

# Market Outlook: Volatility to Continue

*Play defense, but have some optimism and look for opportunities, too.*

*by Kindra Gordon, field editor*

While the traditional fall sports schedule is yet to be determined due to coronavirus concerns, cattle producers may be able to get their sports fix via the cattle market outlook for the remainder of 2020, which will require ample defensive and offensive strategies.

During a recent Cattlemen's Webinar hosted by National Cattlemen's Beef Association (NCBA), Oklahoma State University (OSU) Extension Livestock Marketing Specialist Derrell Peel noted the cattle industry is clearly on the defensive right now. He stated, "2020 at best is a year to survive and get through."

However, Peel reminded producers, prior to the pandemic the year started with a modest amount of optimism for the industry. He said, "Those fundamentals are still there. So longer term, there are lots of reasons to be optimistic."

He added, "Volatility always brings opportunities with the challenges. Get yourself situated to capitalize on those opportunities."

While we can't yet predict when or what those opportunities will be, he acknowledged, "I have no doubt they're going to be there."

As producers get through 2020, Peel encouraged producers to think about ways to manage price risk, manage costs and prepare to manage drought, which is already setting in in eastern Colorado, western Texas

and the Oklahoma Panhandle.

Don Close, senior animal protein analyst with Rabo AgriFinance, also shared remarks on the webcast and told producers, "The market volatility is not going away any time soon."

To illustrate what is happening in the current economy, Close referenced recreational vehicle (RV) sales. As of March 2020 those sales had nosedived.

"I was always taught that one of the most responsive markets is the RV market," he explained.

From this market reaction, Close said it is clear the economy is not going to be immune to recessionary pressure.

For the cattle industry, he suggested the herd expansion cycle peaked in the second half of 2019, and is now contracting.

"We thought it [contraction] would be short and shallow," Close said, "but we don't think that anymore." Now, market analysts expect the contraction phase to last 18-24 months.

Even with this correction, Close said he anticipates the national cow herd inventory won't dip below 30.5 to 31 million beef cows.

"I think that is really good news," he said, explaining that is a comfortable level to keep industry infrastructure in place with enough cattle to keep the system functional.

"As we go through this corrective cycle," he added, "it's a large enough

number to exceed net expansion on the next upcycle."

As a caveat to this, he indicated drought across West Texas, Oklahoma and Colorado is something to keep an eye on. If those conditions worsen or spread to other regions, it could prompt more cow herd liquidation than projected.

## Fall market

The deepest concern among producers right now is the fall calf market, Close acknowledged. "With current backlog of 1 million cattle [to go through processing plants], the difficulty we are having as that goes on through summer is that will leave some vulnerability in the calf market."

Close projected \$1.50-\$1.55 calf prices for late summer and fall, up from a low of \$1.15 in April.

The feeder market has "rallied back too much, too fast," he observed. "Going forward I think we'll see a more normal seasonal pattern."

He projected \$1.35-\$1.40 for the high this fall, but suggested we could finish the year with feeder prices better depending on what happens with several variables.

With regard to fed cattle and slaughter, Close said he has never seen as extreme of a disruption in slaughter as was seen this year. To be back at 95% capacity from one year ago, he said, "has been nothing short of amazing."

Forming a stumbling block, according to Close, are carcass weights averaging 50 pounds (lb.) heavier than a year ago, at which time they were already heavy. It is going to mean there will be a lot of beef product available.

Close acknowledged the sticker shock at retail that occurred with beef and other meats during the pandemic. While he sees those prices moderating, he said there is a potential silver lining. He pointed back to 2015 when beef retail prices jumped up.

“Prices came off but they never came all the way back down to the previous levels,” he said. “Consumers get conditioned to higher prices and are willing to spend. This may enable the market to potentially go to higher retail beef prices for the future.” <sup>[AJ]</sup>

## 4 action items for navigating the playing field

Ag economist David Kohl is advising ag producers to focus on four pillars to navigate through the changing ag economy. These include being resilient, agile, entrepreneurial/innovative and having a strong business IQ.

Kohl, who is a livestock producer himself, encourages producers to “be in the moment,” and says, “Right now, I don’t watch a whole lot of TV. It can really distract you.”

Regarding being resilient, Kohl advises producers to know their cost of production. He calls that playing defense. As well, he advises having a marketing and risk management program, which he calls producers’ offense.

To enhance an operation’s agility, Kohl encourages having access to six months of working capital — and notes that in less volatile times, two months of working capital used to be adequate. He also emphasizes exploring options for diversification of products as well as market alternatives for those products.

He encourages producers to continue being innovative and entrepreneurial and seek opportunities to align with the rapidly changing marketplace. That said, Kohl underscores that business is still about people, and says, “Invest in people.”

Finally, Kohl reminds producers that having a strong business IQ is still essential to survive and thrive. “Developing a business plan will not eliminate stress, but it gives focus and options and helps your emotional health,” he concluded. “It’s a coping mechanism.”

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