customers of U.S. beef. And Mexico is the largest single foreign buyer of U.S. red meat and poultry, accounting for 24% of all U.S. meat exports.

Demand

African Swine Fever (ASF) is spreading rapidly in China and reducing pork production significantly. This has the potential to positively affect U.S. livestock prices. China is by far the leading pork producer and consumer in the world, and was a very good customer for U.S. pork exports before the tariff dispute.

Looking ahead to the last half of 2019, the United States is expected to produce record-high amounts of beef, pork, chicken and total meat. So, both a strong export and domestic market will be important to support cattle and beef prices. Tariff disputes and trade negotiations are likely to continue to cause price volatility and any faltering in the domestic economy would be a threat to prices.

Weather

Turning to calf prices, the two major factors that affect prices are fed cattle prices and feed prices. Weather will continue to be the important factor to watch. Calf prices reached the normal seasonal high in April with excellent moisture and grazing conditions in much of the United States, creating a good demand for calves.

The USDA-NASS Prospective Plantings report issued in March showed corn producers intended to plant 92.8 million acres of corn, up 3.66 million or 4% from 2018. That also supported calf prices at last year's seasonal high despite the larger-than-normal calf crop.

Excessive moisture in parts of the Corn Belt delayed planting and resulted in less corn actually being planted, which supported corn prices to the detriment of calf prices. July corn futures prices climbed over $1 per bushel from mid-May to mid-June regardless of the adequate carryover stocks.

Calf prices were originally expected to average near last year, but are below last year and will continue to be affected by corn price changes.

Record production, unresolved trade issues, weather and corn prices will cause price volatility. Keeping abreast of changing market fundamentals, with flexible marketing plans that include price risk management strategies is strongly suggested. AJ

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