

Beef Industry Market Outlook



Indian Livestock Days

Albuquerque, NM

May 10, 2017

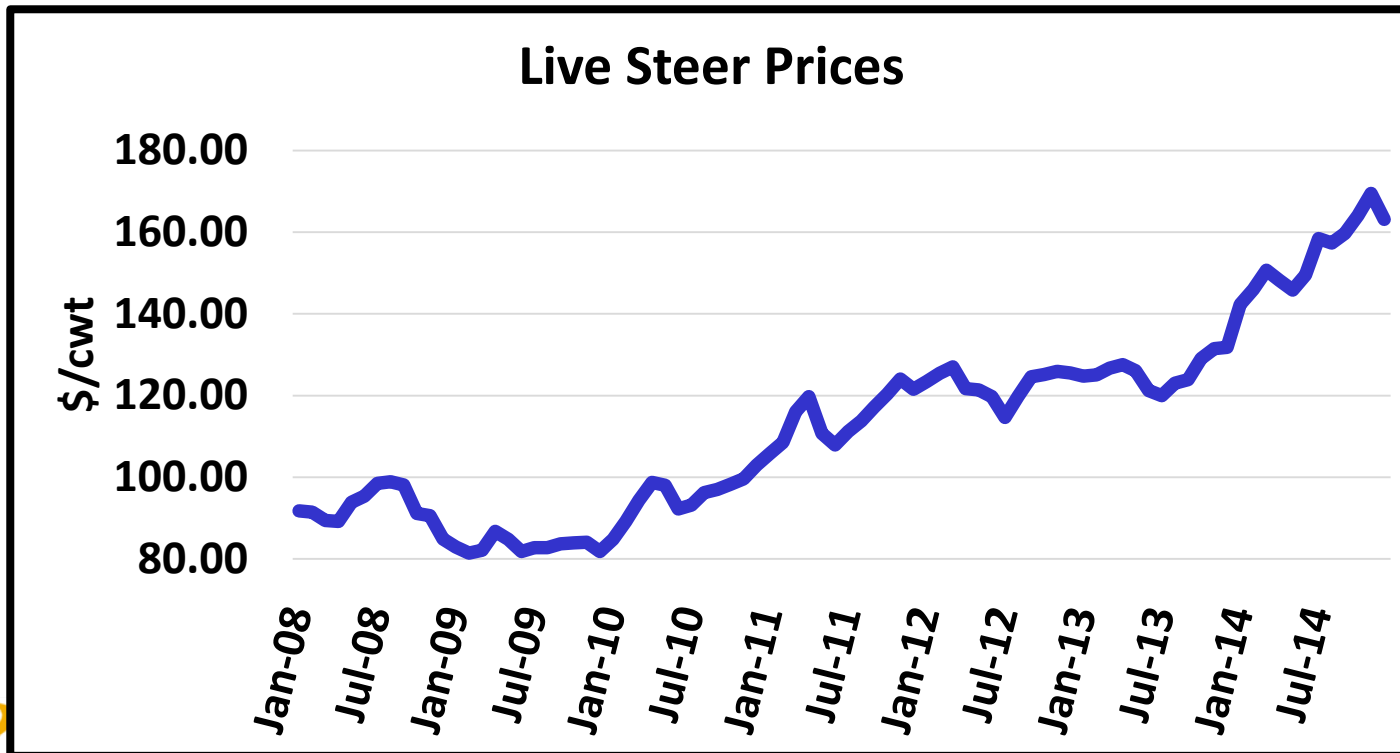
Brett C. Crosby
Custom Ag Solutions
bcrosby@casnow.com
307-548-9636



Three Most Common Questions



- What has driven the market?
- What is the current market situation?
- Planning for the future?



Market Pullback



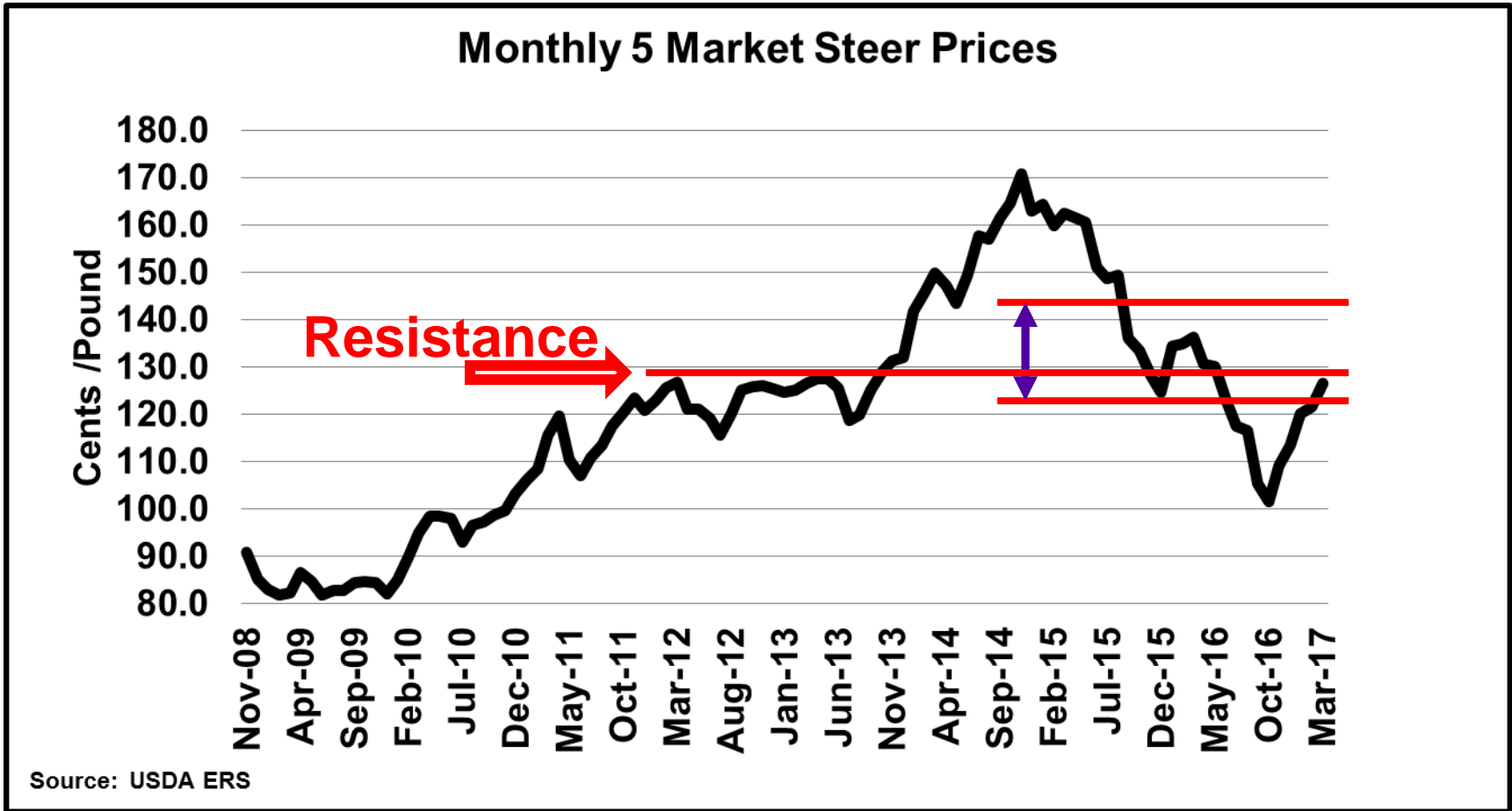
Live Cattle Prices Declined Over 40%



Market Correction



Typical corrections retrace 38% to 60%





Market Pullback



Feeder Cattle Corrected 78%



Market Pullback



5-Wt Steers Dropped Over \$140/cwt



Market Dynamics



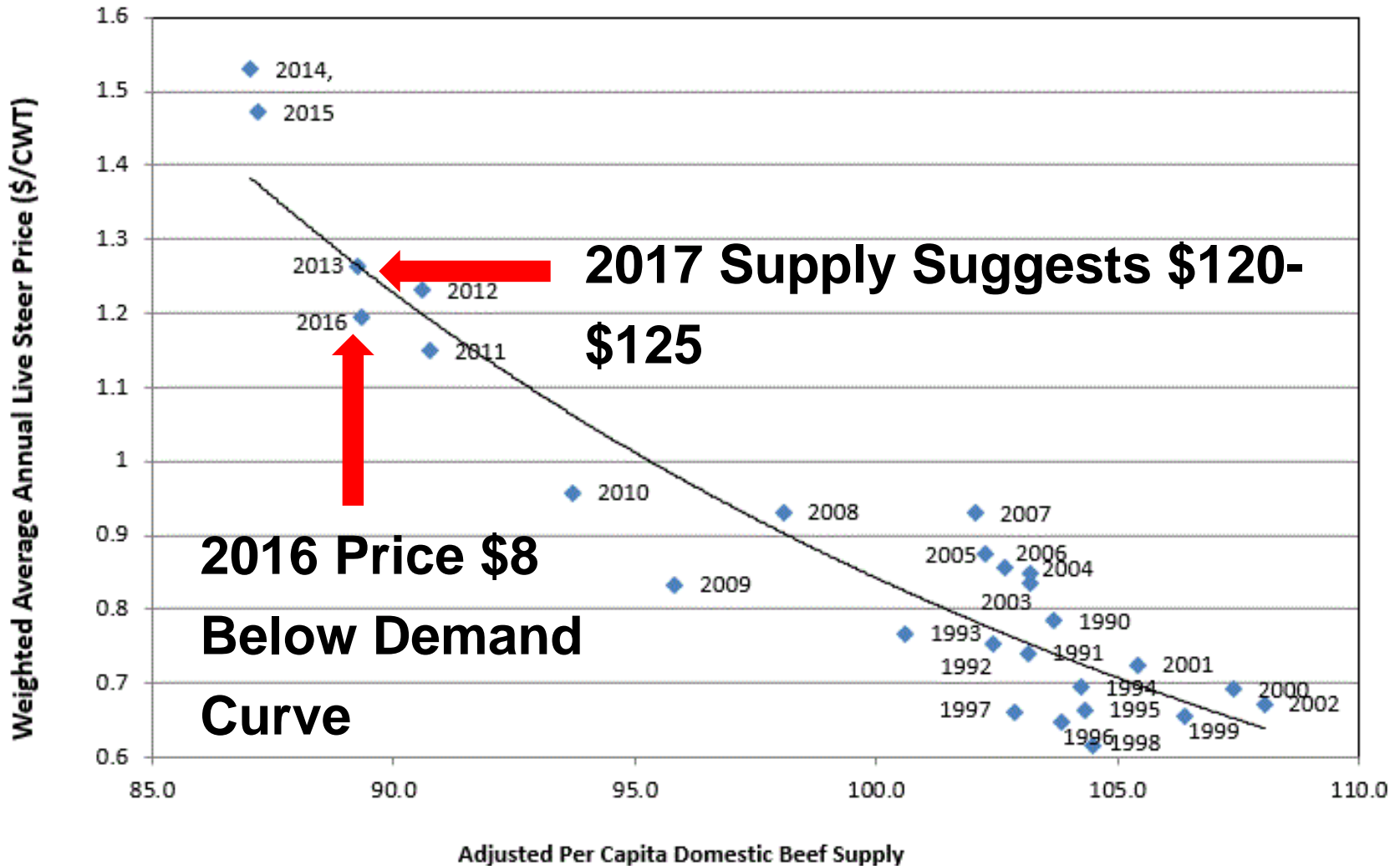
- **Big moves tend to get overdone**
- **An overdone price move in one direction often leads to overcorrection in the other**
- **2016 live cattle prices likely reflected an overcorrection**
- **The current rebound is consistent with supply and demand**



Prices May Be Overdone



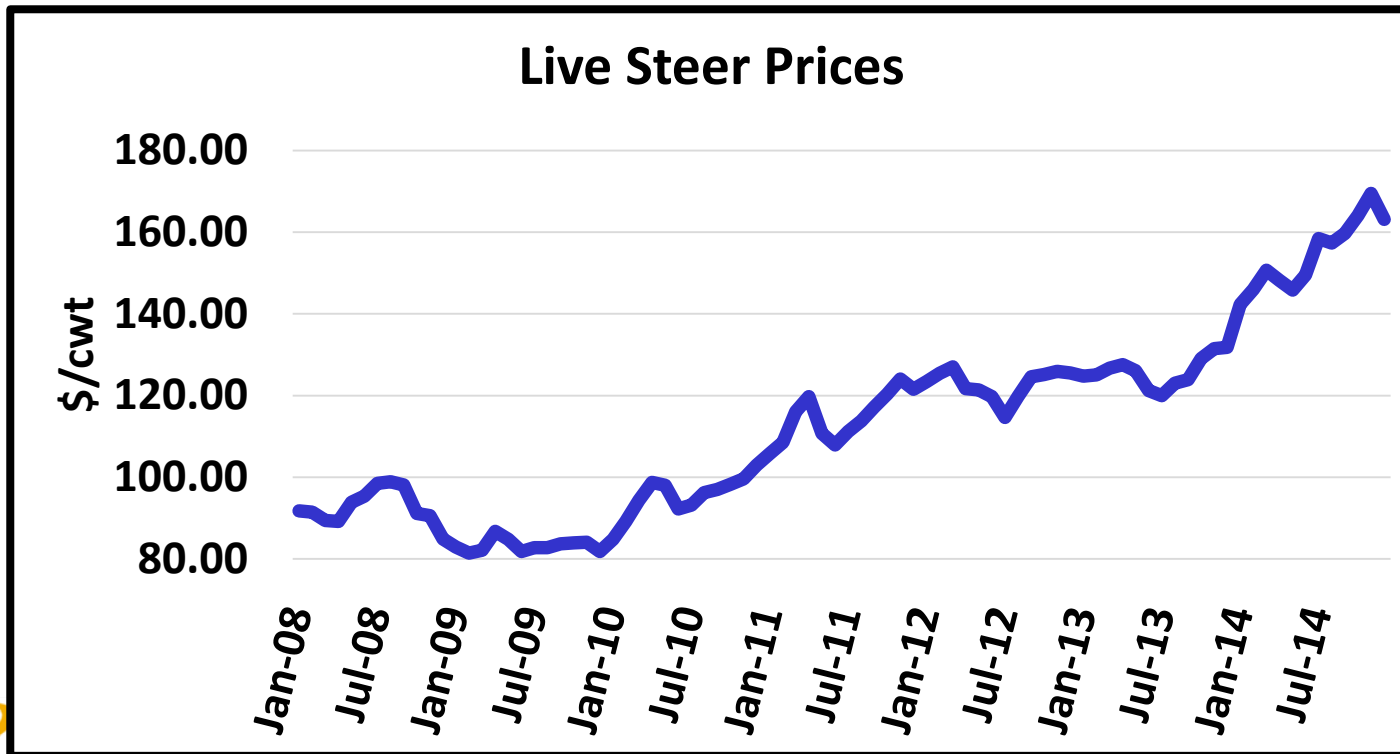
Price Comparison to Adjusted Domestic Per Capita Supply



Current Market Situation



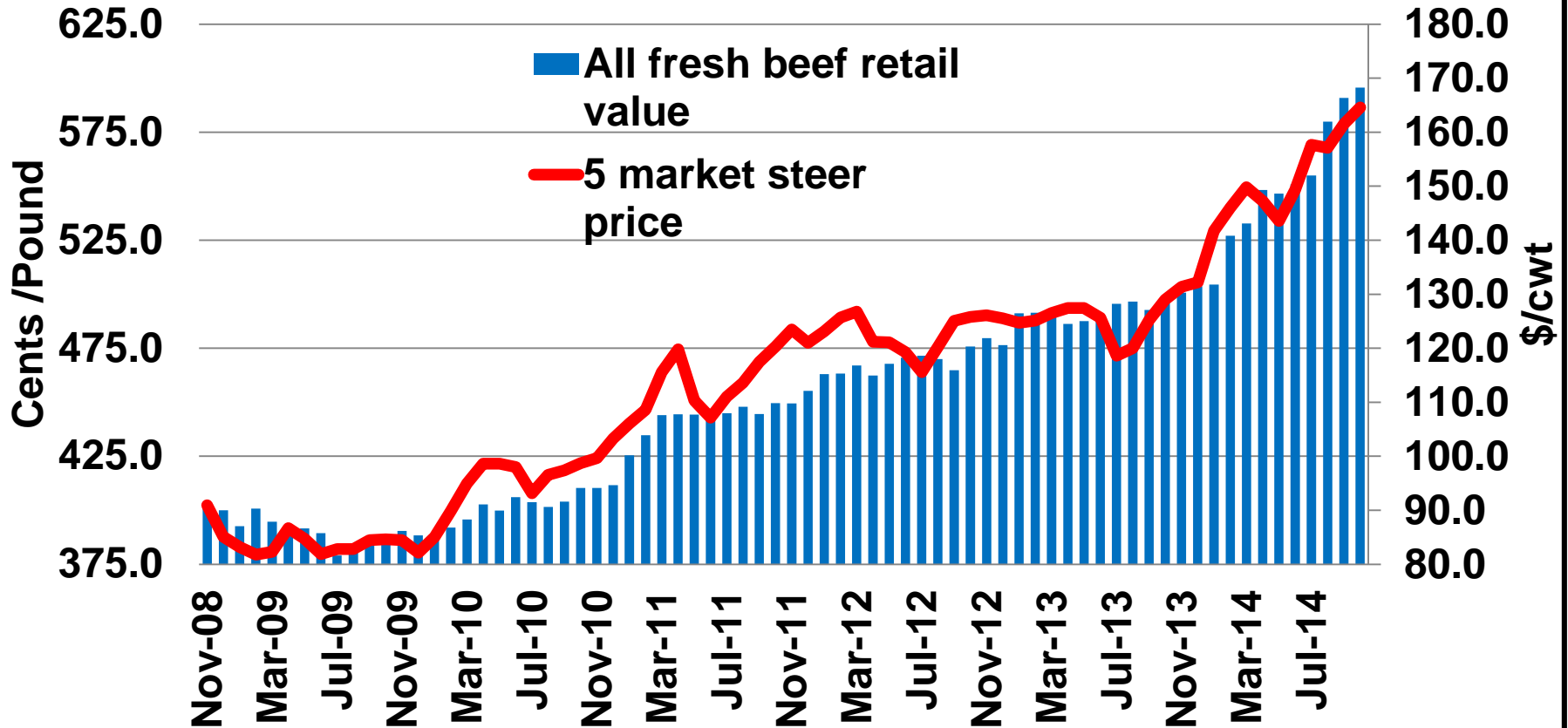
- What caused the market pullback?
- What is the current market situation?
- Planning for the future?



Live Cattle Historically Track With Retail Beef



Fresh Retail Beef Prices

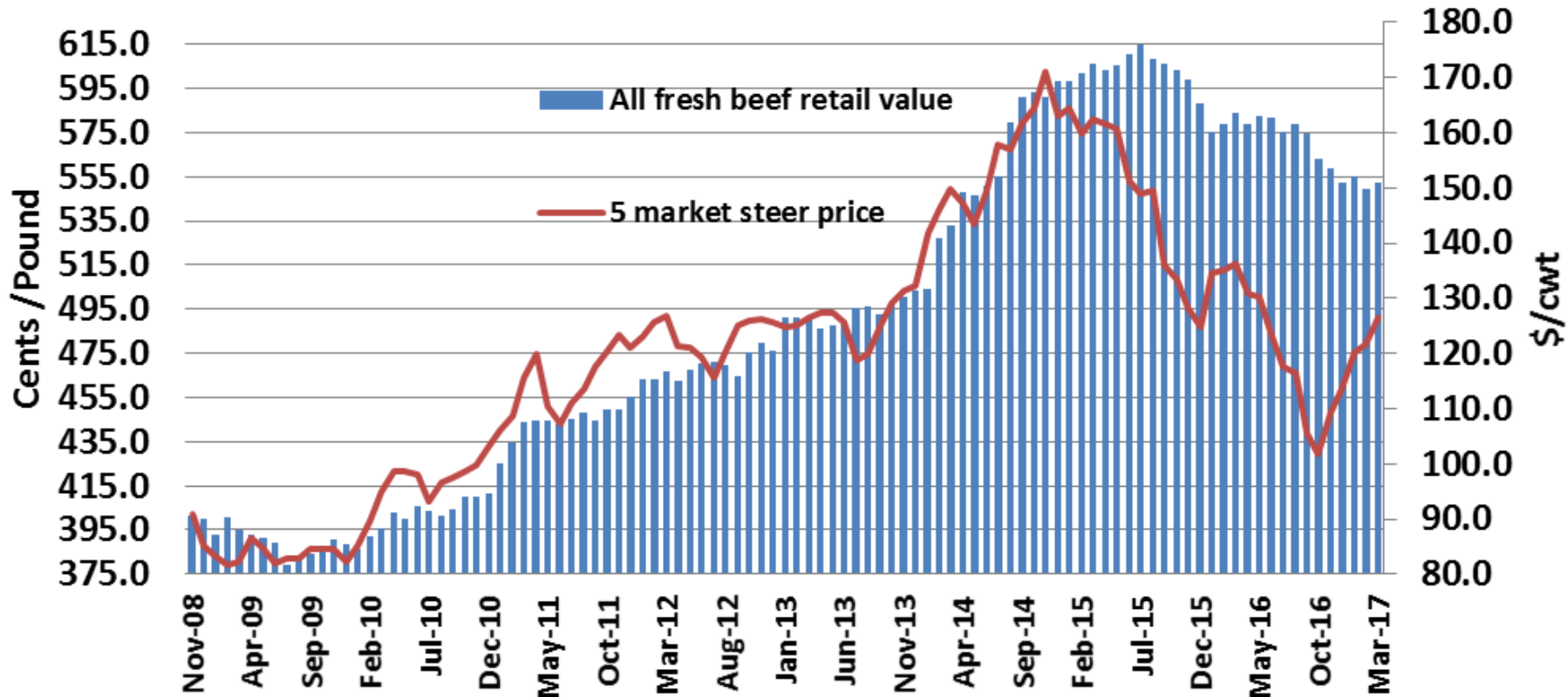


Source: USDA ERS

Live Cattle Prices Diverged



Live Steer vs. Fresh Retail Beef Prices

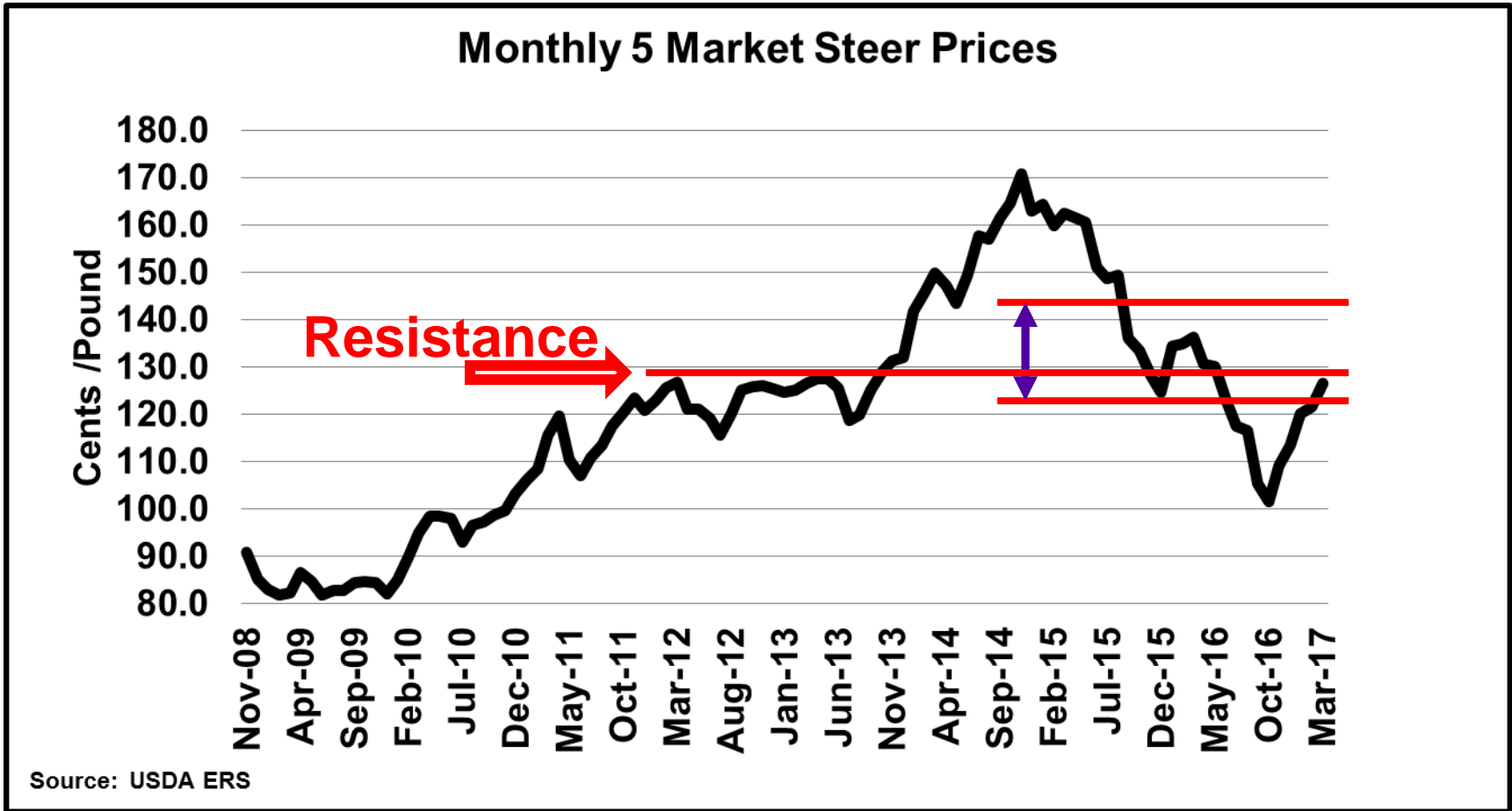


Source: USDA ERS

Market Has Corrected



Typical corrections retrace 38% to 60%



Cause and Effect of Divergence



Causes

- **Industry and market expected lower prices and traders moved accordingly**
- **Market expectations and lost capital from all commodities left a shortage of buyers**
- **Retailers and packers enjoying high margins**
- **Supply was plentiful for current volume**
- **Both sectors were uncertain about the ability to move more product even at lower prices**

Cause and Effect of Divergence



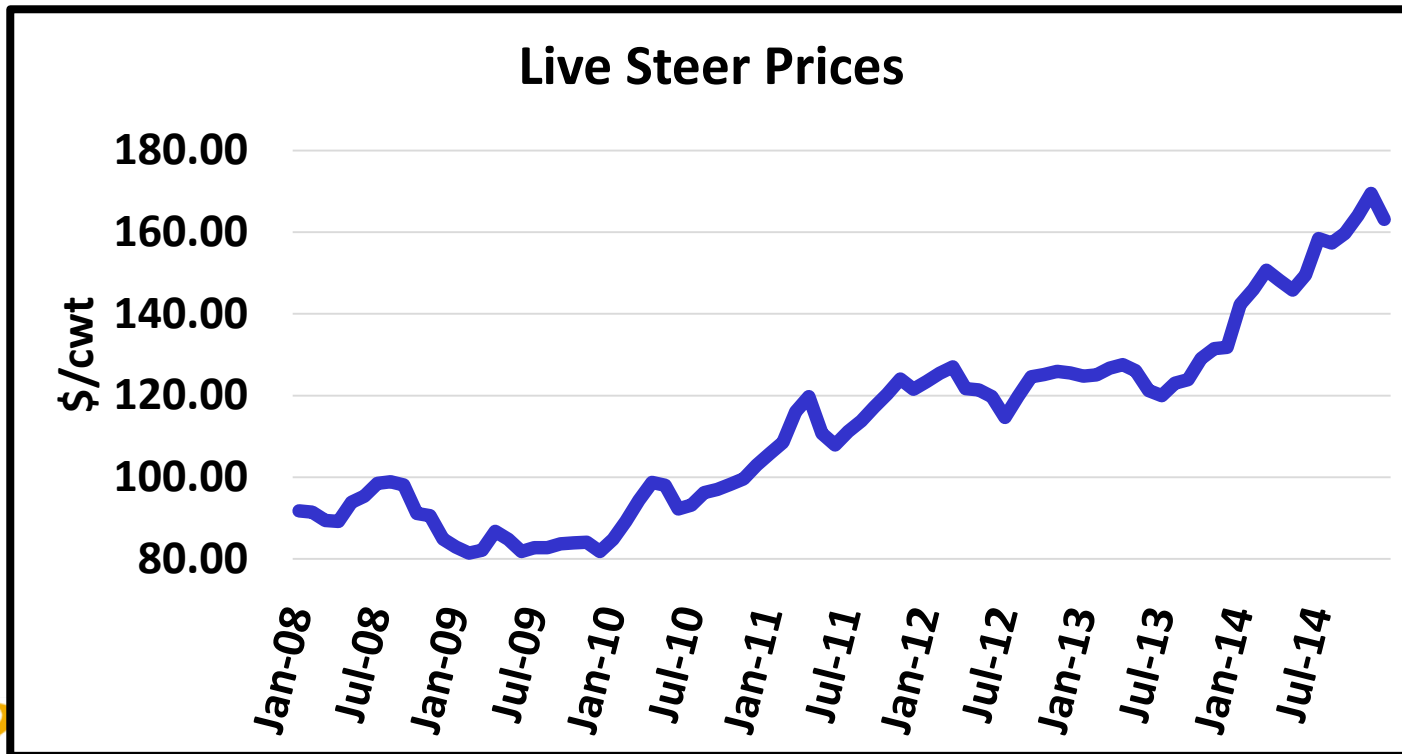
Effects

- **Slower movement of excess supply extends price downturn**
- **Value loss extends through the chain to cow-calf producers**
- **\$60/cwt decline in live cattle price thus results in \$800₊/head decline in calf value**
- **Most cow-calf enterprises entering negative profitability**
- **Herd expansion will slow or stop**

Planning for the Future



- What caused the extreme moves?
- What is the current market situation?
- Planning for the future?



Planning for the Future



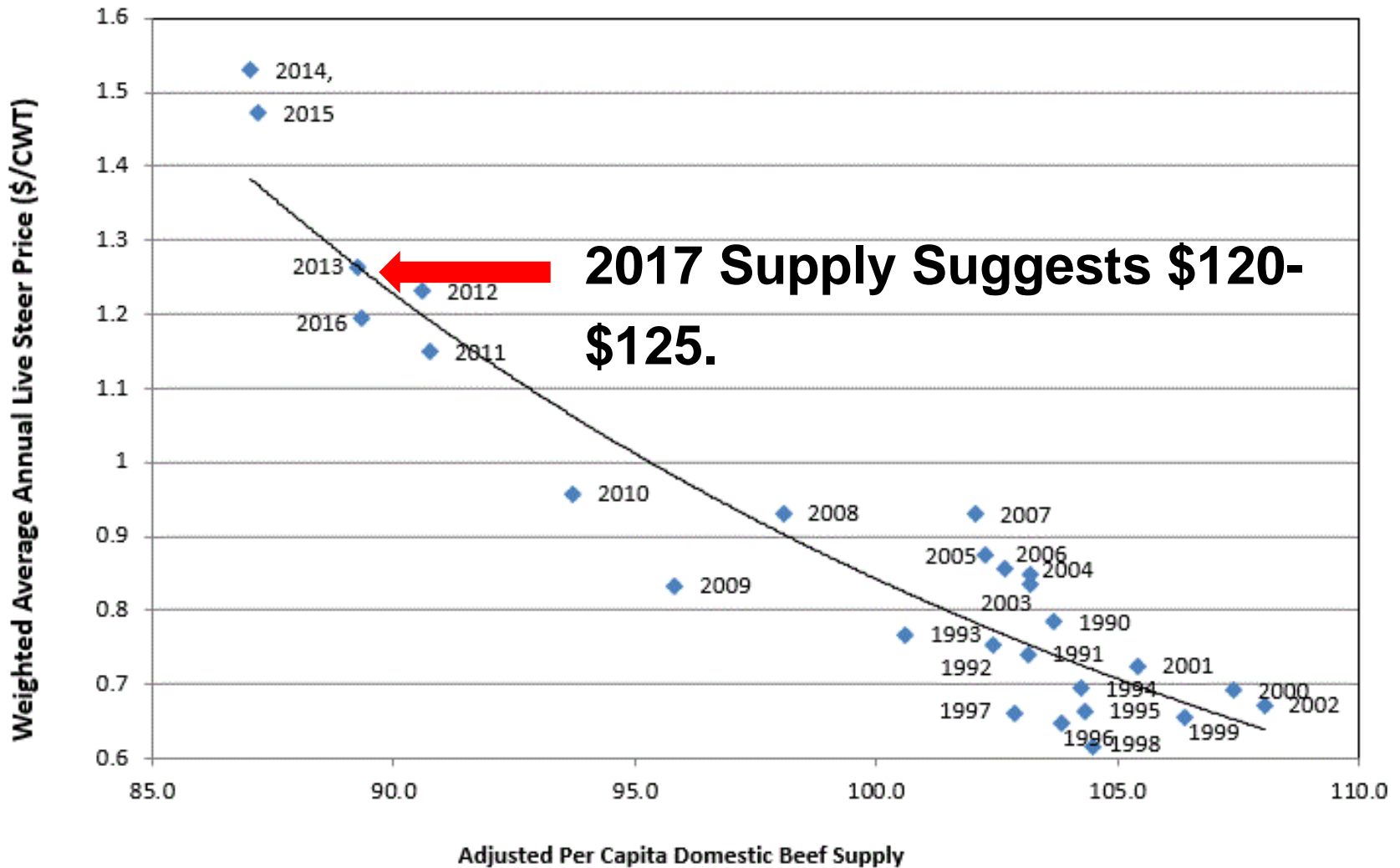
- **Prices will bounce back and forth as supply remains in question**
- **Current market suggests 500 lb steers around \$200/cwt**
- **Target \$110-\$130/cwt live cattle**
- **Forward contract on optimism**



Expect Higher Prices This Fall



Price Comparison to Adjusted Domestic Per Capita Supply



Areas of Focus



- **The top one-third wins**
- **Focus on the big things**
- **Manage for all possible scenarios - flexibility**
- **Consider all marketing alternatives**
- **Make an efficient factory**



Management: The Top One-Third Wins



- **Price seeks the cost of production**
- **Research shows that top producers are consistently profitable**
- **The best risk management is simply good management**
- **Top producers have the highest probability of weathering storms (or the absence of them.)**

Focus on the Big Things



- **Probability**
 - How likely is an adverse event?
 - Variance
- **Impact**
 - What is the impact of an adverse event?
- **Risk Matrix**





Variance Exists in Production, Price & Costs

Hypothetical Cow/Calf Budget		
Input	\$/Hd	
Feed	\$ 420.00	-\$35/mo
Labor	\$ 150.00	
Bulls	\$ 55.00	
Replacements	\$ 100.00	-Purchase 12% @
Supplies	\$ 40.00	\$1,500 less 10% sold
Fuel	\$ 30.00	for \$800 salvage
Repairs	\$ 40.00	
Vet/Vac.	\$ 20.00	
Freight	\$ 10.00	
Misc.	\$ 20.00	
Cost/Cow	\$ 885.00	
Weaning Rate	90%	
Cost/Calf	\$ 983.33	
Cost+Sale Commission	\$ 1,013.75	-3% sale cost
Cost/Steer	\$ 1,067.10	
Cost/Heifer	\$ 963.06	
600 lb Str Price	\$ 177.85	
580 lb Hfr Price	\$ 166.04	

Categorize Line Items to Prioritize Effort



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Focus on the Big Things



- **Gross Income**
 - Calf Crop
 - Calf Weight
 - Calf Price
 - Retention Rate
- **Expenses**
 - Feed
 - Labor
 - Fuel
 - Everything Else



Risk Matrix



Probability

1	2
3	4

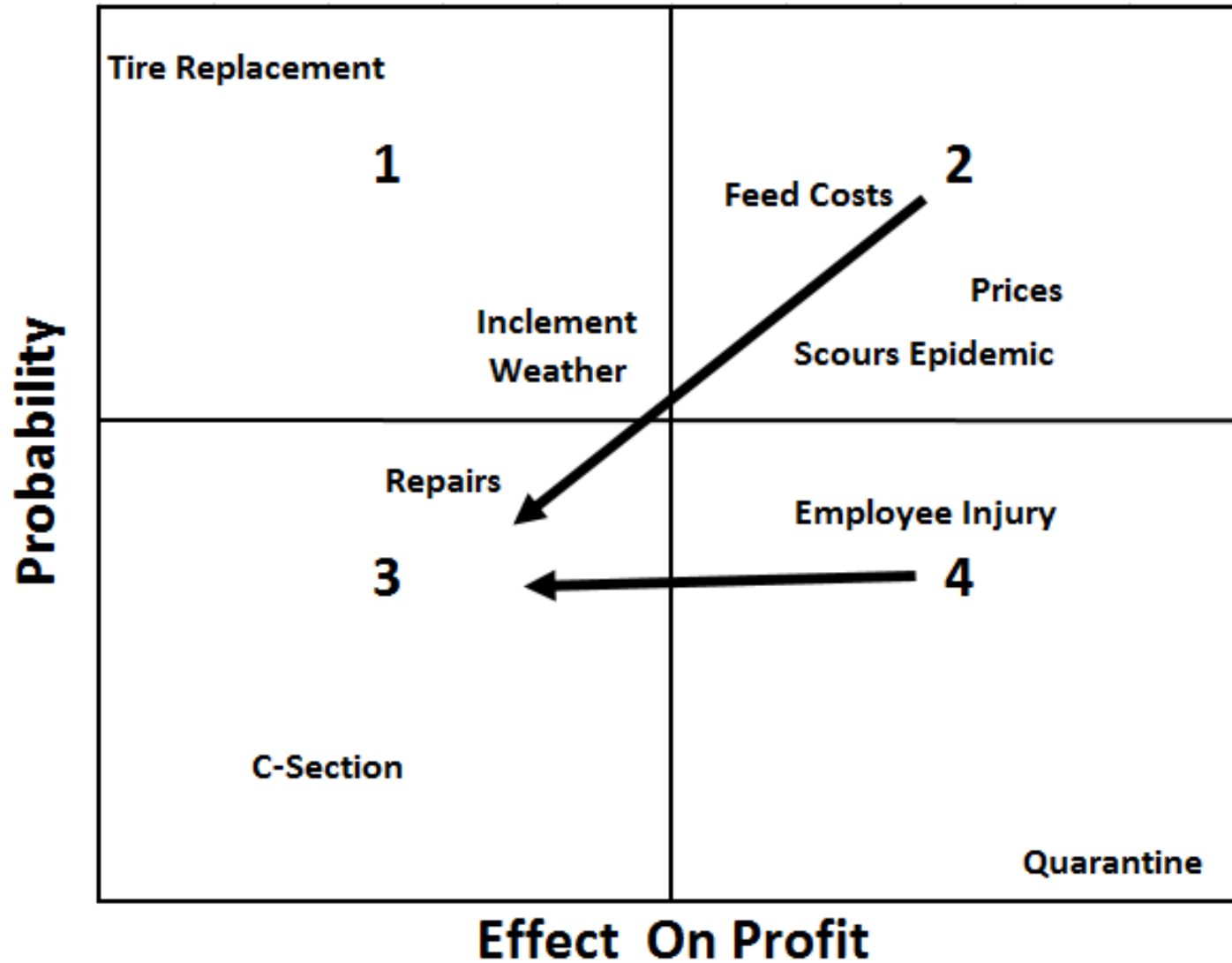
Effect On Profit

Categorization Doesn't Have to be Exact

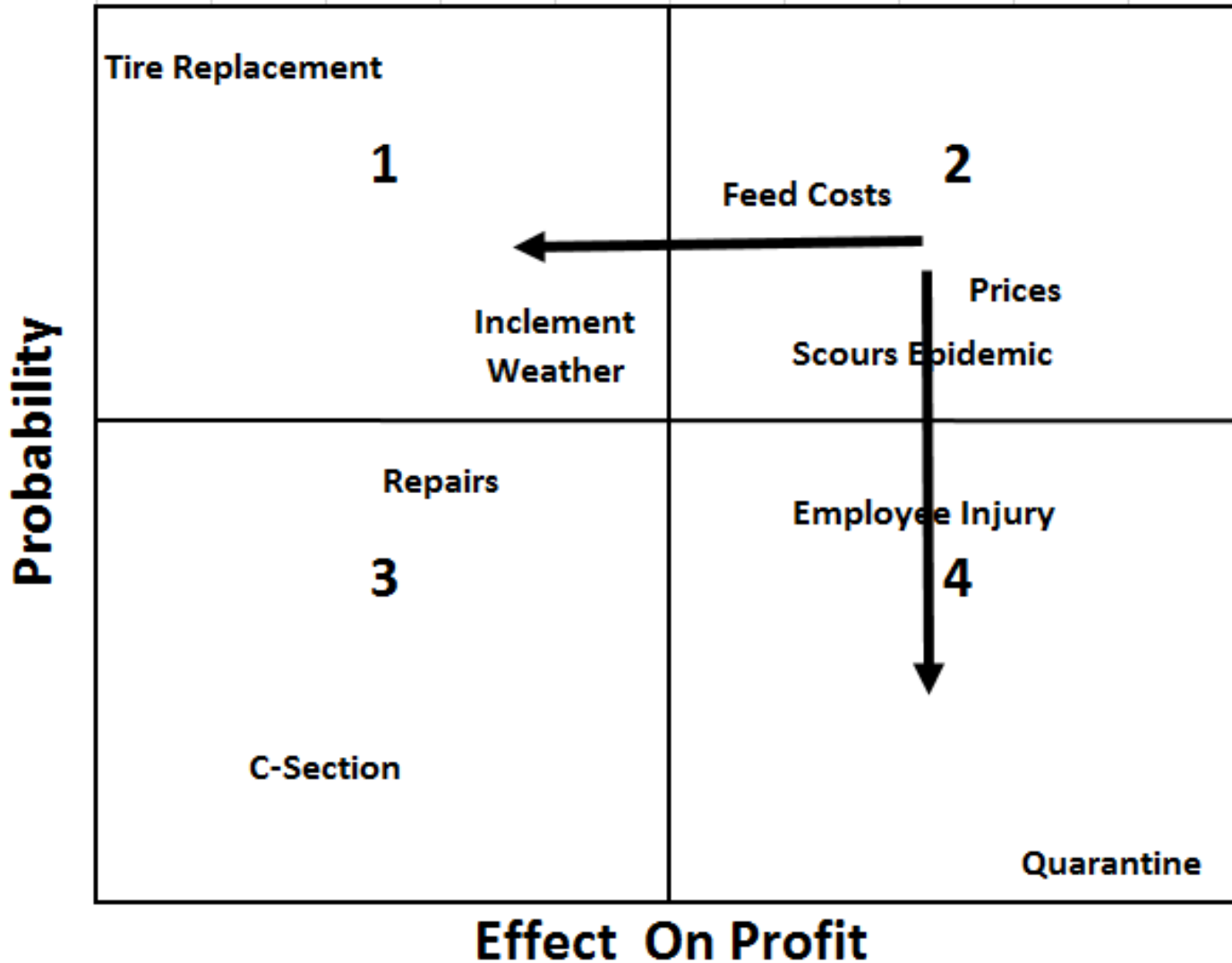


Probability	<p>Tire Replacement</p> <p>1</p> <p style="text-align: right;">Inclement Weather</p>	<p>Feed Costs</p> <p>2</p> <p style="text-align: right;">Prices</p> <p style="text-align: center;">Scours Epidemic</p>
	<p style="text-align: center;">Repairs</p> <p>3</p> <p style="text-align: left;">C-Section</p>	<p style="text-align: center;">Employee Injury</p> <p>4</p> <p style="text-align: right;">Quarantine</p>
	Effect On Profit	

Reducing Probability and Effect is Ideal



Manage at Least Probability or Effect



Flexibility- Plan for All Possibilities



- **Have a plan for every possible scenario**
- **Become familiar with all risk management tools**
- **Develop marketing flexibility to act on opportunities**
- **Most cattle will turn a profit at least once in the marketing chain**



Protect the Factory



- **Efficient operations have efficient cattle**
- **Producers stay competitive through genetic progress**
- **Environment chooses cattle, and herds take generations to adapt**
- **In herd reduction situations, choose alternatives that preserve genetics**

Questions?



- Home
- Forecasting Tools
- Market Data
- Historic Basis Tool
- Ration and Cost Calculator
- Financial Tools
- Other Tools
- Ab

Basis by Location - 8 Weeks

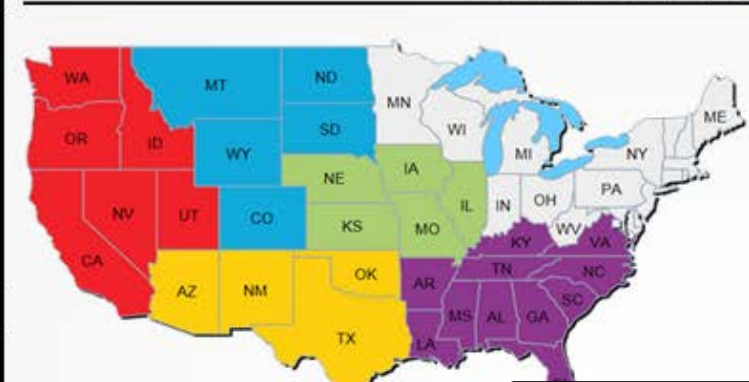


Basis by Location - 16 Weeks



USDA Reports - Cattle

BeefBasis Stocker Index



Stocker Index

The Stocker Index reflects a 7-day weighted average price of medium and large framed steers weighing 350-650 pounds. The data used to calculate the index comes from auction reports generated by the USDA.

The Region Stocker Index is calculated like the Stocker Index, but only with data from the indicated region.

Questions?

Feeder Cattle Futures Settlement by Contract

<http://www.beefbasis.com>

