Market Forces

CattleFax predicts strong prices to remain in 2015.

by **Kasey Brown**, associate editor; **Kindra Gordon,** field editor; & **Troy Smith,** field editor

The popular CattleFax Outlook Seminar Feb. 5 at the 2015 Cattle Industry Convention & NCBA Trade Show gave cattlemen reasons to be optimistic. Analysts told the capacity crowd to expect fed-cattle prices averaging in the mid-$150s per hundredweight (cwt.), slightly higher than last year.

The analysts predicted prices per cwt. will trade in a range from near $140 at the lows to near $170 at the highs in the year ahead, while early year highs for 550-pound (lb.) steers will range from near $285 per cwt. to lows near $235 per cwt. Analysts cited the improved forage situation, lower grain prices and record margins in 2014 for feeders and stockers as the primary reason cow-calf producers will remain in the driver's seat for the year ahead.

Cattle and beef supplies

Improved moisture in a significant portion of cow country, lower feed costs and record-high calf prices favor expansion of the U.S. cow herd. Cattle-industry and market analyst Kevin Good painted a relatively rosy picture for cow-calf producers. However, he said, the picture isn't so pretty for cattle feeders.

Citing two signs of expansion, Good said beef cow slaughter is expected to decline by up to 300,000 head in 2015, while heifer retention appears to be increasing. Evidence of the latter shows in the reduction of heifers in the fed-cattle mix. With Mother Nature's cooperation, herd expansion is expected to continue at least through 2016.

Good expects the 2015 calf crop to increase for the first time since 2006. However, the 2014 crop was some 500,000 head smaller than the year previous. Tight feeder-cattle and calf supplies will force cattle feeders to bid aggressively until fall. Cattle feeders continue to push fed weights to upper limits. Average carcass weights are expected to be 8 lb. heavier than last year due to lower costs of gain. Total beef production for 2015 is projected to be 1% smaller — down from last year by about 250 million lb. — as a result of lower fed and non-fed slaughter.

According to Good, pork and broiler producers are ramping up production. Hog slaughter for 2015 is expected to increase by 3.3%, and poultry production should increase by greater than 4%.

"Roll it all together and our tightest protein supplies are behind us," stated Good.

The forecast calls for corn prices to range from $3.50 to $4.25 per bushel (bu.) into the spring, with the low end of the range slipping to $3.10 per bu. during the second half of 2015. Relatively inexpensive feed costs won't keep cattle feeders from experiencing negative margins until corn prices slide to the lower levels. Fed-cattle prices are likely to range from $140 to $175 and average around $157 per cwt.

"The feeding industry has the incentive to make cattle big," added Good. "If fed prices drop below breakeven, this could be a mess."

Believing a trend change is in place, Good said 750-weight feeder steer prices will range from $195 to $240 per cwt., averaging around $220 per cwt. in 2015. Calf prices are expected to average $260, ranging from $235 to $290 per cwt.

Strong demand for bred females should put bred heifer prices in the neighborhood of $2,500 per head. The trading range for cull cows is expected to be fairly narrow, ranging from a low of $90 to a high near $125 per cwt.

"The feedlot outlook is negative for the year, so risk management will be important," concluded Good. "Stocker-background operations will have narrow margins, while the cow-calf sector remains robust and supportive to expansion."

— by Troy Smith

Global beef outlook

There is a simple equation that results in record-high beef prices: tight global supply plus burgeoning demand equals record prices. Brett Stuart, global market specialist consultant to CattleFax, explained that global beef demand is far outstripping supply. Will supply catch up with demand? Yes, he answered, but it will take three to five years.

Global beef production has been stagnant for the past eight years, Stuart said, adding that he does not expect global beef supply to increase significantly until 2017.

The United States retains a strong global demand for beef exports, however a tight supply will lead to decreased exports in 2015, Stuart predicted. The rising U.S. dollar has

PHOTOS BY KASEY BROWN

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added a 10%-15% cost to U.S. beef products in key markets. To date, global demand has stayed intact. Yet if 15% is added to the dollar in six months, there will be push back.

The world's top two beef exporters, Brazil and India, are in expansion modes right now. Brazil's export forecast is up 10%, and India's forecast is up 5%. However, neither of these two countries are major competitors with the United States. They offer a different product to different markets.

Australia is a competitor in several markets, but the Australian herd has decreased 4% in 2015 after stronger export demand and drought caused higher slaughter rates in 2014. That said, Stuart predicted that Australian beef exports will be 7% lower in 2015. He added that less Australian beef on the market means that U.S. grinding prices may have to move higher for U.S. importers to keep pace with 2014 levels.

The United States imports Australian beef, and he said prices will remain high. U.S. imports are forecast to remain level, and exports are forecast to decrease 2%.

Global poultry demand is also outstripping supply due to the highly pathogenic avian influenza. This avian flu has been found everywhere globally except South America, which has affected trade flows. Stuart said the United States will have trade issues if the flu spreads from the Northwest to the Southeast, where poultry production is more concentrated.

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Tight supply is a factor for the global pork industry, too. The U.S. pork industry is recovering from the porcine epidemic diarrhea virus (PEDv), and Stuart admitted that it would be a global game changer if PEDv were to hit Eastern Europe and Russia. Fortunately, it has not.

Additionally, Chinese data suggest there will be a pork gap in 2015. Half of the world's pigs live in China. In 2014, China pork producers liquidated 6 million sows due to two years of high corn prices — up to $9.50 per bushel. Stuart said it would wreak havoc on our markets if they run out.

He also said that the falling U.S. hog market — due to the West Coast port backlog, cheap European Union pork in key markets, and the rising dollar — is the anchor on the neck of the beef industry.

He concluded with a watchlist of issues that can affect global markets, including U.S. West Coast port disruptions, Hong Kong trade disruptions, the rising U.S. dollar, China sow liquidation, China beef access, mandatory country-of-origin labeling, and the Trans-Pacific Partnership.

— by Kasey Brown

Grain, energy and the economy

World stocks-to-use supplies are higher for corn, soybeans and wheat during this 2014-2015 marketing year, said CattleFax market analyst Mike Murphy.

In the United States, Murphy predicted 2015 planted acreage for corn at 88.9 million acres, down from 90.0 million last year; soybeans at 87.2 million acres, up from 84.2

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CattleFax Weather Outlook

Improved moisture conditions in much of the United States helped set the stage for the record levels of profitability seen by many cattle producers in 2014.

Among the first forecasters of the El Niño event credited for bringing rain was Art Douglas, atmospheric scientist and professor emeritus for Creighton University, Omaha, Neb. Douglas shared a forecast again on Feb. 5 for the benefit of cattle folk attending the 2015 Cattle Industry Convention & NCBA Trade Show in San Antonio, Texas.

It marked the 39th year that Douglas has been featured during the CattleFax Market Outlook Seminar convened in conjunction with the annual convention. Considered remarkably accurate — as weather forecasters go — Douglas admitted that El Niño has not measured up to expectations.

"It's been fickle," said Douglas, "and appears to have peaked in June, instead of December as patterns suggested, but it still looks like we'll see two years of El Niño's influence."

Douglas said late-winter conditions could be right for development of moisture in southern California and also in the Southwest. From northern California and eastward across the Northern Plains and upper Midwest, conditions are likely to be cooler and drier than normal. Chances for moisture in the West improve as spring approaches, especially during March. A wet spring appears likely for southeastern states.

For spring, Douglas predicted warming in the western half of the United States, but cool temperatures in the East. Cool weather in the Corn Belt could delay spring planting. Mid- and late-summer temperatures should be at normal levels or above, favoring maturing crops. Summer could bring increased moisture across the North, a late monsoon season in the Southwest and drier conditions in the Southeast.

"It's a mixed bag forecast," said Douglas.

— by Troy Smith, field editor

Art Douglas

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million last year; and wheat at 56.2 million acres; holding relatively steady but down from 56.8 million.

In 2014, Murphy said, the soybean-corn price spread supported the largest increases in U.S. soybean acres relative to corn in more than 30 years.

Spot corn futures prices will be in the range of $3.50 to $3.60, he said, and prices at $4.00 to $4.25 will meet resistance. The largest use of corn, he predicted, will be in livestock feed, mainly for the pork and poultry industries.

►"Roughly 80% of domestic petroleum needs are refined from U.S. crude oil. Imports have decreased because of this, averaging 7.4 million barrels per day, the lowest volume in more than a decade," Mike Murphy noted.

Corn for ethanol production is expected to be steady in 2015, he explained, but the Renewable Fuels Standard will be under review for the next two years. Ethanol production will trend with gasoline production in 2015. Cheaper petroleum may discourage discretionary ethanol usage, he said.

Gasoline and diesel inventories are higher starting 2015 than they were last year, which has eased consumer prices. Murphy said prices should range from $1.80 to $2.80 per gallon of gasoline and from $2.80 to $4.00 per gallon of diesel. Domestic usage of gas and diesel has decreased due to better fuel economy and driving less on either coast of the United States, he said.

The United States can't export crude oil, only refined products, Murphy explained. U.S. exports have increased in the last 10 years. More domestic production helps offset volatility.

"Roughly 80% of domestic petroleum needs are refined from U.S. crude oil. Imports have decreased because of this, averaging 7.4 million barrels per day, the lowest volume in more than a decade," Murphy noted.

The U.S. economy is relatively stable, with 3% growth predicted for 2015. China has shown significant growth on a year-to-year basis, though that growth is slowing. Excluding China and the United States, the world economy is not growing much.

Favorable weather patterns have allowed for more production for most countries, increasing supplies. The trade situation is affected by the strengthening U.S. dollar, and the state of other nations' currencies will play a role in global trade, he concluded.

— by Kasey Brown

Market outlook for 2015

Cow-calf producers can keep smiling at anticipated calf prices in 2015. The market "will remain solidly profitable for the next several years," Randy Blach, CEO of CattleFax told the more than 8,100 convention attendees.

However, Blach acknowledged, prices will likely not reach the record-breaking highs that were seen in 2013 and 2014.

"That's pretty hard to replicate. You can smile; it's been fun," he told producers, "but times will still be pretty good."

As the U.S. beef herd begins to expand, Blach says the industry can handle another 3 million head and still be highly profitable.

"We still expect $200 to 220 per cwt. for calves from 2016 to 2018," he said, adding that going forward, "Calf prices will be much more seasonal."

Speaking to the price swings that have become common, Blach told all segments of the industry, "You need to make sure to manage risk and be margin-focused. Volatility in this market has been unprecedented. We see 5% to 10% swings every few weeks," which is equivalent to $8 to $16 per cwt., or about $100 per head.

"There isn't any of us who can forecast these moves. These are some wild times we are dealing with. The last three to four months we've seen the markets push up and then break," he stated. "We've got to focus

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on managing risk; these are big swings. Take margins when they are there."

Blach also emphasized the importance of adjusting for basis using current market levels. He said, "Adjusting basis accordingly is critically important."

Specifically for cattle feeders, Blach said, "Margins are going to be tough; there is a lot of feeding capacity chasing limited supply." He projected prices will reflect lower highs and lower lows.

"That's what you should be aware of. Be prepared to get back toward $130 on fed cattle in a year," he recommended.

In his closing remarks, Blach noted the huge variation in production costs, which can range from $500 to $1,100 per head. He also mentioned the increasing amount of capital that beef production requires.

"Keep that in mind," he cautioned and advised utilizing risk-management strategies.

Blach stressed the continued importance of beef exports and maintaining global access. He shared that exports have added $352 in value per head.

"If this trend continues," he concluded, "exports could contribute as much as $500 per head by 2020."

— by Kindra Gordon

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Editor's Note: *This article includes* Angus Journal *coverage of the 2015 Cattle Industry Convention & NCBA Trade Show. Comprehensive coverage of the event is available in the newsroom at* www.4cattlemen.com.

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