

2019 Kansas State University

**Agricultural
Lenders Conference**



Beef Cattle Market Outlook

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FEATURING...

- Grain Market Outlook for 2020
 - Kansas Land Values
- Characteristics of Top Kansas Farms
- Beef Cattle Market Outlook for 2020
- Creating a Sales Culture at Your Bank
- Supplemental Coverage Option (SCO)
- Macroeconomy and Interest Rate Outlook

Clarion Inn
Garden City, October 8, 2019

K-State Alumni Center
Manhattan, October 9, 2019



Overarching Beef Industry Economic Outlook

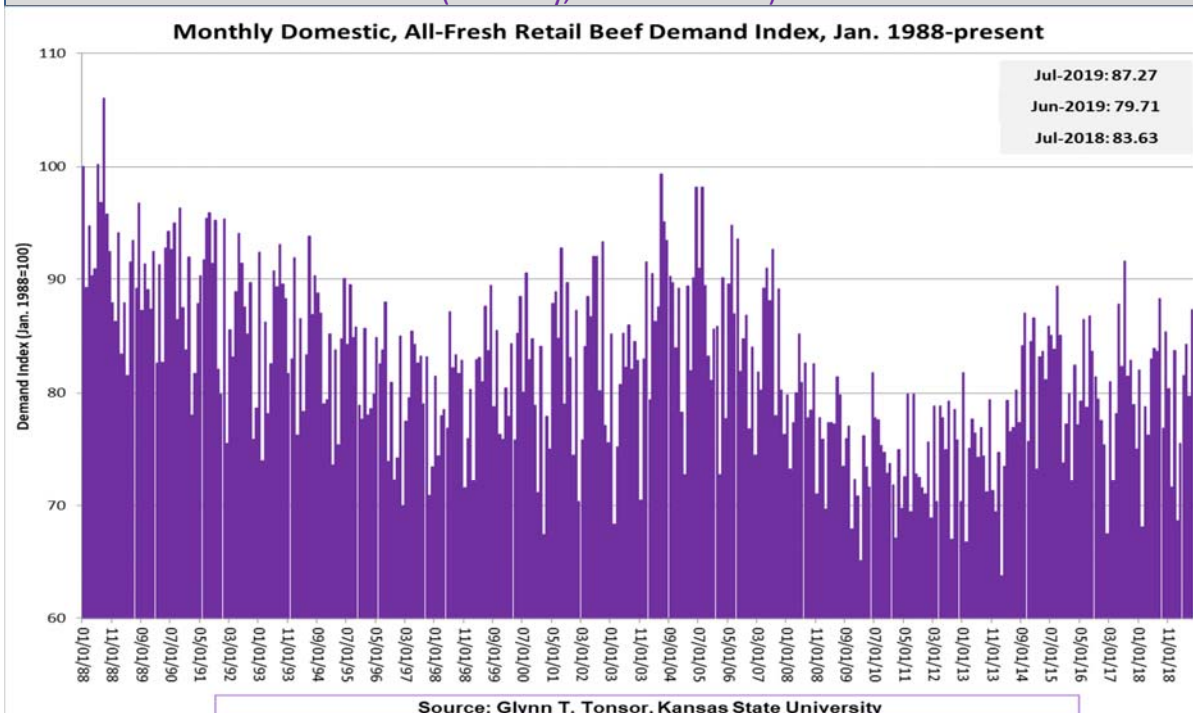
- Supplies
 - Commercial Beef Production Up, Increases Moderating
 - +3.8% in 2017, +2.6% in 2018, +1.2% in 2019, +0.6% in 2020

Overarching Beef Industry Economic Outlook

- Supplies
 - Commercial Beef Production Up, Increases Moderating
 - +3.8% in 2017, +2.6% in 2018, +1.2% in 2019, +0.6% in 2020
- Demand
 - Key to supporting prices!!!

All-Fresh Beef Retail Demand Index

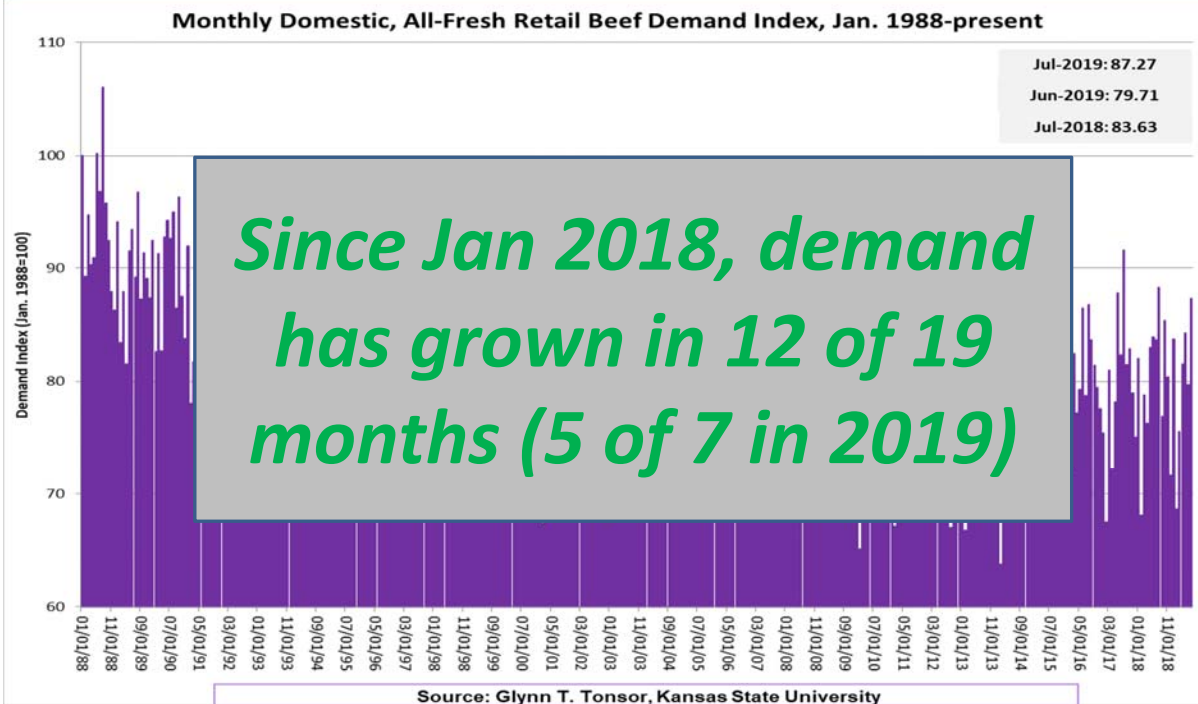
(Monthly, Jan 1988=100)



<http://agmanager.info/livestock-meat/meat-demand>

All-Fresh Beef Retail Demand Index

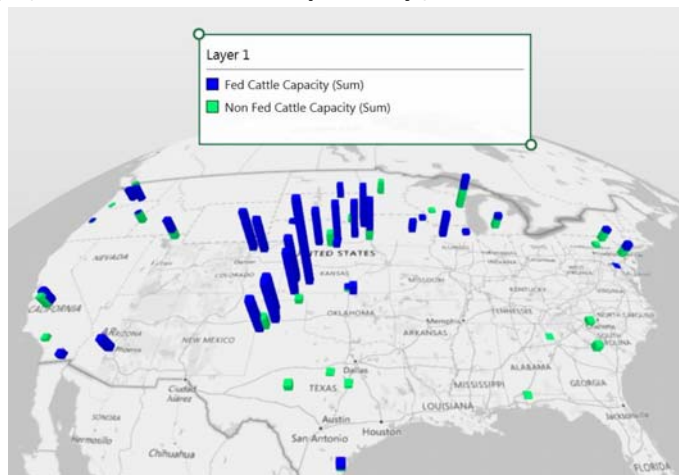
(Monthly, Jan 1988=100)



<http://agmanager.info/livestock-meat/meat-demand>

Holcomb-Tyson Plant Fire

- Date: August 9th
- Processing Capacity Involved: 6k/day
 - ~5% of US Capacity (~24% of KS Capacity)
- Processor Map



Holcomb-Tyson Plant Fire

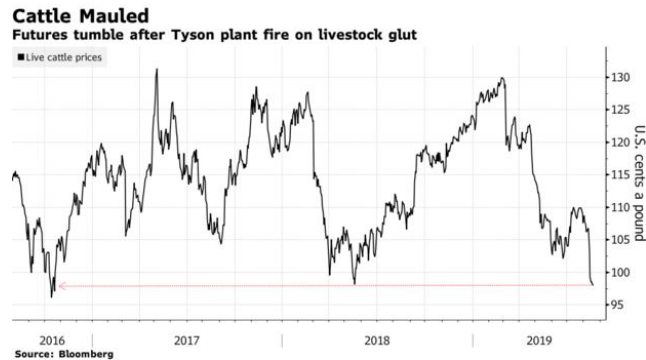
- Price Impact on Cattle

- Expected:

- Derived Demand Decline = Cattle Price Decline

- Realized:

- CME limit down 1st two days
 - LC Cash down \$5-\$7 1st week; FC Cash down ~\$10



Holcomb-Tyson Plant Fire

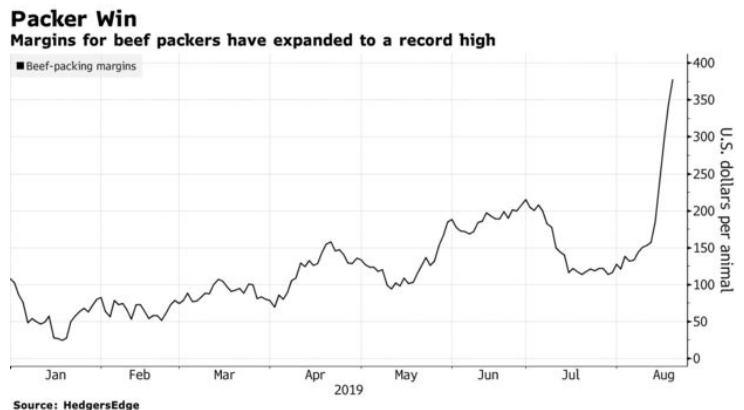
- Price Impact on Beef

- Expected:

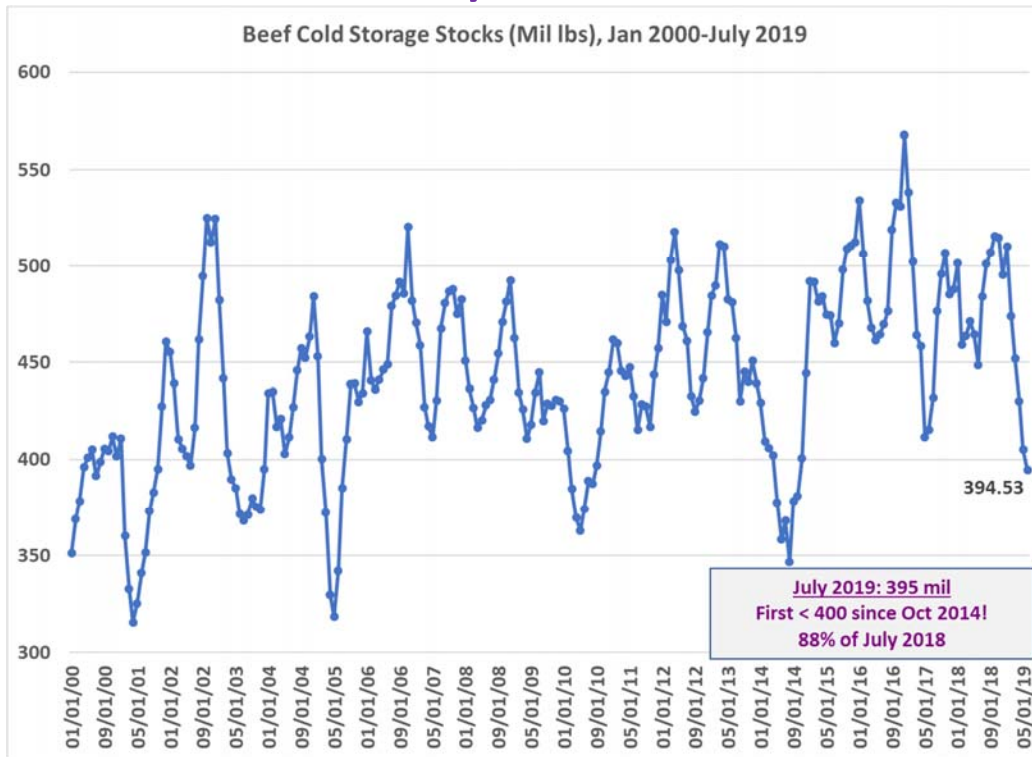
- Processing Cost Up = Beef Price Increase

- Realized:

- Two largest daily cutout price increases on-record (post-MPR)

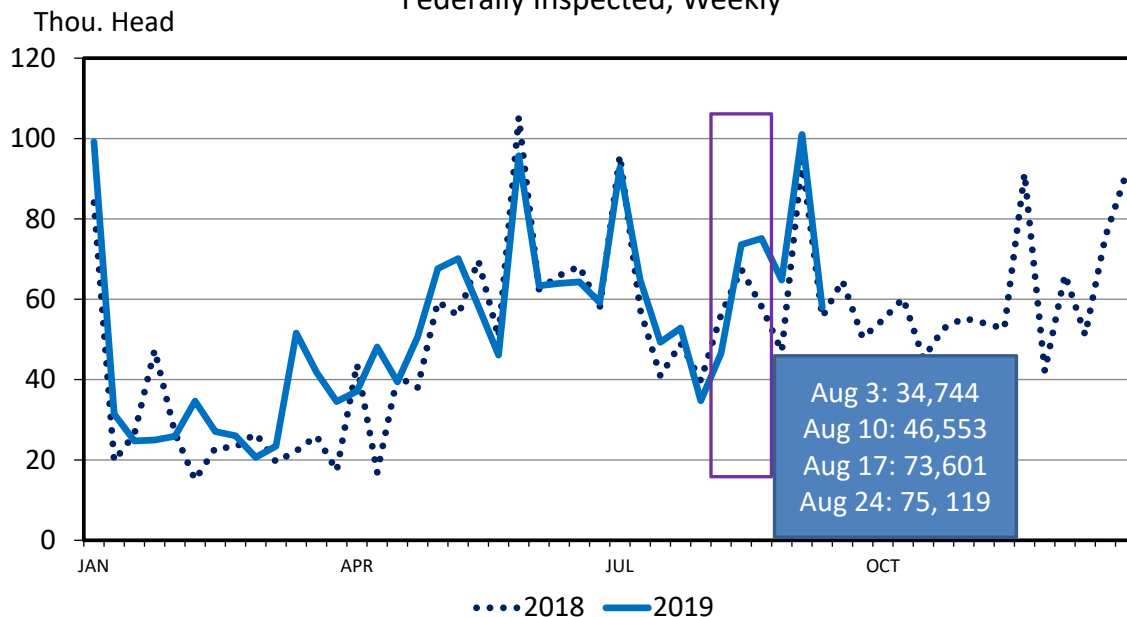


Holcomb-Tyson Plant Fire

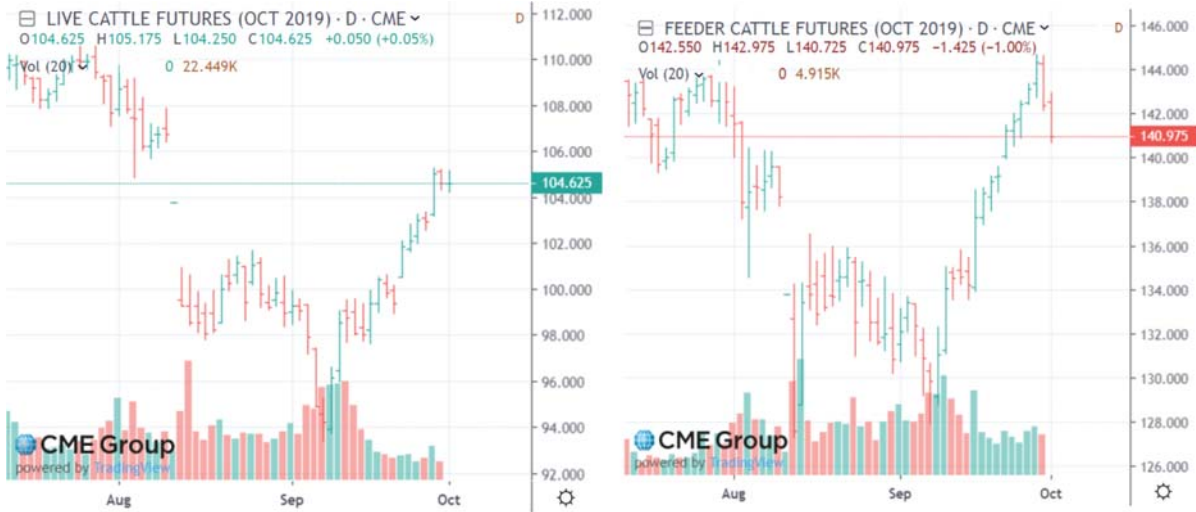


SATURDAY CATTLE SLAUGHTER

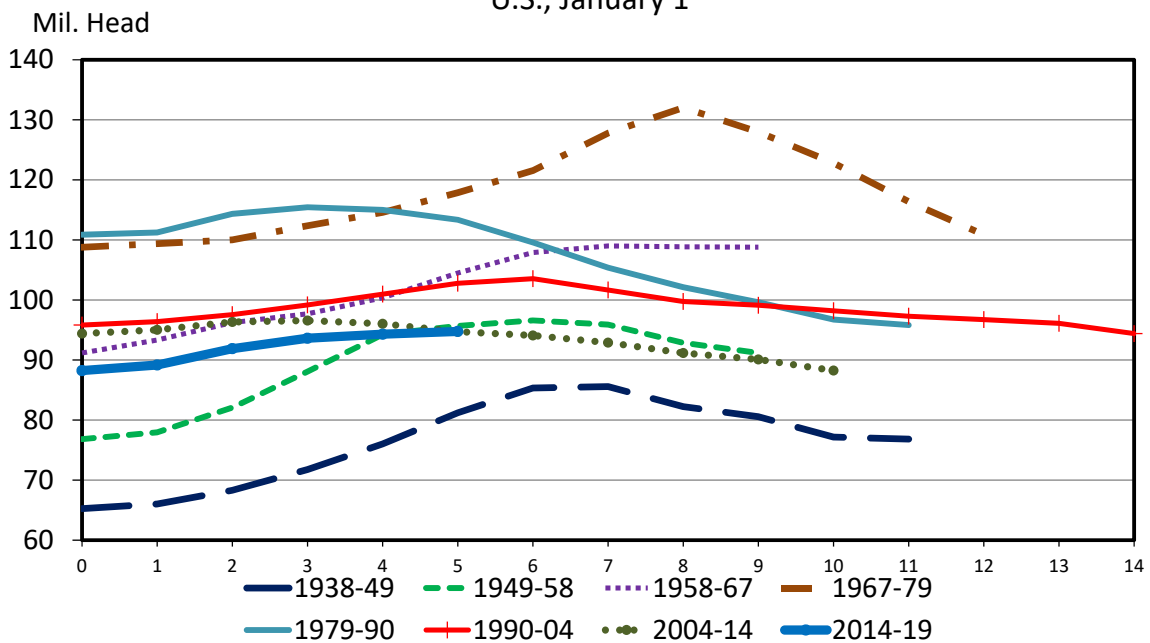
Federally Inspected, Weekly



Markets Often Operate Like A Pendulum



TOTAL CATTLE INVENTORY BY CYCLE U.S., January 1



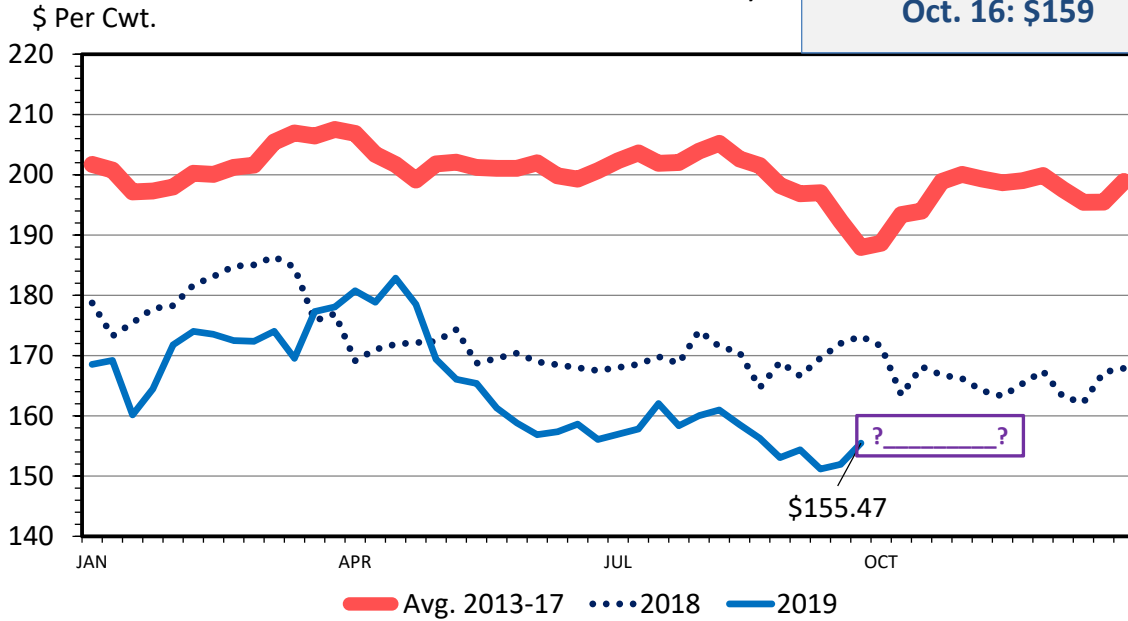
Data Source: USDA-NASS
Livestock Marketing Information Center

C-N-40
07/19/19

MED. & LRG. #1 STEER CALF PRICES

500-600 Pounds, Southern Plains, Weekly

BeefBasis.com, Salina,
KS 2019 Projections
(as of 10/1/19):
Oct. 16: \$159

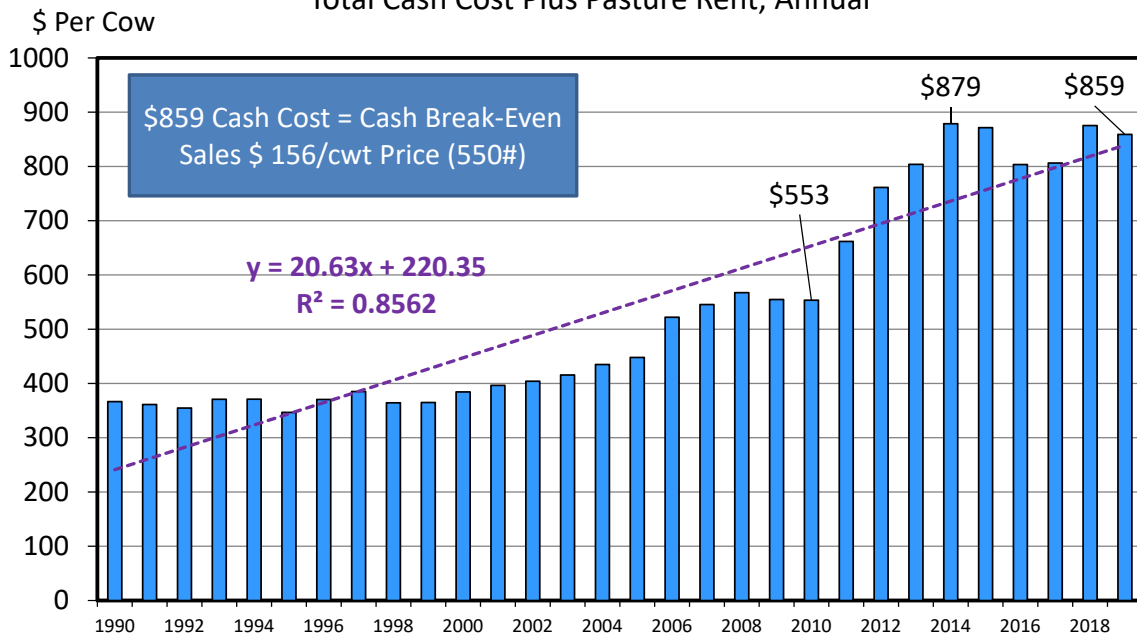


Data Source: USDA-AMS
Livestock Marketing Information Center

C-P-54
09/30/19

ESTIMATED AVERAGE COW CALF COSTS

Total Cash Cost Plus Pasture Rent, Annual

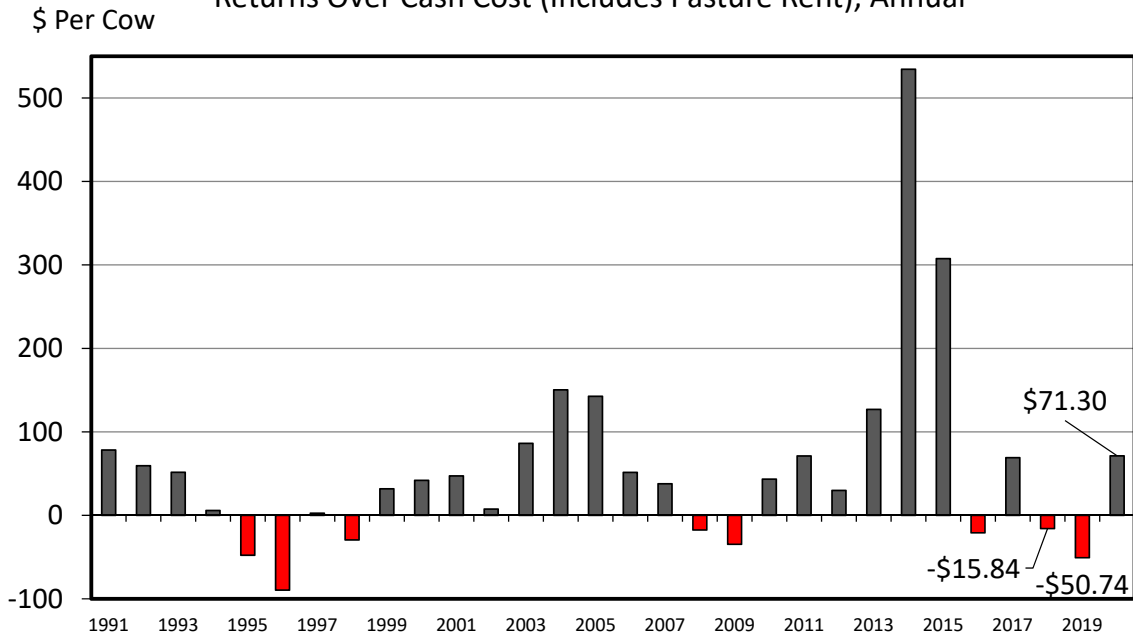


Data Source: USDA & LMIC, Compiled by LMIC
Livestock Marketing Information Center

06/06/19

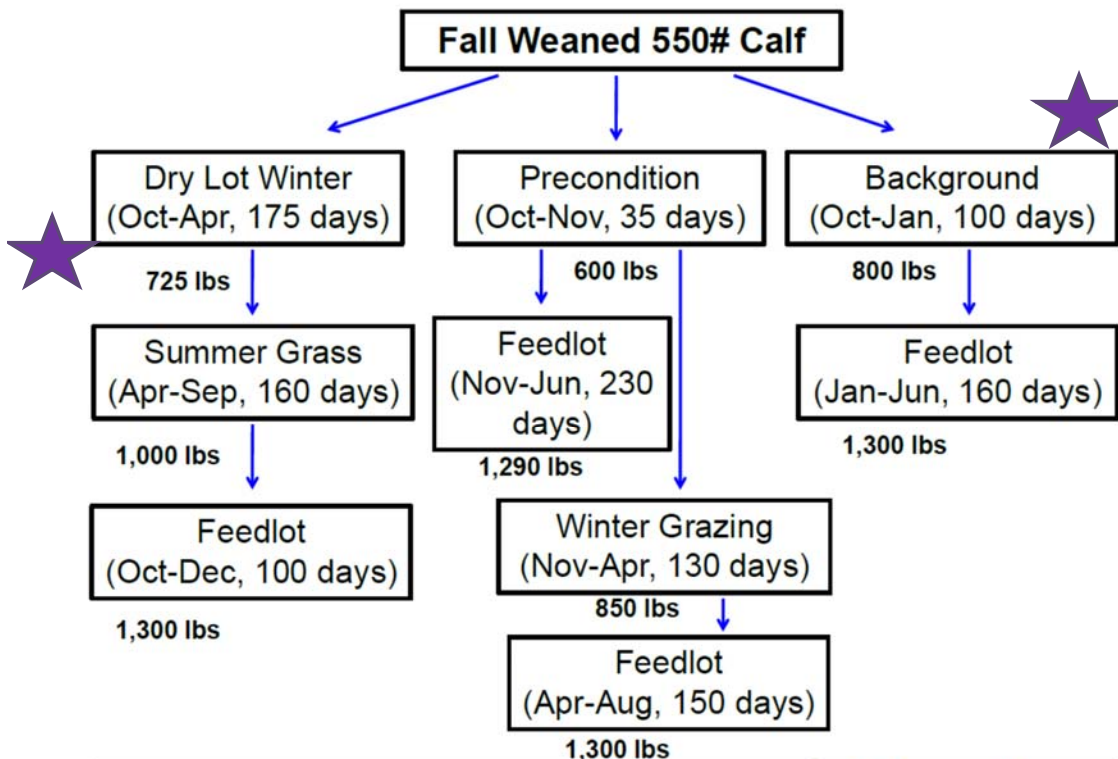
ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual



Data Source: USDA & LMIC, Compiled by LMIC
Livestock Marketing Information Center

C-P-66
09/27/19



Economic Outlook Overview: Post Weaning
Forward-Looking Margin Perspective

<http://www.beefbasis.com/VOG.aspx>

- Salina, KS 10/1/19 Backgrounding situation:
 - Buy/Retain 550 lb steer on 10/16/19 (\$159)
 - Sell 750 lb steer on 1/15/20 (\$140) {2.2 ADG}
 - VOG: \$85.50/cwt
 - Compare to COG & Assess “stomach” for volatility

Economic Outlook Overview: Post Weaning
Forward-Looking Margin Perspective

<http://www.beefbasis.com/VOG.aspx>

- Salina, KS 10/1/19 Wintering situation:
 - Buy/Retain 550 lb steer on 10/16/19 (\$159)
 - Sell 750 lb steer on 4/15/20 (\$142) {1.1 ADG}
 - VOG: \$95.62/cwt
 - Compare to COG & Assess “stomach” for volatility

USDA LRP Changes July 1

(<https://www.rma.usda.gov/News-Room/Press/Press-Releases/2019-News/USDA-Announces-Enhancements-to-Livestock-and-Dairy-Insurance-Programs>)

4/29/2019

USDA Announces Enhancements to Livestock and Dairy Insurance Programs | RMA



United States Department of Agriculture

News Release

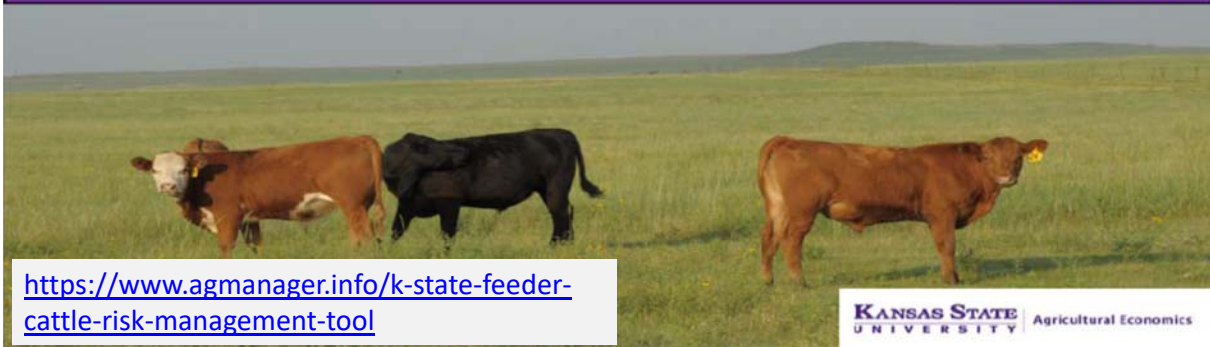
USDA Announces Enhancements to Livestock and Dairy Insurance Programs

KSU-Feeder Cattle Risk Management Tool

An Excel spreadsheet for evaluating feeder cattle risk management strategies



Version- 4.24.2019



<https://www.agmanager.info/k-state-feeder-cattle-risk-management-tool>

KANSAS STATE UNIVERSITY | Agricultural Economics



United States Department of Agriculture

<https://www.fsa.usda.gov/programs-and-services/disaster-assistance-program/livestock-indemnity/index>

Farm Service Agency
LIP

Livestock Indemnity Program

FACT SHEET
July 2019

The Agriculture Improvement Act of 2018 (the 2018 Farm Bill) authorized the Livestock Indemnity Program (LIP) to provide benefits to eligible livestock owners or contract growers for livestock deaths in excess of normal mortality caused by eligible loss conditions, including eligible adverse weather, eligible disease and attacks by animals reintroduced into the wild by the federal government or protected by federal law, including wolves and avian predators. In addition, LIP provides assistance to eligible livestock owners that must sell livestock at a reduced price because of an injury from an eligible loss condition.



United States Department of Agriculture

<https://www.fsa.usda.gov/programs-and-services/disaster-assistance-program/livestock-indemnity/index>

Farm Service Agency
LIP

Livestock Indemnity Program

FACT SHEET
July 2019

DATE OF LIVESTOCK DEATH AND/OR INJURY	FINAL DATE TO FILE NOTICE OF LOSS	FINAL DATE TO SUBMIT AN APPLICATION FOR PAYMENT
Calendar year 2019 and all subsequent years	30 calendar days of when the loss is first apparent	60 days after the calendar year in which the eligible loss condition occurred

“Yes, Republic County, Kansas has about 110 Notice of Losses filed for 2019 LIP – compared to last year with zero Notice of Losses filed under LIP. The majority of the Notice of Losses were filed due to the extreme cold, there are a few losses due to blizzard as well,” said Sarah Heeger, County Executive Director/Republic County FSA in Belleville, Kansas.

Economic Outlook Overview: Feedlots

- 2019 remains rough

Historical and Projected Kansas Feedlot Net Returns (as of 9/13/19')

(<http://www.agmanager.info/livestock/marketing/outlook/newsletters/FinishingReturns/default.asp>)

July 19': -\$77/steer

Table 1. Projected Values for Finishing Steers in Kansas Feedyards*

Closeout Mo-Yr	Net Return	FCOG**	Fed Price	Fed Futures	Fed Basis	Feeder Price	Breakeven FCOG**	Breakeven Fed Price	Breakeven Feeder Price
Aug-19	-184.99	88.84	106.97	104.55	2.41	141.45	58.91	120.17	117.83
Sep-19	-339.70	89.69	98.44	98.07	0.36	143.01	33.21	122.41	101.37
Oct-19	-263.99	89.11	105.82	104.38	1.45	148.98	47.15	124.48	115.40
Nov-19	-223.43	90.83	106.45	104.38	2.08	144.23	56.96	121.95	115.66
Dec-19	-69.68	91.25	112.60	111.10	1.50	135.60	80.55	117.45	126.70
Jan-20	-99.60	91.86	112.42	111.10	1.32	139.20	76.46	119.50	126.08
Feb-20	-93.64	97.68	115.86	115.05	0.81	138.13	82.23	122.59	126.19
Mar-20	-28.89	97.16	119.07	115.05	4.02	136.14	92.27	121.22	132.30
Apr-20	-81.02	93.19	111.15	107.95	3.20	133.23	80.02	117.15	122.21
May-20	9.91	91.53	116.55	107.95	8.60	133.18	93.08	115.82	134.55

Representative Barometer for Trends in Profitability

Historical and Projected Kansas Feedlot Net Returns (as of 9/13/19')

(<http://www.agmanager.info/livestock/marketing/outlook/newsletters/FinishingReturns/default.asp>)

**CME DEC LC:
+\$5 from Sept 13 – Oct 1**

Table 1. Projected Values for F

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Representative Barometer for Trends in Profitability

Quarterly Forecasts (LMIC: 9/27/19)

Year	Comm'l	% Chg.	Average	% Chg.	Comm'l	% Chg.
Quarter	Slaughter	from	Dressed	from	Beef	from
		Year Ago	Weight	Year Ago	Production	Year Ago
2019						
I	7,934	0.7	808.4	-1.5	6,414	-0.8
II	8,573	1.7	794.8	-0.4	6,814	1.3
III	8,664	3.6	811.2	-0.5	7,028	3.1
IV	8,395	0.7	827.8	0.6	6,949	1.3
Year	33,566	1.7	810.5	-0.5	27,206	1.2
2020						
I	7,994	0.8	818.1	1.2	6,540	2.0
II	8,470	-1.2	808.9	1.8	6,852	0.6
III	8,509	-1.8	825.9	1.8	7,027	0.0
IV	8,265	-1.5	840.7	1.6	6,949	0.0
Year	33,239	-1.0	823.4	1.6	27,367	0.6
2021						
I	7,834	-2.0	821.0	0.4	6,431	-1.7
II	8,341	-1.5	814.4	0.7	6,793	-0.9
III	8,355	-1.8	832.0	0.7	6,952	-1.1
IV	8,044	-2.7	845.3	0.6	6,800	-2.1
Year	32,575	-2.0	828.1	0.6	26,976	-1.4



Quarterly Forecasts (LMIC: 9/27/19)

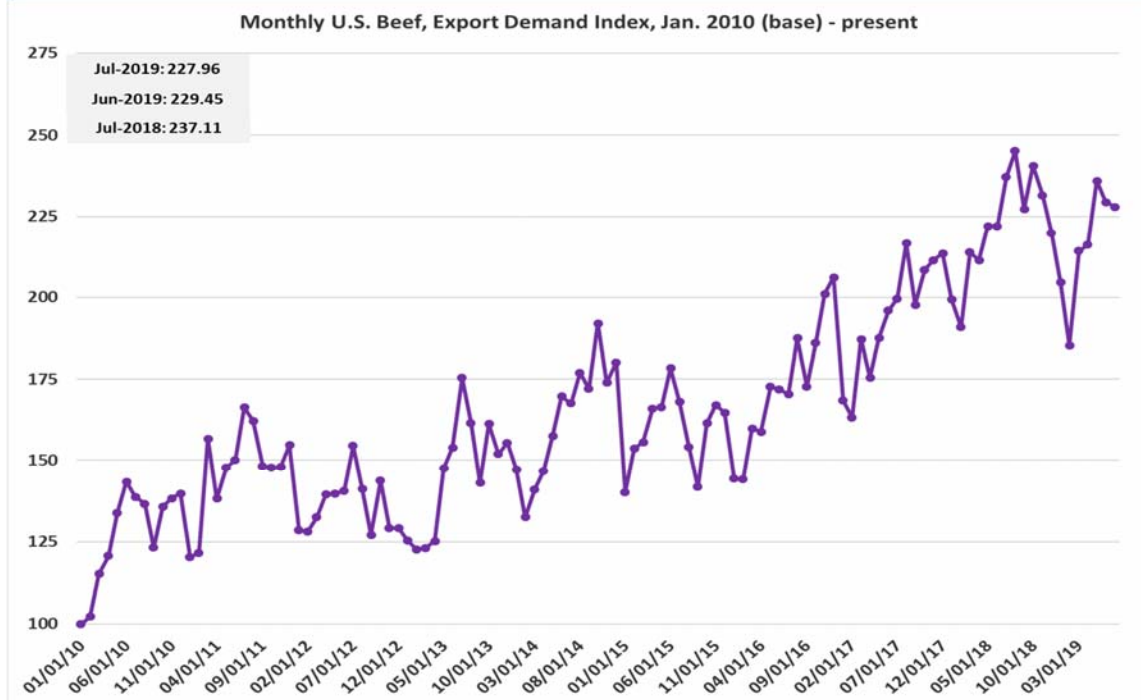
Year	Live Sltr.	% Chg.	Feeder Steer Price	
Quarter	Steer Price	from	Southern Plains	
	5-Mkt Avg	Year Ago	7-800#	5-600#
2019				
I	125.27	-0.3	142.87	171.41
II	118.79	1.8	143.23	167.22
III	107-108	-3.0	143-145	156-157
IV	106-108	-7.2	141-144	153-159
Year	114-115	-2.2	142-144	162-164
2020				
I	117-120	-5.4	140-144	162-167
II	117-121	0.2	143-148	163-168
III	107-112	1.9	144-150	165-171
IV	112-118	7.5	146-153	165-172
Year	113-118	0.9	144-148	164-169
2021				
I	120-127	4.2	140-148	164-172
II	119-127	3.4	141-150	163-172
III	107-116	1.8	145-155	164-174
IV	114-124	3.5	148-159	164-175
Year	115-123	3.0	143-153	163-174



Trade & Total Meat Context Update

U.S. Beef Export Demand Index

(Monthly, Jan 2010=100)



<http://agmanager.info/livestock-meat/meat-demand>

U.S. Beef Export Demand Index

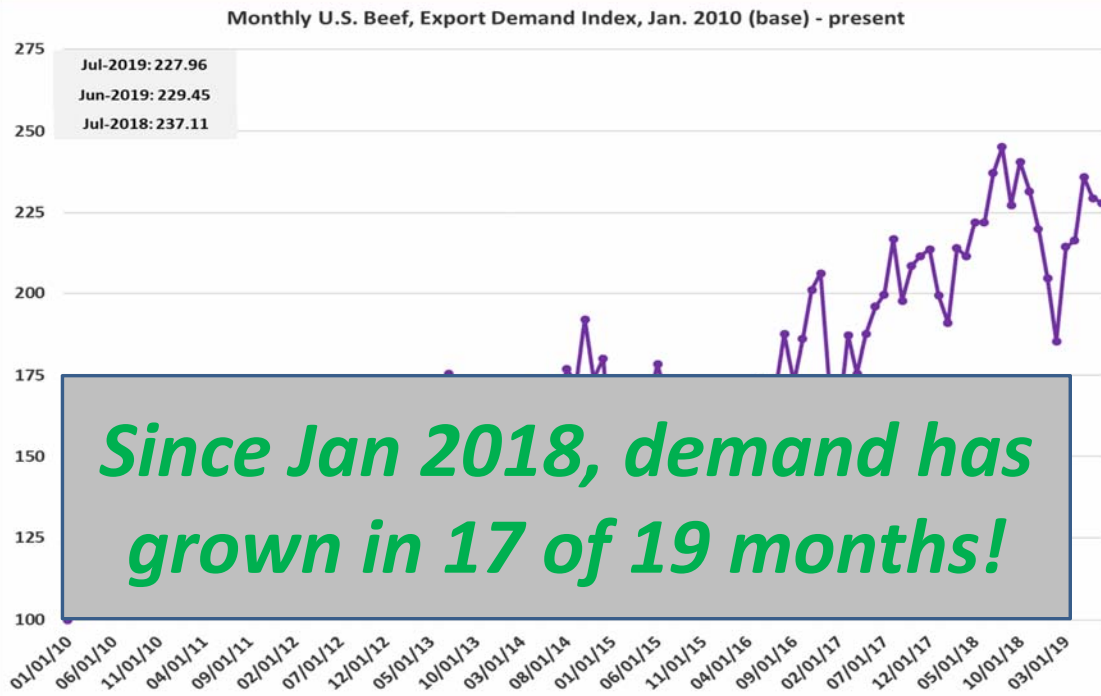
(Monthly, Jan 2010=100)



<http://agmanager.info/livestock-meat/meat-demand>

U.S. Beef Export Demand Index

(Monthly, Jan 2010=100)



<http://agmanager.info/livestock-meat/meat-demand>

2018 Beef Exports were stellar!

- USMEF, 2018 (estimated) vs. 2017:
 - **U.S. exports +15% in value** (~ \$8.3 Billion)
 - ☐ U.S. export growth: Korea, Japan, & Taiwan

- Global trade value +9%
 - China accounts for 80% of global trade growth
 - ☐ Dominated by South America & Australia (U.S. ~2% share)

https://www.usda.gov/oce/forum/2019/speeches/Erin_Borrer1.pdf

USDA Long-Term projections

3/13/19 report (<http://www.usda.gov/oce/commodity/projections/>), October 2018 Projections

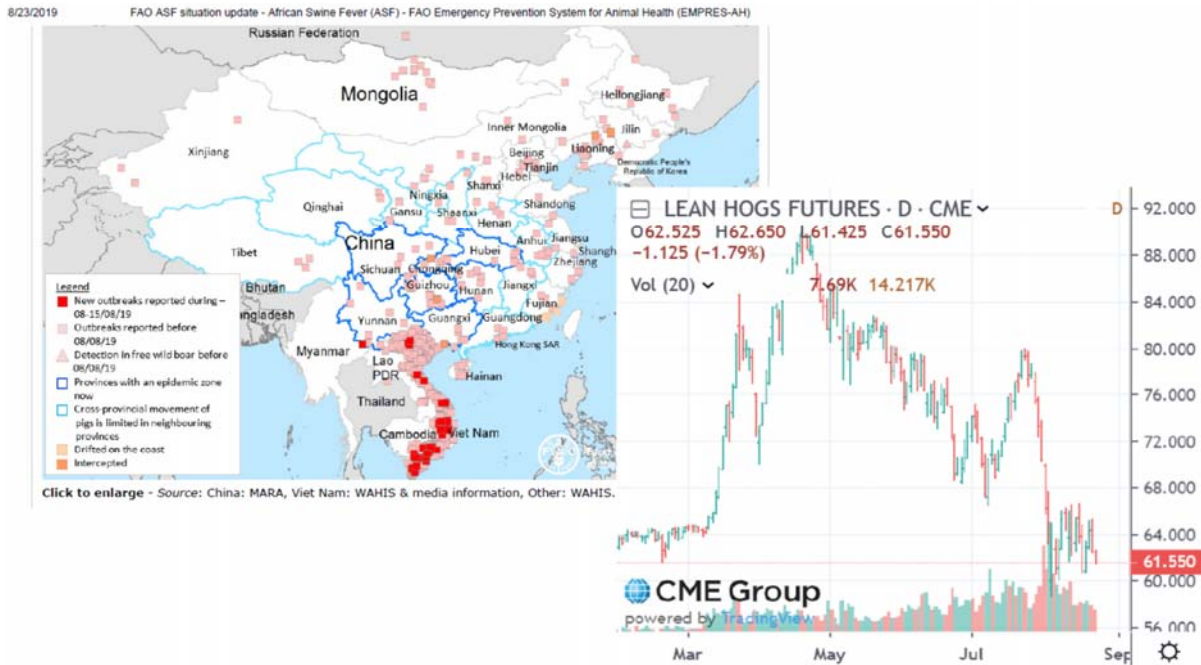
Per capita meat consumption, retail weight				
Item	2018	2019	2020	2028
Beef	57.2	58.8	59.7	58.4
Pork	50.8	53.1	53.4	54.3
Total red meat	109.3	113.2	114.4	114.0
Broilers	92.4	93.4	93.7	94.3
Turkeys	16.2	16.4	16.2	15.5
Total poultry	110.0	111.1	111.2	111.2
Red meat & poultry	219.3	224.3	225.6	225.2

Note: Totals may not add due to rounding.

Projections INCLUDE export maintenance & growth

Additional Fodder for Thought...

❖ *When/will the ASF-Asia “export boost” occur?*



Additional Fodder for Thought...

❖ *What is role of “alternative proteins” in future of U.S. livestock?*

BUSINESS NEWS

AUGUST 19, 2019 / 1:13 PM / 3 DAYS AGO



Plant-based meat alternatives crowd U.S. grocery stores

& IMO:
Role in Food Service is even greater...

Outlook Wrap-Up

- Broad Profitability Outlook
 - Supply side factors are “well established”
 - Herd size plateau; Lower beef volumes in 2021?
 - Demand factors are key and uncertain
 - What will be beef (and meat broadly) export situation?
 - When will next U.S. recession occur?
 - **Will favorability of high-protein diet (and cattle’s role) persist?**

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More information available at:



This presentation will be available in PDF format at:
<http://www.agmanager.info/about/contributors/individual/tonsor.asp>

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