PHOTO BY KYLER PENLAND, ANGUS MEDIA

# Commodity Price Stabilization Expected in 2017

## Some issues persist, but on a global basis, not as much volatility envisioned for the future.

*by* ***National Cattlemen's Beef Association***

After a volatile year, stability is returning to global commodity markets — at least for the time being, said CattleFax CEO Randy Blach Feb. 2 during the popular CattleFax Outlook Session at the 2017 Cattle Industry Convention & NCBA Trade Show.

"After the ag market shocks of the past year and an approximate correction of 50% in all commodity markets, prices are beginning to stabilize," said Blach. "That doesn't mean that we're past this, or that prices have bottomed, but on a global basis, we're not likely to see as much volatility during the year ahead."

He said the industry is continuing to become more current in its marketings and cattle feeders are seeing a return to profitability, the first step in helping to stabilize prices for cow-calf and stocker operations.

Blach said that in the near term, capacity is going to continue to be a significant issue for packing companies in both the beef and pork sectors. A shortage of available labor and an increase in protein production in beef, pork and poultry will continue to keep the packing sector in the driver's seat during the year ahead.

"With limited processing capacity, the leverage shift in the marketplace will continue toward the packing, retail and foodservice segments for the time being," said Blach.

During 2017 and beyond, margins are likely to tighten for cow-calf producers with more stability, but also an expectation for lower highs and lower lows. CattleFax analysts noted that the cow-calf sector will shift focus to finding efficiencies, reducing cow costs and improving productivity to remain profitable. Analysts estimated 2017 price expectations for 550-pound (lb.) steers at \$150 per hundredweight (cwt.) with a range of \$130 to \$170 per cwt., while 750-lb. steers will average \$130 per cwt. with a range from \$120 to \$140 during the year ahead.

Blach reported that the historical cattle cycle remains intact, although the price break experienced in 2016 was the fastest and deepest of any in recent history.

"Even with the rapid growth in the U.S. cow herd, numbers are expected to continue higher for the next two to three years," said CattleFax Senior Analyst Kevin Good. "Absolute price lows likely will not be realized until that period of increasing cow herd numbers is behind us."

Good echoed the expectation for prices to stabilize during 2017, making price and production risk management an easier task for producers. He said fed-steer prices will average \$110 per cwt., with a range of \$98 to \$124 per cwt., and the composite Choice cutout will trade from \$168 to \$204 per cwt., with a 2017 average price of \$185 per cwt. for the year. Grain prices have stabilized, and corn is projected to trade from \$2.90 to \$3.95 per bushel (bu.) with an average of \$3.45 per bu.

Meteorologist Art Douglas, professor emeritus at Creighton University, said the signs of a return to *El Niño* conditions are already becoming apparent in the Pacific Ocean, which bodes well for portions of the country.

"The upcoming spring forecast calls for improved moisture from Texas to Minnesota, and this will be an ideal setup for spring wheat. The drought in the Southeast will be retracting in the spring, while a drier spring weather pattern is forecast for the northern Rockies. Persistent high pressure ridging will keep the western third of the country warmer than normal in the spring, and the dry areas of the far Southeast will also be warmer than normal," said Douglas. "Temperatures will be cooler than normal through the Corn Belt in the spring, and with wet weather forecast for the western Corn Belt, there could be problems with field work and spring planting."

He said the upcoming summer is expected to follow the typical pattern observed with developing *El Niño* events.

"Midwest summer temperatures will be near to slightly below normal. A persistent trough of low pressure is forecast to persist through the Mississippi Valley through the summer and this will favor cooler-than-normal temperatures in the plains and above-normal precipitation from the Gulf Coast to the mid-Mississippi Valley and Ohio Valley, as well as the Southeast," said Douglas. "The summer monsoon in the Southwest is likely to be weak as the monsoon high pressure struggles to become established in the plains. The Northwest is expected to have a warmer- and drier-than-normal summer due to persistent high pressure ridging."

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**Editor's Note:** *This article was provided by the National Cattlemen's Beef Association. For more information, contact Ed Frank at 202-879-9125 or efrank@beef.org, or Shawna Newsome at 202-879-9138 or snewsome@beef.org.*

# Digging Deeper Into the Outlook

## Angus Media team provides additional insight into CattleFax outlook.

by ***Kindra Gordon,*** *field editor;* ***Shelby Mettlen,*** *assistant editor; and* ***Troy Smith*** *field editor*

As CattleFax CEO Randy Blach opened the 2017 CattleFax Outlook Seminar at the Cattle Industry Convention in Nashville, Tenn., he addressed producers saying, "I know a lot of you have questions about these markets. It's been one of the most volatile markets in history."

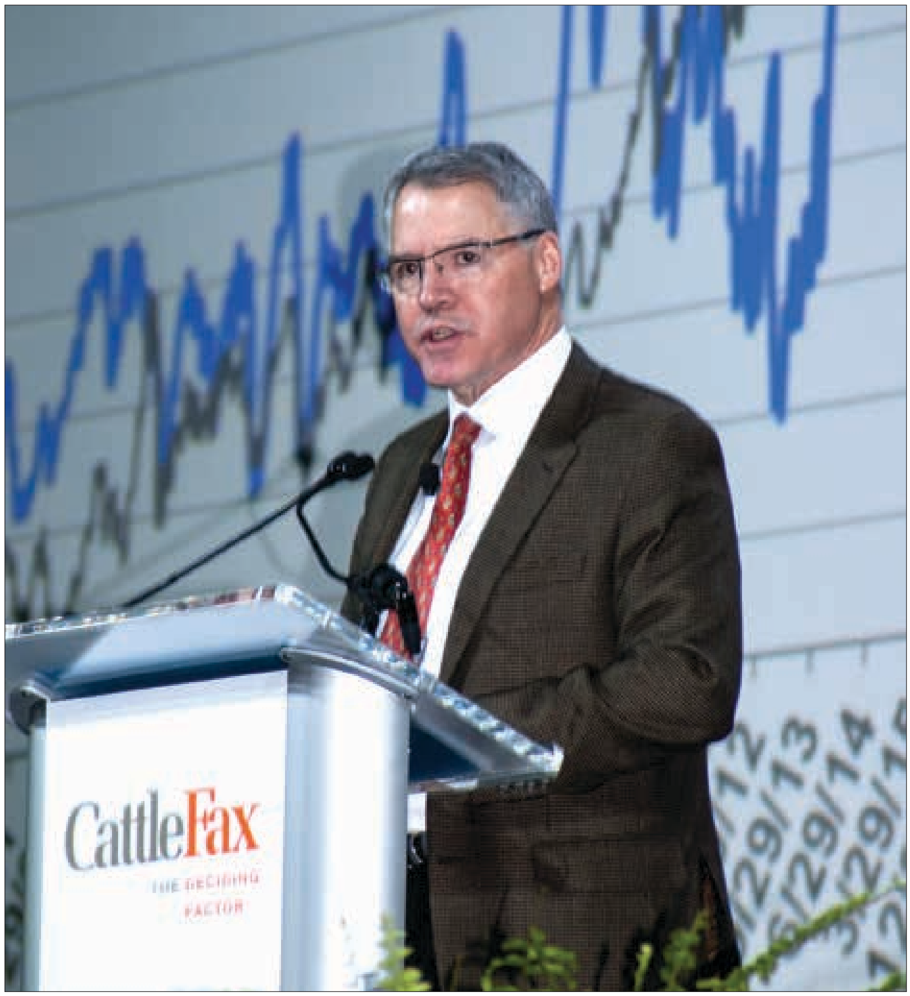
To illustrate the market extremes, Blach cited the low prices of 2009, when fed cattle were selling at $80 per hundredweight (cwt.).

"A year later — boom — we woke up and fed cattle were at $173 per hundredweight," he said. In jest, he added, "I'm sure you all forecasted that, too."

Blach acknowledged that the last few years saw similar extremes. He noted the 2014 market offered record profit for the cattle industry, while 2015 was also good. Then, in 2016, the unraveling began and, said Blach, "The numbers shrunk." He reports that in the last two years, there's been more than 40% change in the market highs to lows, while the long-term average is typically about 21%.

"We've been double that … The dollar-per-head risk has more than doubled," he stated, and noted that the volatility is not unique to the beef industry. "Grains, dairy, hogs and poultry have all been under a great amount of pressure."

Regarding the current market, Blach said the market has come back 25% from the October 2016 lows. Blach and his CattleFax colleagues forecast the market is beginning to stabilize.




PHOTOS BY TROY SMITH

►**Regarding the current market, CattleFax CEO Randy Blach said the market has come back 25% from the October 2016 lows. Blach and his CattleFax colleagues forecast the market is beginning to stabilize.**

As evidence of this, Blach cited the Bloomberg Commodity Index, which shows a nearly 60% drop in global indexes from 2011 to the lows in January 2016. Yet now, Blach says, "We see a market that has quit going down and is stabilizing."

He attributes improved exports the last four months of 2016 to helping that stability, and stated, "Global markets are important. That's loud and clear."

Looking ahead, Blach said he believes the cattle cycle is back on track, and he anticipates that the worst part of this cycle may be behind cattle producers.

"We can't rule another price break out, but I believe we've seen the lion's share of the break," he said. If the cattle cycle continues to follow a traditional path, Blach said prices could be back toward the top near the end of this decade.

With all that said, Blach said he does not believe volatility will go away. Rather, of the highs and lows Blach queried producers, "Is this the new normal? I challenge you with that. Are we going to have to adapt to this as we move down the road?"

He encouraged risk management, adding, "We are in a highly volatile market that requires an incredible amount of capital, and you've got to be able to manage the risk."

CattleFax has launched a new website and mobile app featuring news, video comments and calculators, decision tools and more than 100 data sets on site. Visit *www.cattlefax.com* for more information.

*— by Kindra Gordon, field editor*

### Cattle market outlook

Beef production was up 1.5 million pounds (lb.) year-over-year last year, reported Kevin Good. With poultry and pork production added in, that number increased to 3 million lb.

Beef cattle production was up 14%, but at a level that suggests the herd is still expanding, Good explained. Total cattle inventories in the United States have increased nearly 5 million head in three years, totaling 93.4 million head in 2017.

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The country's beef cow inventory has grown to 2.2 million head in three years, and an additional 400,000 head are expected to be added to that inventory in the next two years.

Good reminded the audience that it's important to note this expansion is largely due to herd rebuilding after the extreme drought in the Southern Plains. Texas added 550,000 head; Oklahoma added 300,000 head; and Kansas added 150,000 head.

Dairy-based cattle in feedyards peaked in 2015 and 2016 at nearly 20%. Calf slaughter is expected to be up 100,000 head this year, as dairy calves are slaughtered earlier and feedlots turn back toward beef breeds because of their yield and quality potential, Good said.

"We've got a calf market this year that we think will remain stout enough to be profitable for the average cow-calf producer," Good said. Lower input costs and favorable feed conditions will contribute to this.

He also pointed out that grain costs will be lower in 2017, leading to cheaper feeding costs.

Feedlots will continue to turn over inventory quickly, and heifer placement will increase, predicted Good. Fed-cattle slaughter is expected to reach 25.5 million head in 2017.

After last year's rare peak in slaughter in November 2016, Good said, "Fed-cattle supplies are at the tightest point today — and over the next 30 to 45 days — that they'll be at any time this year as we think about it from a cycle standpoint — at any time we'll see over probably the next five to six years."

He predicted in the second half of this year slaughter will reach 95,000 head on a daily basis. Packer profits were good last year and will continue to be favorable in 2017.

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PHOTO BY SHELBY METTLEN

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Greater supplies will result in lower prices going forward, Good noted. Demand will determine the magnitude of the downtrend. Demand for beef is estimated to decrease 5% in 2016 due to lower pork and chicken prices.

Good said carcass weights will be down this year, noting that when cattle numbers are expanding, carcass weights tend to plateau. He said he expects them to do so over the next couple of years.

Good estimates fed-cattle price will be small in 2017, but said the lowest point was last October. "Will it stay low?" he asked. "Yes, because of the leverage component."

The market structure today is so much better than it was a year ago at the same time, he said. "Cattle are making money."

Trade will continue to be important, as one out of every 4 lb. of increased production in the United States will be exported. "Export markets are a plus," he noted.

Protein retail prices have all decreased since 2014, but "there are positives," Good said. Poultry has been declining for three years, pork for a little more than two years, and beef just a little more than a year.

In 2005 and 2006, the industry produced 1.5 lb. of Choice beef for every 1 lb. of Select. Last year, it produced 3.7 lb. of Choice for every 1 lb. of Select. The Choice-Select spread was $3 wider last year.

"One of the things we can look back at and say 'we did a good job,' " Good said, "is improving our product."

Good predicted a move into bigger supplies. "We suggest the market is starting to stretch the top end of the range," he said.

*— by Shelby Mettlen, assistant editor*

### Grain and energy outlook

Thanks to record yields in 2016, record U.S. feedgrain supplies are in place. While larger livestock inventories are supportive of

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demand, and fewer U.S. acres are expected to be planted to corn, CattleFax market analyst Mike Murphy said he sees the corn supply and demand situation as fairly balanced. Murphy talked about production and prices of grain, hay and energy.

Discussing factors influencing corn supply and demand, Murphy said U.S. acreage planted to corn is expected to decrease in 2017 by 1.1 million acres, trimming production by 700 to 800 million bushels. Corn use for ethanol production is expected to increase modestly, and U.S. corn exports seemed to be poised for increase by the end of the decade. Still, the current balance between supply and demand suggests that near-term grain grower margins will be narrow. Murphy said corn prices should remain fairly flat through 2017, averaging around $3.45 per bushel.

"I look for a solid hay-production year ahead, offering cattle producers some additional price relief," stated Murphy, referencing a weather forecast promising conditions favorable to forage production.

►Mike Murphy said OPEC's share of total production has diminished, while North America's share has increased. U.S. crude oil production is projected to increase to 9.2 million barrels per day — up 0.4 million barrels per day from a year ago. With lower total supplies, however, Murphy predicted higher energy prices in 2017.

Regarding energy production, estimates call for global crude oil production at 79 million barrels per day during 2017. Murphy said OPEC's share of total production has diminished, while North America's share has increased. U.S. crude oil production is projected to increase to 9.2 million barrels per day — up 0.4 million barrels per day from a year ago. With lower total supplies, however, Murphy predicted higher energy prices in 2017.

"Expect an average of $48 (per barrel), with a range of $40 to $66," advised Murphy. "Prices should average around $2.49 per gallon for gasoline, and $2.60 for diesel."

*— by Troy Smith, field editor*

## Weather Outlook

"Guess what? We have a brand new *El Niño* developing," announced meteorologist Art Douglas during the 2017 Cattle industry Convention in Nashville, Tenn. The Creighton University professor emeritus shared his weather forecast during the Convention's CattleFax Outlook Seminar, explaining that it is unusual for a second *El Niño* pattern to occur so close on the heels of the previous one.

*El Niño* is an oscillation of the ocean-atmosphere system in the tropical Pacific, which is characterized by unusually warm ocean temperatures south of the equator, as opposed to *La Niña,* which is associated with colder water temperatures. These weather phenomena typically impact weather conditions around the world, influencing both temperature and precipitation.

> **"Guess what? We have a brand new *El Niño* developing."**
> ***— Art Douglas***

Douglas called it "very rare" that *El Niño* events should occur so nearly back-to-back, noting that it hasn't happened in 20 years. Douglas explained, however, that the 2014-2016 *El Niño* pattern ended rather abruptly last April, giving way to weak *La Niña* conditions lasting into the fall. Now, Pacific waters near the equator are warming, signaling the return of *El Niño*.

"There has been tremendous change in water temperatures, and it has happened rather rapidly," added Douglas. "I look for general warming going forward into summer. Prediction models suggest steady warming for the next six months."

What does that mean weather-wise? According to Douglas, a ramping up of *El Niño* portends drought in South America, especially Brazil, and also in Australia. The expectation is for hot, dry weather that will challenge crop production and hinder grazing. As is typical, however, *El Niño* should deliver agriculture-friendly weather conditions to much of the United States.

Douglas called the outlook for spring and early summer most promising for areas east of the Rocky Mountains. For the Central Plains and western Corn Belt, he predicted temperatures and precipitation favorable to planting and a good start to the growing season. Above-normal precipitation should be beneficial to growing conditions throughout the winter wheat grazing area and ranges of the Plains. Increased precipitation should bring relief to drought conditions in the Southeast.

Not all parts of the United States will be treated as kindly by the return of *El Niño*. Douglas said the monsoon season of the Southwest could have a weak start. The recent rainfall pattern in the West will likely transition to a drier pattern for the coming months, with temperatures heating up during summer. The greatest potential for drought exists in the Pacific Northwest.

*— by Troy Smith, field editor*

**Editor's Note:** *Troy Smith is a freelance writer and cattleman from Sargent, Neb. Kindra Gordon is a freelance writer and cattlewoman from Whitewood, S.D. This article was written as part of Angus Media's coverage of the 2017 Cattle Industry Convention. For complete coverage, visit* www.angus.media.