Get Your Cattle-Fax Fix

In a volatile market, Cattle-Fax analysts provide insights, encourage cattlemen to join to stay abreast of an ever-changing market.

by ***Kindra Gordon*** *and* ***Troy Smith***

"We're going to see some real profitability over the next several years," Cattle-Fax's Randy Blach told cow-calf producers in attendance during the popular Cattle-Fax Annual Outlook Seminar presented Feb. 4 during the Cattle Industry Convention.

Specifically, Blach told cow-calf producers, "The payday is just beginning." He also noted that stockers and packers have experienced good prices during the past year and said he anticipates that to continue. Cattle-Fax projected prices on all classes of cattle would be record-high in 2011 and 2012.

Blach credited favorable conditions to supply and demand, saying, "The supply side of this business remains very bullish. It's very, very positive."

"A year ago we said if demand was steady our markets would be high," he reflected. "We needed exports to improve and people going to restaurants again. We've seen all those things happen. We had nearly a 20% improvement in exports last year and that was one of the main drivers in the market."

Specifically, Blach noted that the uptick in demand — particularly from international consumers — has been responsible for a $100-per-head improvement in prices. Along with that, hide and offal value — again mostly via exports — added $40 to the value of cattle in 2010.

Blach did note that today's marketplace is one that is different than the industry has ever seen — and it is very much influenced by global activity. His advice to the cattle sector was to find ways to adapt and keep up with the changes.

"Adapting to this new environment is one of the things we are all challenged with," he said. "You have to have an open mind. And, you have to think five to 10 years down the road. Volatility is here."

Cattle, beef prices respond to increased exports

Exports are important to U.S. beef producers, said Cattle-Fax Market Analyst Brett Stuart. While exports account for only 10% of total U.S. beef volume, Stuart said the impact to prices received at all levels of production is much higher.

According to Cattle-Fax expectations, global beef supplies will decline for the fourth consecutive year. Tight supplies have resulted in higher prices. The U.S. dollar equivalent of global beef exports is rising at an average rate of $2.25 billion annually.

Stuart said 2010 U.S. beef exports increased by nearly 20%, reaching 90% of pre-BSE volume. Seventy-five percent of exported U.S. beef goes to five countries: Mexico, Canada, South Korea, Japan and Vietnam. Stuart said he expects exports to increase in 2011 by 8%, with the Asian countries claiming most of the increase. The increase in shipments to Mexico and Canada are likely to be modest.

While tight global supplies are increasing demand for U.S. beef, Stuart said, they have also reduced the availability of lean grinding beef for U.S. processors. They will have to bid more for imported grinder beef and pay higher prices for domestic trim beef used in "fast-food" hamburger. The likely result will be a modest increase in imported beef, of about 2%.

Stuart said tight global supplies should continue to spur demand for U.S. product, noting foreign markets other than the top five listed previously. But their collective purchase volume now rivals the No. 1 U.S. customer — Mexico. Stuart said he expects good things from ongoing negotiations with a promising potential market.

"There are no results to report yet, but I wouldn't be surprised to see a deal made, in the next year, to ship beef to China," offered Stuart. "And while we've been waiting for Japan to open up, with slow progress, when it does happen, it should bring a dramatic increase to the market."

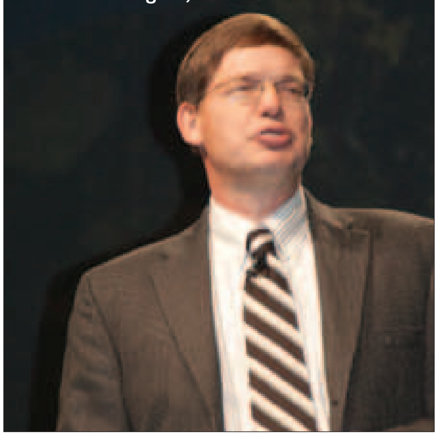
Cattle-Fax forsees halt to cow herd contraction

Beef cow numbers have declined during 13 of the past 15 years, and some further liquidation is likely to continue during the coming year. But the end may be in sight,

►"The payday is just beginning," Randy Blach told cow-calf producers attending the organization's annual outlook seminar.

►Seventy-five percent of exported U.S. beef goes to five countries: Mexico, Canada, South Korea, Japan and Vietnam, Brett Stuart, explained.

►While cattle feeders kept pulling cattle forward and kept pretty current in 2010, more recent signals are telling them to feed cattle to heavier weights, Kevin Good said.



according to Kevin Good, Cattle-Fax market analyst. Good discussed cattle numbers, projected prices and predicted a halt to contraction of the U.S. cow herd.

He shared information from Cattle-Fax analyses suggesting the smallest total tally of beef cows since 1963 will shrink by another 250,000 head in 2011. That will put the count at 30.6 million head, but Good said he looks for liquidation to end and modest expansion to begin, at least by 2013.

"Liquidation is slowing and, over the next 12 to 24 months, I expect it to stop," predicted Good, saying higher heifer retention should initiate a rebound.

Talking about current cattle supplies, Good said recent feedlot placements were up about 5%, but supplies of feeder cattle and calves are relatively low. He predicts lower placements from March forward. In 2011, total fed-cattle slaughter is expected to be down by 2%.

Good expressed some concern, however. While cattle feeders kept pulling cattle forward and kept pretty current in 2010, more recent signals are telling them to feed cattle to heavier weights.

"This year, higher input costs will challenge profitability of feedlot operators," said Good. "Packer profits will be squeezed a bit because of lower numbers going through the system."

Good said he expects greater production during the first half of the year, but less in the second half. He looks for 300,000-500,000 fewer fed cattle to be marketed this year, and fewer non-fed cattle. That will be offset somewhat by heavier finished weights.

"Prices for feds should average $104 to $105 (per hundredweight) for the year — about $10 higher than last year," added Good.

► "We expect ethanol producers to use about 5 billion bushels of corn this year," stated Mike Murphy.

Bullet points

What do CattleFax analysts anticipate for 2011? Here are highlights from their outlook:

Cattle supplies

- Total cattle numbers are down 1.4% for 2011, and another 1%-1.5% decline is expected by 2012.
- Reduced slaughter levels of fed steers, heifers and cows are expected to result in a 373-million-pound (-1.4%) reduction in beef production despite a moderate increase in average carcass weights.
- Reduced beef production and increased exports are expected to drive 2011 per capita net beef supplies lower for the fifth consecutive year.

Beef demand

- Domestic beef demand is expected to be steady to slightly better during the next two years.
- Higher fed-cattle prices will result in higher retail prices and could influence menu prices.
- Retail beef prices are expected to be less competitive compared to pork and especially chicken in 2011.

Cattle and beef prices

- Record-high prices are forecasted for all classes of cattle in 2011, with continued increases in 2012.
- Fed-cattle values are expected to average near $103 per hundredweight (cwt.) in 2011, with higher prices again in 2012.
- Feeder-cattle values are projected to average near $118 per cwt. and calf values are projected near $138 per cwt.
- Cull cow values will also experience an increase, averaging near $65 per cwt.

Global picture

- Many global economies are recovering more quickly than the United States' economy, with global beef demand rebounding. Beef exports are expected to increase 8% in 2011 and continue to rise in 2012.
- Expanded market access to Japan and re-opening China to U.S. beef exports would be very supportive to wholesale beef and cattle values.

"Five-weight steer calves should average $140, in an extremely explosive market. That makes feedlot breakevens high. Without hedging, cattle feeders could be looking at a negative year. Cow-calf producers will be in the driver's seat, and the vast majority should be profitable."

Ethanol exerting more pressure on feed supply, price

According to Cattle-Fax Market Analyst Mike Murphy, ethanol production promises to be an even bigger influence on the price livestock feeders pay for corn. Murphy offered projections for grain production and prices. He said he expects 92 million U.S. acres to be planted to corn this year and, with average yields, they should produce about 14 billion bushels (bu.). Ethanol production, said Murphy, is expected to claim a bigger portion of the pile.

According to the analyst, the Environmental Protection Agency (EPA) has granted an E15 fuel (15% ethanol by volume) waiver for model year 2001 and newer passenger vehicles, including passenger cars, sport utility vehicles and light trucks, which will support ethanol usage longer term.

"We expect ethanol producers to use about 5 billion bushels of corn this year," stated Murphy. "And we may see a shift to more corn usage for ethanol production than is used for feed within the next several years."

Murphy said corn stocks-to-use levels remain tight, at just over 5%, but are improving. Levels can be expected to reach 7%-11% for the 2011-2012 marketing year. Murphy looks for 2011 grain prices to be very seasonal, with spot corn prices averaging near $5.25 per bu. However, volatility has intensified in nearly all commodity markets.

Editor's Note: *For more coverage of the 2011 Cattle Industry Convention and NCBA Trade Show, visit the* newsroom at www.4cattlemen.com.