Corn Prices Dominate in 2008

Cattle-Fax shares outlook for the coming year at Annual Outlook Seminar

The corn market will dominate cattle talk in 2008. While the industry struggled to adjust to $3-per-bushel (bu.) corn for most of last year, prices exploded to above $5 per bu. by January. Volatility in the grain markets is sure to squeeze cattle feeders and limit prices for feeder calves in the coming year.

"There is even more reason to be concerned about corn prices this year," Randy Blach, executive vice president of Cattle-Fax, said, speaking from the annual Cattle-Fax Outlook Seminar at the Cattle Industry Convention and NCBA Trade Show in Reno, Nev. "Prices for other commodities have risen along with corn, increasing competition for what farmers choose to plant."

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> ***—Randy Blach***

Prior to the latest spike in corn prices, Cattle-Fax had projected corn plantings would decrease by 6 million acres in 2008, down from the 93 million acres planted in 2007. Now the Centennial, Colo.-based market analyst firm says one of the key indicators to watch is how prices for other commodities respond. If they stay high, it's a signal that other grains are ready to compete for planted acreage.

Unprecedented demand for corn, wheat and soybeans is driving the price surge. Export demand is strong, and in December 2007 Congress increased the ethanol mandate to 15.2 billion gallons (gal.) from livestock feed sources like corn by 2012. While the 2007 corn harvest was record-large at just more than 13 billion bu., Cattle-Fax analysts say the need for another near record-large corn crop will pressure margins across the industry.

Other observations from the Cattle-Fax Outlook Seminar include:

- ►Rising input costs such as fuel are chipping away at profits. Increased risk is afoot. This volatility is stalking the entire cattle industry. Reduced cattle numbers have left both industries with too much capacity, as much as 20% by some estimates.
- ►Rising commodity prices also are causing some farmers to convert pastures to cropland. With the continued drought in the Southeast, where about 25% of cow-calf production exists, it will remain difficult for growers and feeders to acquire the grazing volume they need.
- ►All of this puts renewed emphasis on getting export markets fully restored. International markets offer producers the chance to be paid more for products U.S. consumers don't value much. Increasing exports will help increase demand for U.S. beef, which can offset some of the other input costs the industry is being forced to absorb.
- ►This is a year in which it will pay to learn about foreign markets and understand the value of trade. For example, the U.S. cattle industry can export tongues for about $10, or use them domestically for 40¢.


PHOTOS BY TROY SMITH

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"Profit opportunities exist, but it will take tough management to find them this year," Blach said. "We are in a period of rapid change and thin margins."

He added that rather than producers pushing beef through the production chain, consumer desires increasingly drive it, offering cattlemen more chances than ever for profits. Today, nearly 25% of cattle are sold through some sort of certified program. Nearly 60% of all fed cattle do not sell on the cash market.

"There are a lot of programs out there that hold promise for increased value," Blach said. "But you have to do your homework to make sure you're selling into one that actually pays. We always have to re-evaluate our business, and some of the dynamics this year make it imperative that cattlemen position their business to minimize risk as much as possible and take advantage of the profit opportunities that are out there. Volatility will be more extreme than in years past."

For a detailed look at the factors influencing the cattle industry in 2008, call Cattle-Fax at 303-694-0323 and order your copy of its 2008 Outlook & Strategies. The cost is $100.

Douglas provides weather outlook

Cattlemen gathered for the Cattle-Fax Outlook Seminar, sponsored by Pfizer Animal Health and Purina Mills LLC, Thursday morning at the 2008 Cattle Industry Annual Convention and NCBA Trade Show in Reno, Nev. Art Douglas of Creighton University provided the always highly anticipated weather outlook.

"La Niña on the equator will continue into the spring and early next summer. Moisture conditions should continue to improve in Australia and northern Brazil, but La Niña will favor persistent drought in Argentina and the southeastern United States," Douglas said.

It was forecasted that the eastern two-thirds of the U.S. would be warmer in winter 2007/2008. Overall, that forecast has been quite true, Douglas said. The Midwest, where there is precipitation rising above any forecast due to snow cover in the recent months, is the exception, Douglas said.

Forecasts for spring/summer 2008 show a high-pressure front just north of Hawaii. Most of that storm will track from the Islands to the United States. Cluster analysis of variables show warming conditions from the east moving to the west, Douglas said. The Northwest cool season will last well through March, and the Midwest might experience unusual tornado trends.

Dry conditions are likely to redevelop during the spring in the Southwest, but Douglas forecasted a good summer monsoon season for the Four Corner states. However, his preliminary forecast called for a near normal summer throughout much of the Corn Belt. This should favor good crop yields.

— by Tosha Powell

Trade and Demand

Like it or not, we're all gamblers when it comes to the market," Brett Stuart told producers when opening the trade-and-demand portion outlook seminar. Looking at current market trends, trade is expanding, but so is inflation, especially for commodities, Stuart said. The weak U.S. dollar will continue to stimulate imports.

"What this means for U.S. beef customers is they can spend the same amount of money and buy more beef, or they can spend less for [the] same amount," he explained. "That's how significant the exchange rate is to trade."

The recession also has an effect, although food is typically less affected than houses, cars and electronic gadgets.

"Keep in mind beef is a luxury item," Stuart said. "So while food isn't impacted as much, beef could be."

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— Art Douglas

Global beef issues. While the U.S economic situation does affect the global economy, global beef expansion continues in China, Brazil, Argentina and India. As per capita incomes rise in developing countries, their demand for low-quality beef also grows. However, the expansion of grain-fed beef has stalled, as has total U.S. beef expansion.

"The U.S. is still the largest producer, producing almost 12 billion tons a year," Stuart said. "But it is losing market share due to stagnant growth." In the past 10 years, U.S. beef production has increased less than a percent, while production in Brazil is up 60% and China has increased its production to 68%.

Canadian beef issues. To the north, Canada's beef market faces severe profitability issues. Feeder imports from Canada were up 80% in 2007, and fed-cattle exports were up 14%. Stuart said he expects this influx of Canadian cattle to continue.

Asian market access. Looking toward other markets, the U.S. continues to press for full access to Asian countries.

"In January 2004, 92% of our export markets closed," Stuart said. "We're currently at 70% of 2003 exports. We have a hard time crossing the 70% level because some obvious markets remain closed in Japan and Korea."

The Korean market is expected to open to U.S. beef in early 2008. Although a full opening is being pushed, even opening up to cattle less than 30 months of age would restore at least 95% of the pre-BSE (bovine spongiform encephalopathy) Korean trade.

"As these markets open, we have a lot of value to put back on our cattle," Stuart said.

Exporting short ribs alone to South Korea would add $15 per head. Also, in 2003, export premiums to Japan amounted to $64 per head.

Beef trade outlook. "U.S. trade and forecasts are expected to grow, especially if we get Japan," Stuart said. In fact, exports are expected to increase to 1.9 billion pounds (lb.) based on access agreements with Japan and South Korea.

Imports are also expected to increase 3% to 4% to 3.26 billion lb.

U.S. beef demand. Export demand is expected to remain strong to growing in 2008. Domestic demand is projected at steady to slightly softer. Although high retail prices indicate that U.S. demand for beef is healthy, Stuart said the type of beef consumption may shift in the economic slowdown.

"People might be buying more burgers than steaks," Stuart said. Cattle-Fax suspects that U.S. per capita consumption will decline by 1 lb. per capita in 2008. However this is mostly due to flat supply and growing exports to Asia.

— by Chelsea Good

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Cattle-Fax Looks at Grains, Feed

The grain industry has entered a volatile time, according to Cattle-Fax's Mike Murphy. "Unfortunately, volatile prices are going to stay," he told attendees of the Cattle-Fax Outlook Seminar.

The keys for the cattle industry making it through these volatile times are supply, demand, global markets and prices of all of them.

Corn production in 2007 was a record-high 14.4 billion bushels (bu.). Record-high prices for corn, soybeans and wheat have forced fierce competition for acreage.

In the past year all commodity crop prices have increased. U.S. corn demand alone is projected to reach 13.3 billion bu. "We need more acres of corn," Murphy said, "but that's not going to happen."

Due to the increased prices of the other commodity crops, it is predicted there will be more acres of wheat and soybeans planted. Murphy advised producers to watch out for a couple of variables, though. With uncertain fertilizer prices for the next year, how much will fertilizer prices increase? The price difference between corn and beans will also be a large variable. The wildcard for the group will be how many acres will be turned into "feedgrain" acres.

"There are still more questions than answers with ethanol," Murphy said. "Ethanol products might not be produced as soon as was thought due to [the] cost [of] building the plants."

Murphy then shifted focus to the world demand for feedgrains and competition for U.S. supplies. Due to the weaker dollar, agricultural commodities are expected to be very bullish. U.S. corn exports are projected to account for 66% of total world corn exports this year.

Global consumption for feedgrains is on the rise. It is projected consumption will soon exceed production. "Demand is driving values, and stocks to use are low," Murphy explained. "This will lead to a higher price."

Since 2000, world corn consumption has outstripped production only one year.

►Wheat stocks are at their lowest level in 45 years, Mike Murphy said. Demand is being rationed and production is already being increased.

During the past year the soybean stock saw a big drop leading to much higher prices. Wheat stocks are at their lowest level in 45 years. Demand is being rationed and production is already being increased. This low stock will lead to what Murphy called "the war for acres."

According to Murphy, the low soybean and wheat stock will lead to a –4.7% change in stocks/use. "This will lead to nothing but price increases," Murphy said. He also advised that grains available for feed usage would continue to decrease.

Murphy said hay stock was also low, driving up the price of feed, and was concerned more hay land might be converted into crop production acres.

All of these facts lead back to the extreme volatility with which Murphy began his presentation. "We need perfect conditions from May to July," Murphy said. "Any hiccup could show even more volatility in the market."

— by Mathew Elliott

Cattle-Fax Wrap up

Putting the finishing touches on Thursday morning's seminar, Randy Blach offered a view of some long-term trends and market-influencing factors. Blach said the traditional cattle cycle is being replaced by a production and technology cycle, creating a different cattle market. Inventory swings, he predicted, will be less pronounced than in the past.

Blach said the weakening economy will likely be accompanied by declining U.S. per capita consumption of beef. Consumption has been stuck at 65 lb. per person for 15 years, and a decline will be due less to weakening demand than limited supply. However, a growing global market for beef and limited production worldwide should lend support to prices, as will a devalued U.S. dollar.

"A weak dollar creates opportunities to export more beef," Blach explained, "if we have foreign market access."

High grain prices will encourage crop production, pulling acreage from pasture and hay production, driving the cost of grazed and harvested forage higher, too. Blach said high-cost feedlot gains will be an incentive for growing cattle to heavier weights prior to feedyard placement. High-priced grain should lead to higher-priced fed cattle but pressure calf- and feeder-cattle prices lower in the interim.

Blach predicted continued consolidation in all segments of cattle production. Incentives to expand cow herds is lacking and further liquidation is likely. Some cow-calf producers will leave the business, leaving fewer operators controlling a greater percentage of the nation's cow herd. Excess feeding capacity will leave more pens empty and reduced cattle numbers will force cutbacks in packer operations.

"Industry consolidation should accelerate and beef branding and differentiation will continue," Blach stated. "We have to stay focused on producing high-quality, grain-fed beef in order to compete for market share both domestically and globally."

— by Troy Smith

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Editor's Note: *This article is compiled with a release provided by Cattle-Fax and articles written under contract or by staff of Angus Productions Inc. (API). For more highlights of the 2008 Cattle Industry Annual Convention and NCBA Trade Show, visit* www.4cattlemen.com, *API's web site providing coverage of the convention. The site is made possible through the sponsorship of Salt Creek Ranch, Memphis, Texas.*