

Livestock & Meat Market Outlook

Glynn Tonsor

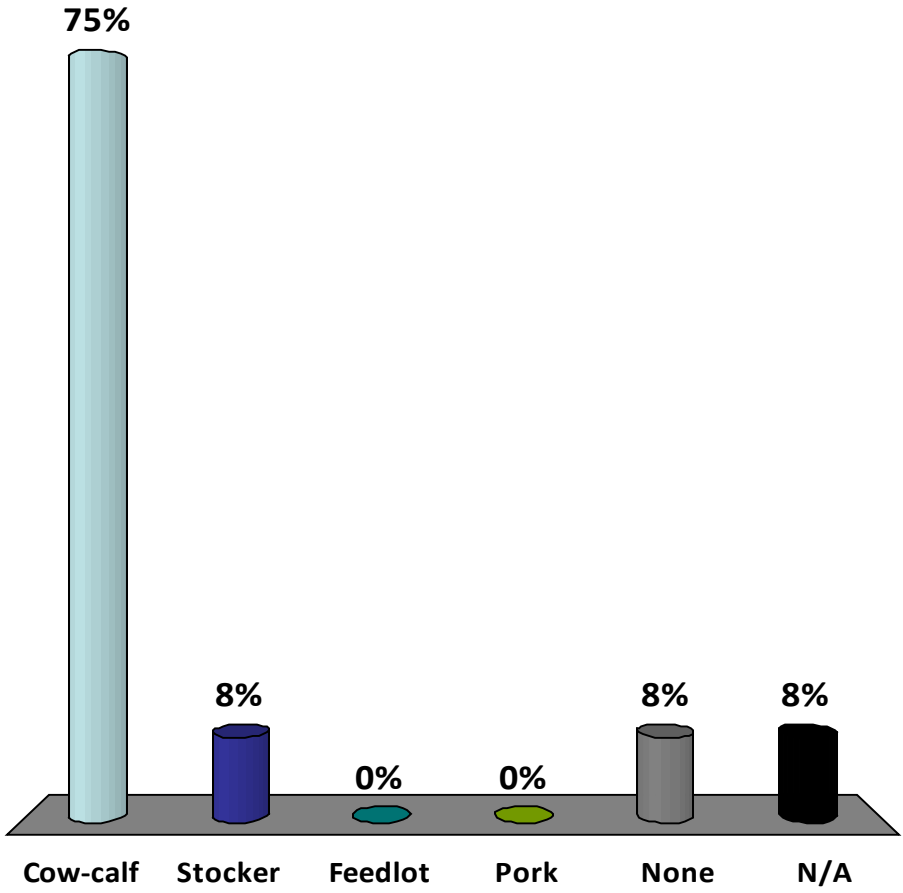
**Dept. of Agricultural Economics
Kansas State University**

Columbus, KS (March 1, 2011)



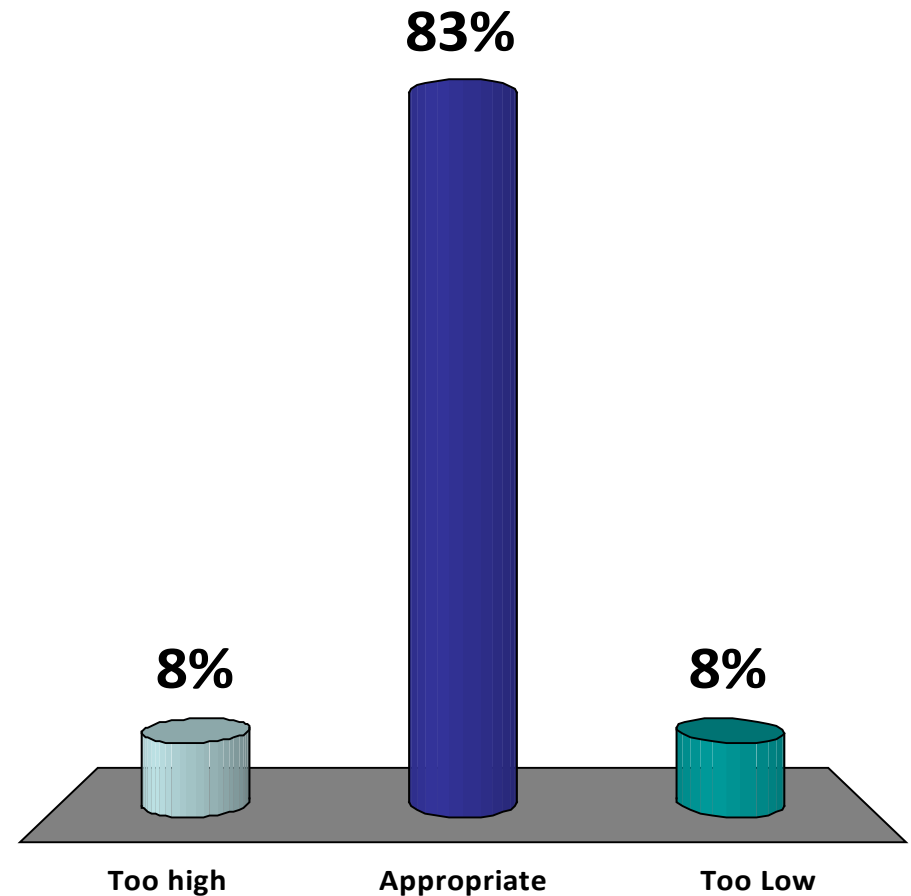
What best describes your role/interest in the U.S. meat/livestock industry?

- 1. Cow-calf producer
- 2. Backgrounder/Stocker
- 3. Feedlot operator
- 4. Pork/hog producer
- 5. None of the above, but I'm involved
- 6. Not applicable; not in U.S. meat/livestock industry



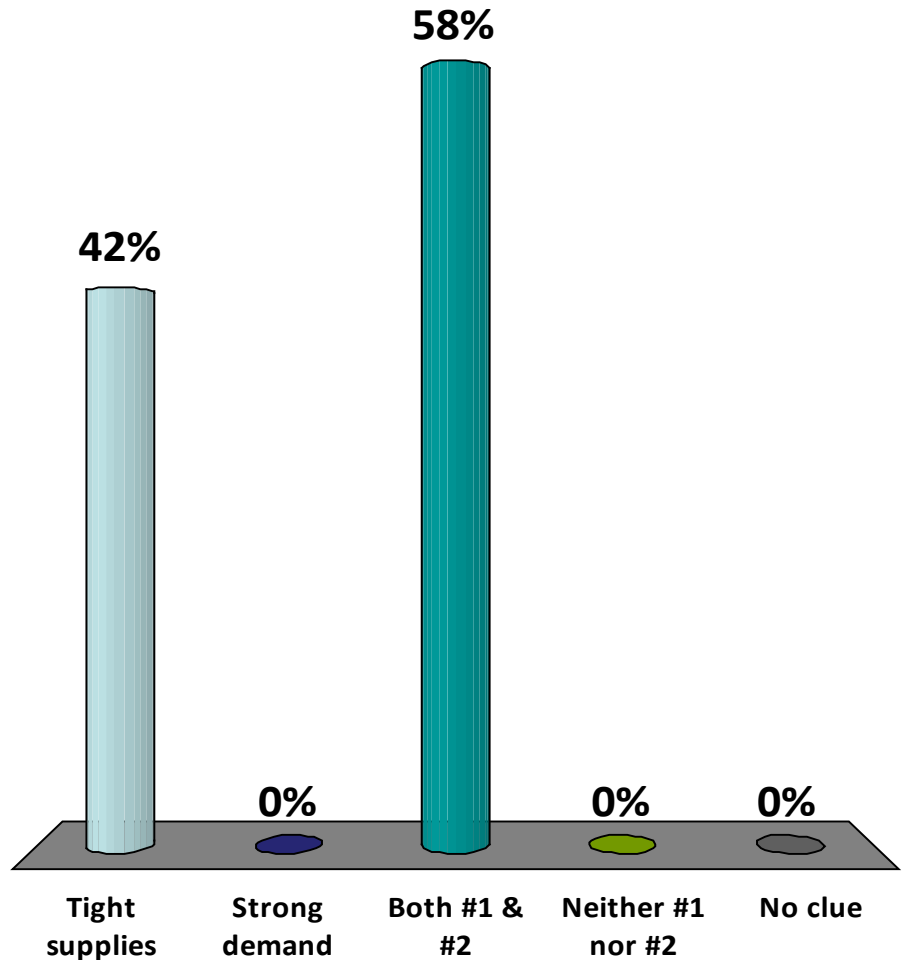
What best describes your sentiment regarding the current cattle marketplace?

1. Current prices are too high given fundamentals
2. Current prices are appropriate given fundamentals
3. Current prices are too low given fundamentals



What best describes forces shaping the current cattle marketplace?

1. Tight supplies
2. Strong demand
3. Both #s 1 & 2
4. Neither #1 nor #2
5. "I have no clue"



OVERVIEW

- SUPPLY:
 - Historically tight supplies
 - Shrinking cow herd, expansion uncertainty
- DEMAND:
 - Export demand has been strong
 - Domestic demand strengthening
- FEEDS:
 - Volatile grain prices
 - Growing role of forage & hence stocker segment
- “OTHER” PRESSURES
 - Growing in relevance...



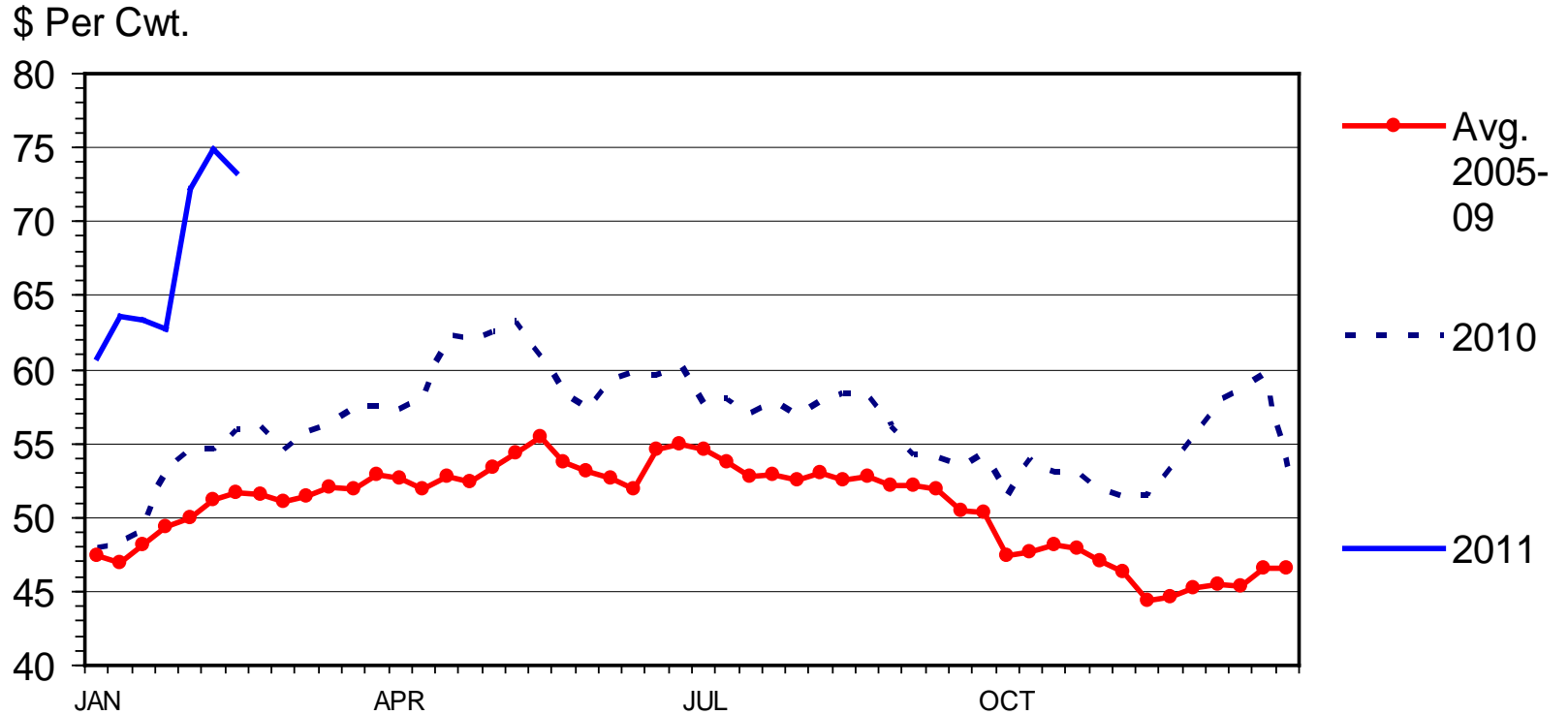
Cow herd dynamics

- Expected Profits, Typically = Expansion
- Producers largely taking current “high” prices & not retaining for future...
 - Are cow-calf producers cash strapped?
 - Is the age of operators at hand and retirement decisions at play?
 - Is “heightened uncertainty” at play?
 - If \$50/head expected profit used to “normally trigger expansion” what does it take today???



SLAUGHTER COW PRICES

Southern Plains, 85-90% Lean, Weekly



Livestock Marketing Information Center

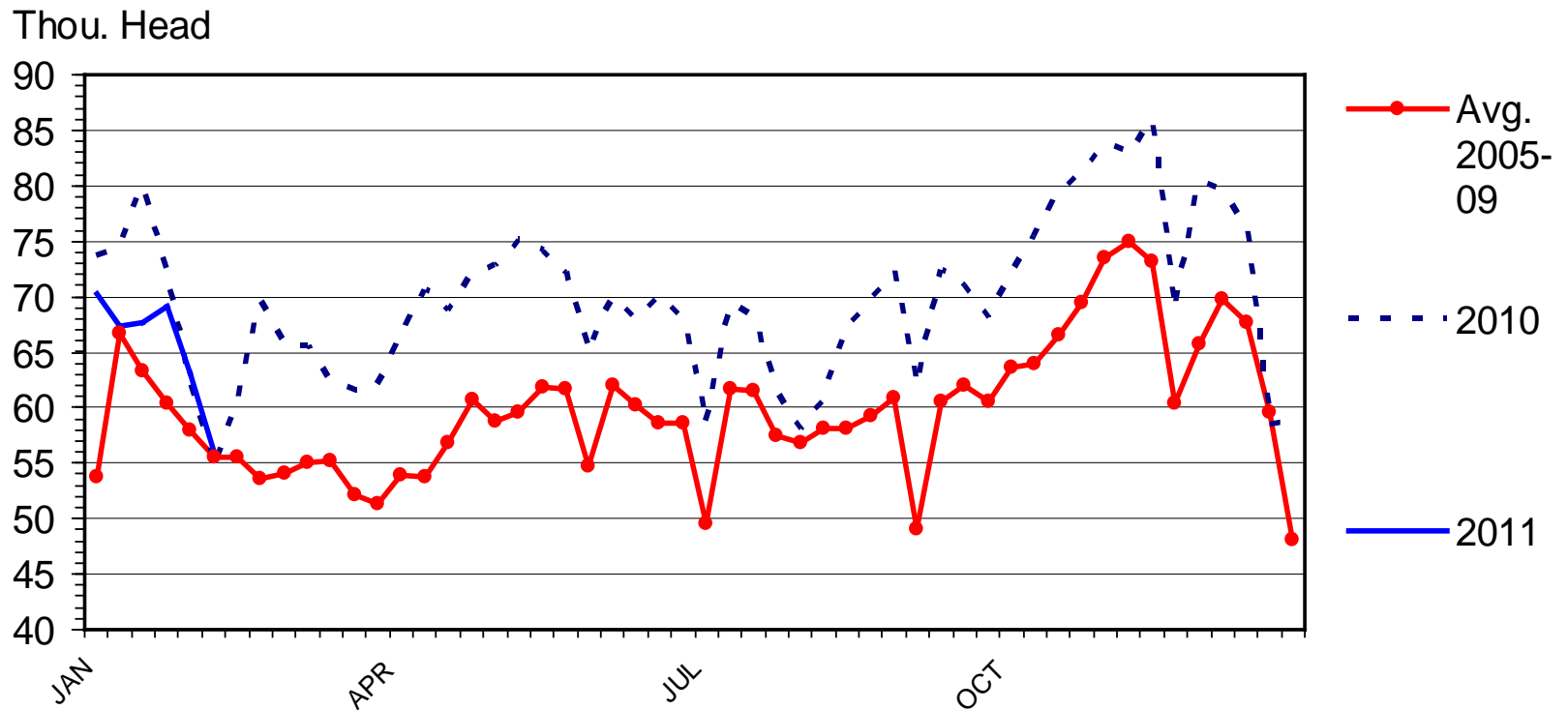
Data Source: USDA-AMS

C-P-35
02/28/11



BEEF COW SLAUGHTER

Federally Inspected, Weekly



Livestock Marketing Information Center

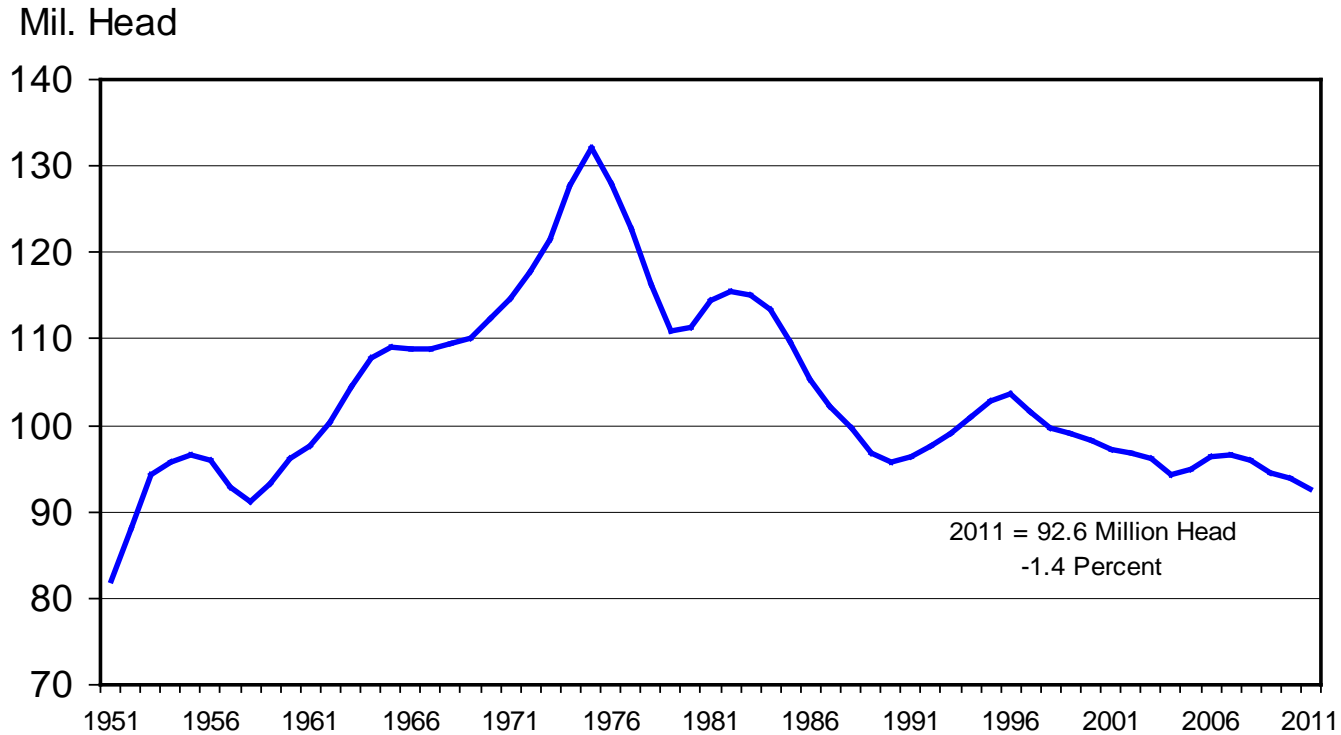
Data Source: USDA-AMS & USDA-NASS

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02/25/11



JANUARY 1 TOTAL CATTLE INVENTORY

U.S., Annual



Livestock Marketing Information Center

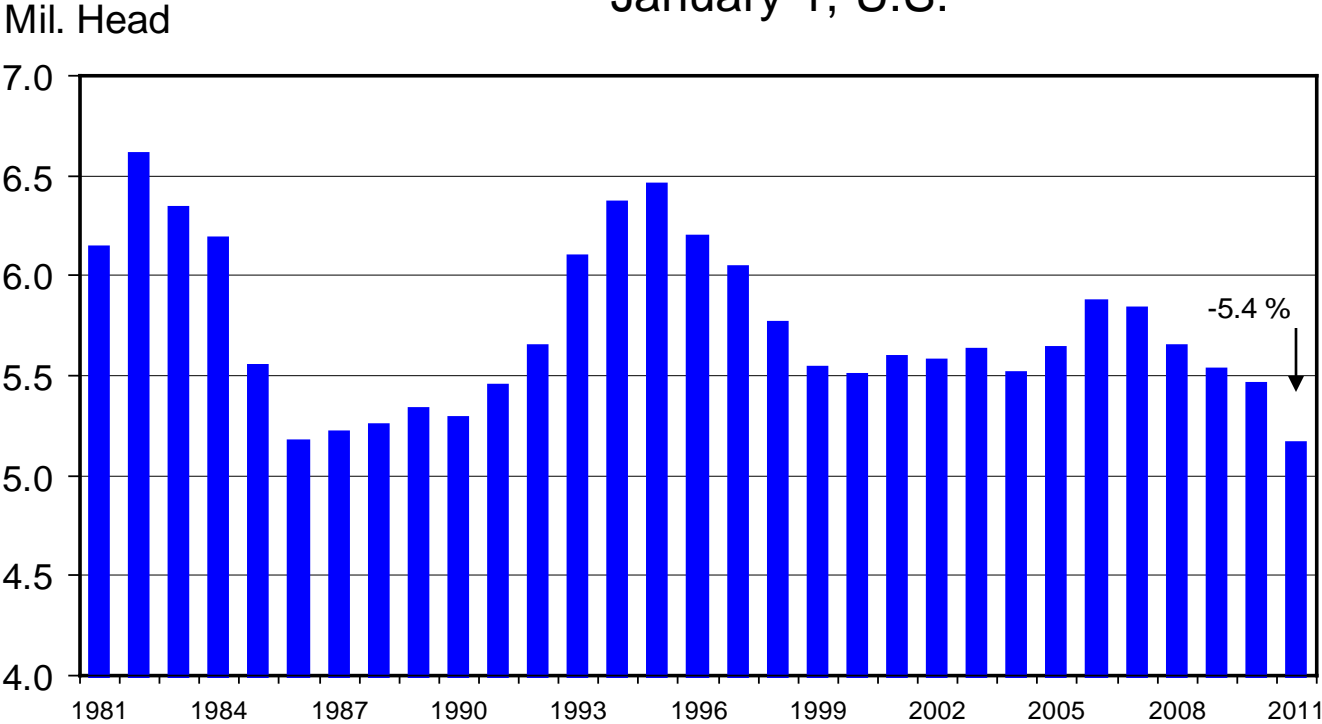
Data Source: USDA-NASS

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01/28/11



HEIFERS HELD AS BEEF COW REPLACEMENTS

January 1, U.S.



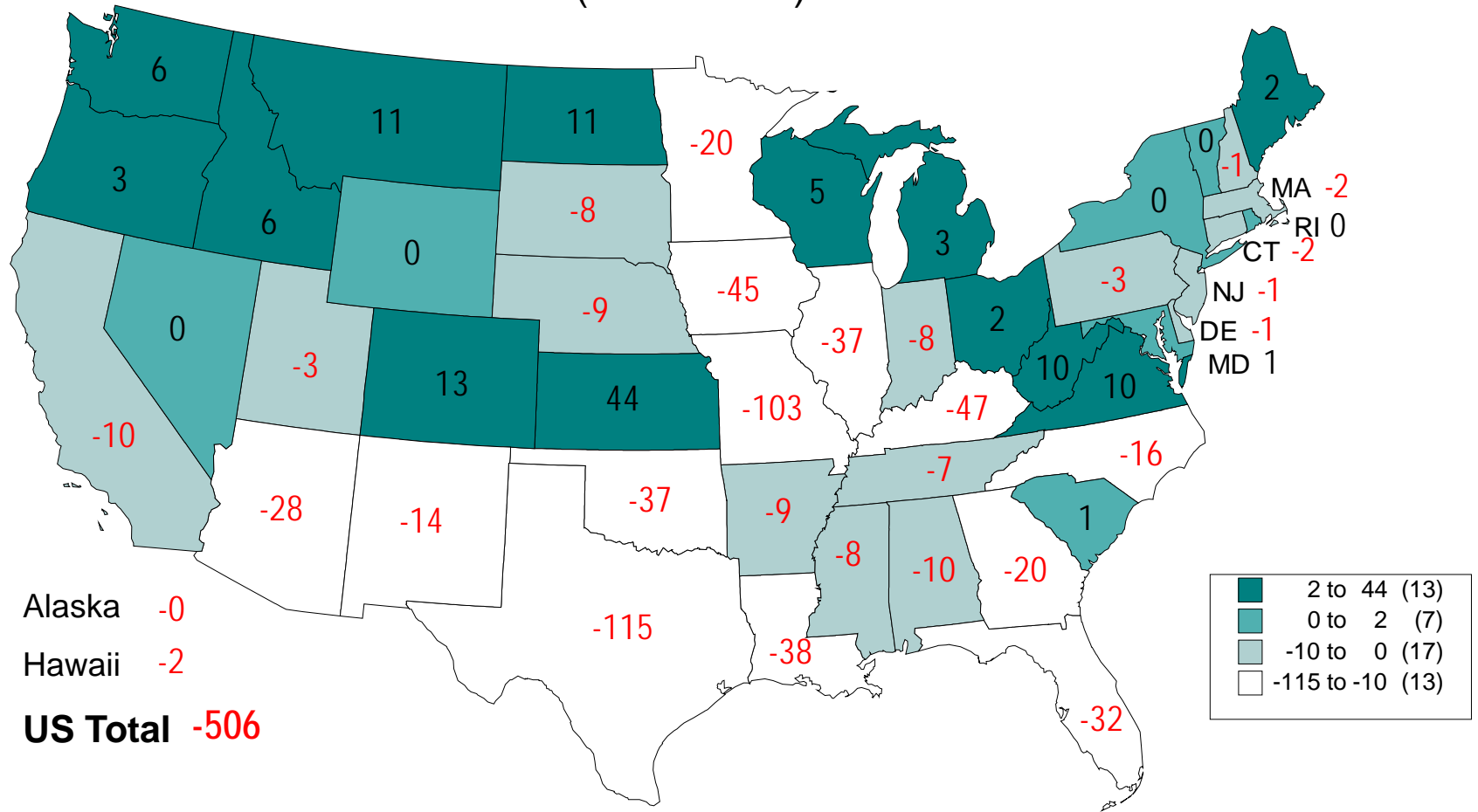
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Data Source: USDA-NASS

C-N-38
01/28/11



CHANGE IN BEEF COW NUMBERS JANUARY 1, 2010 TO JANUARY 1, 2011 (1000 Head)



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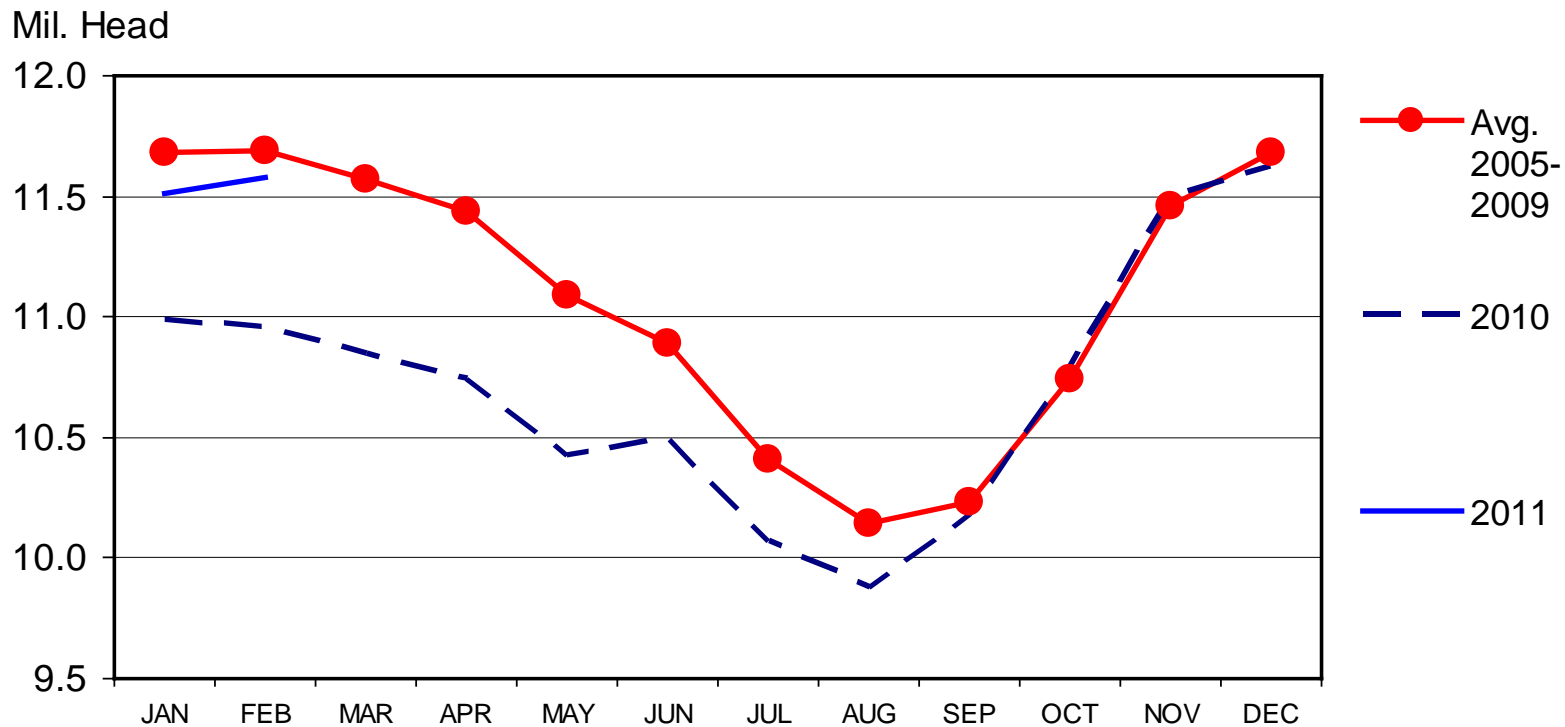
Data Source: USDA/NASS

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CATTLE ON FEED

US Total, Monthly



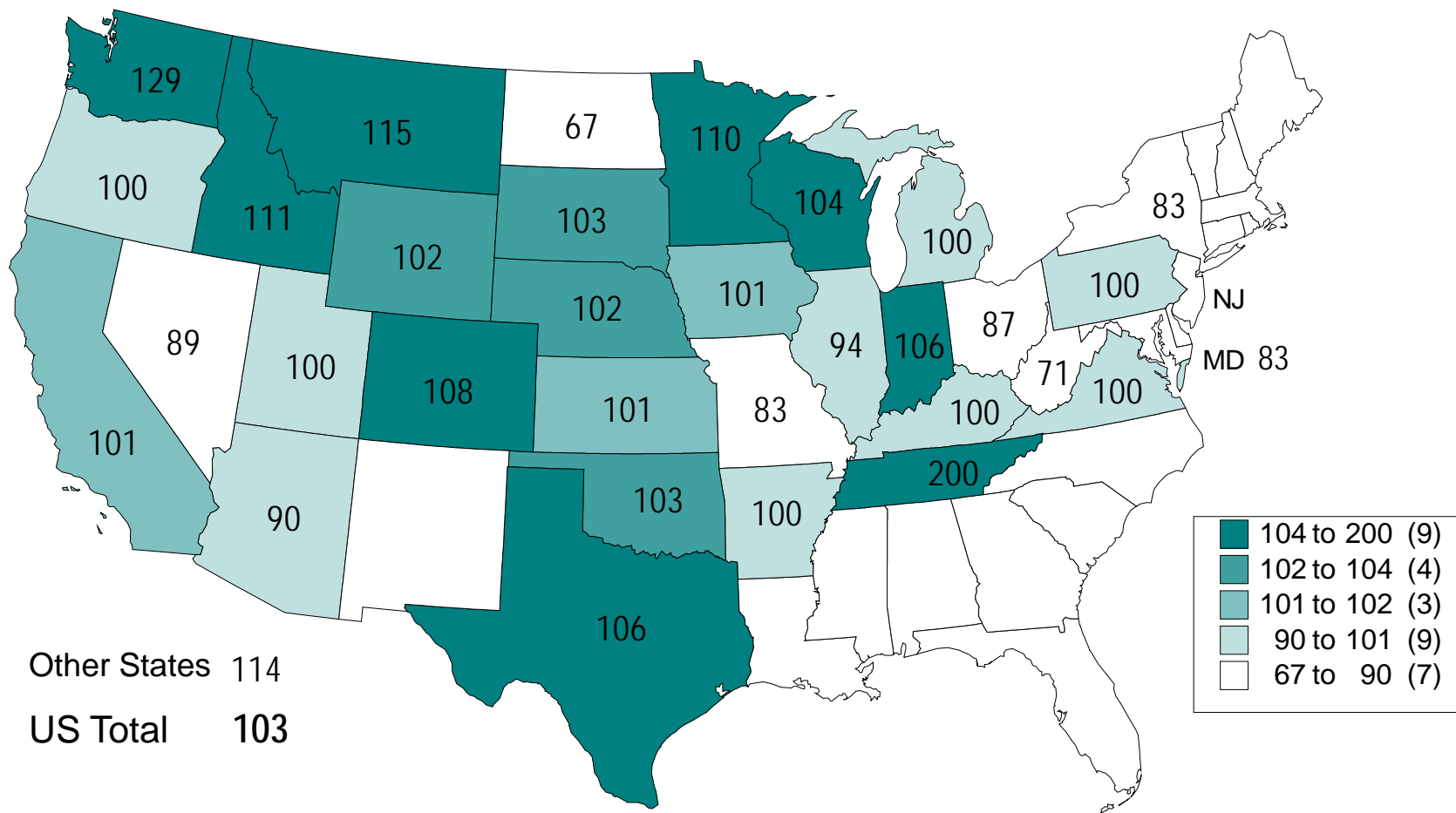
Livestock Marketing Information Center

Data Source: USDA-NASS

C-N-10
02/18/11



CATTLE ON FEED JANUARY 1, 2011 AS A % OF 2010



Livestock Marketing Information Center

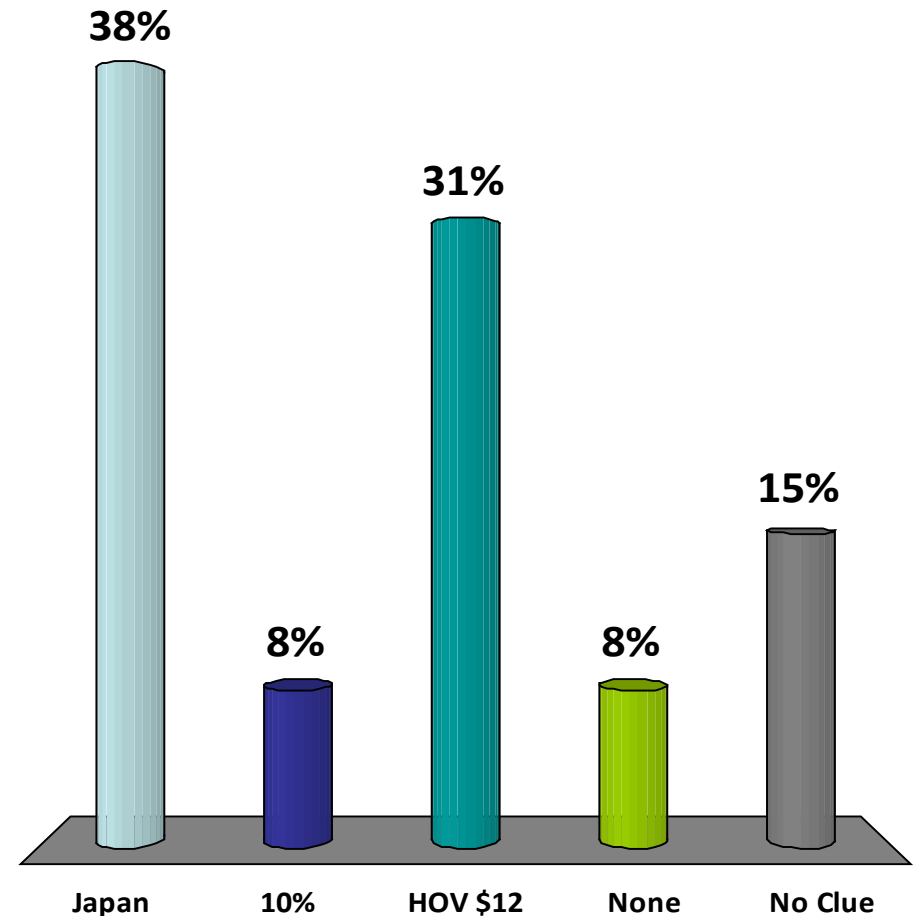
Data Source: USDA/NASS

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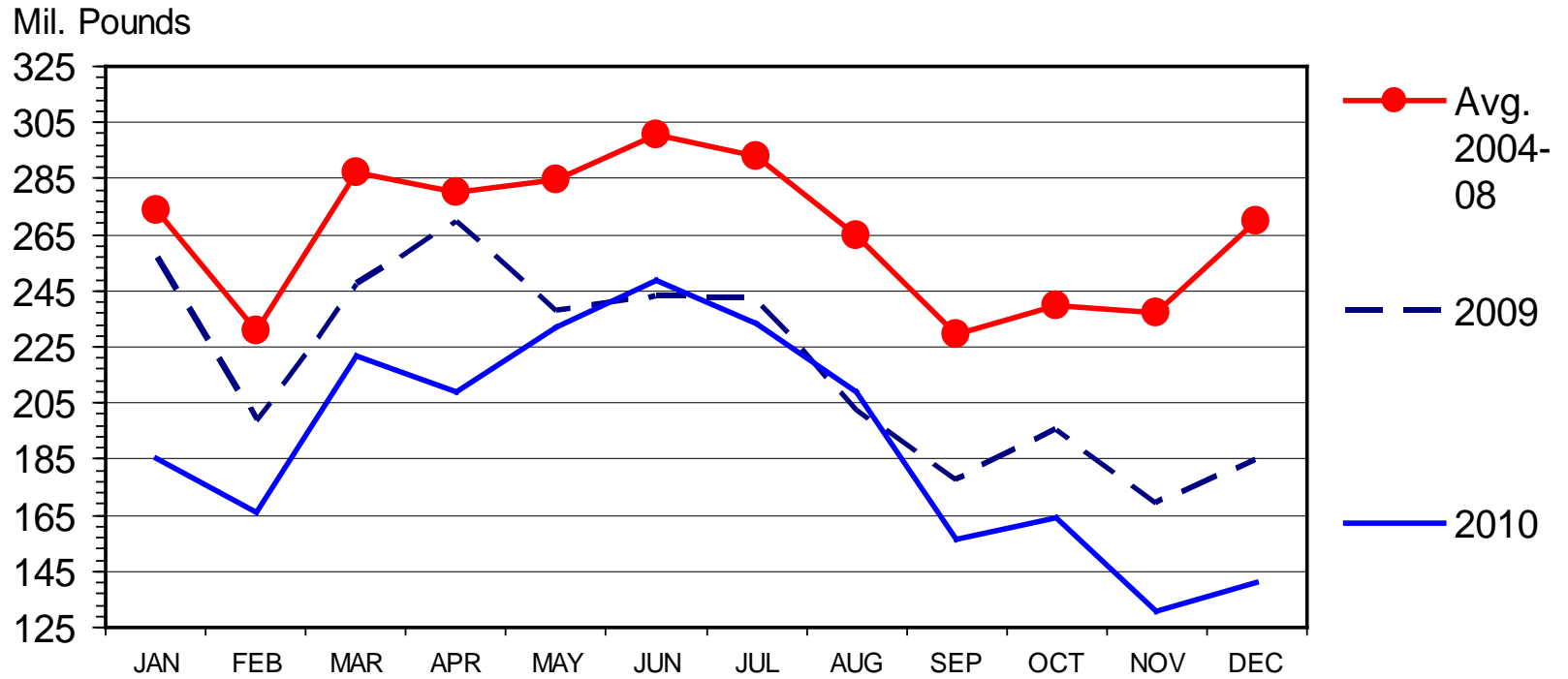
What statement is most accurate regarding current U.S. beef exports?

1. Japan is our largest market (volume)
2. We export over 10% of production
3. Hide & offal values exceed \$12/cwt (live animal basis)
4. None of the above
5. "I have no clue"



U S BEEF AND VEAL IMPORTS

Carcass Weight, Monthly



Livestock Marketing Information Center

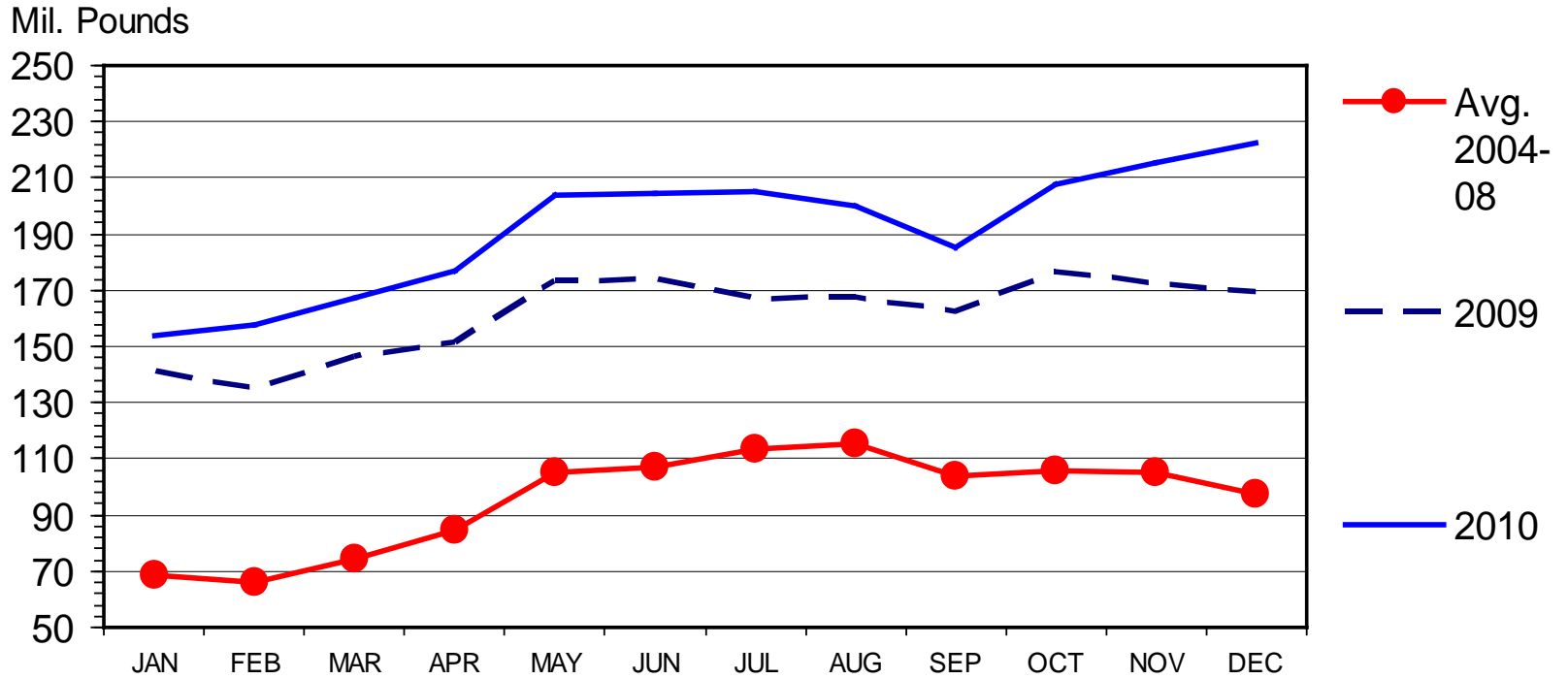
Data Source: USDA-ERS & USDA-FAS

I-N-15
02/14/11



U S BEEF AND VEAL EXPORTS

Carcass Weight, Monthly



Livestock Marketing Information Center

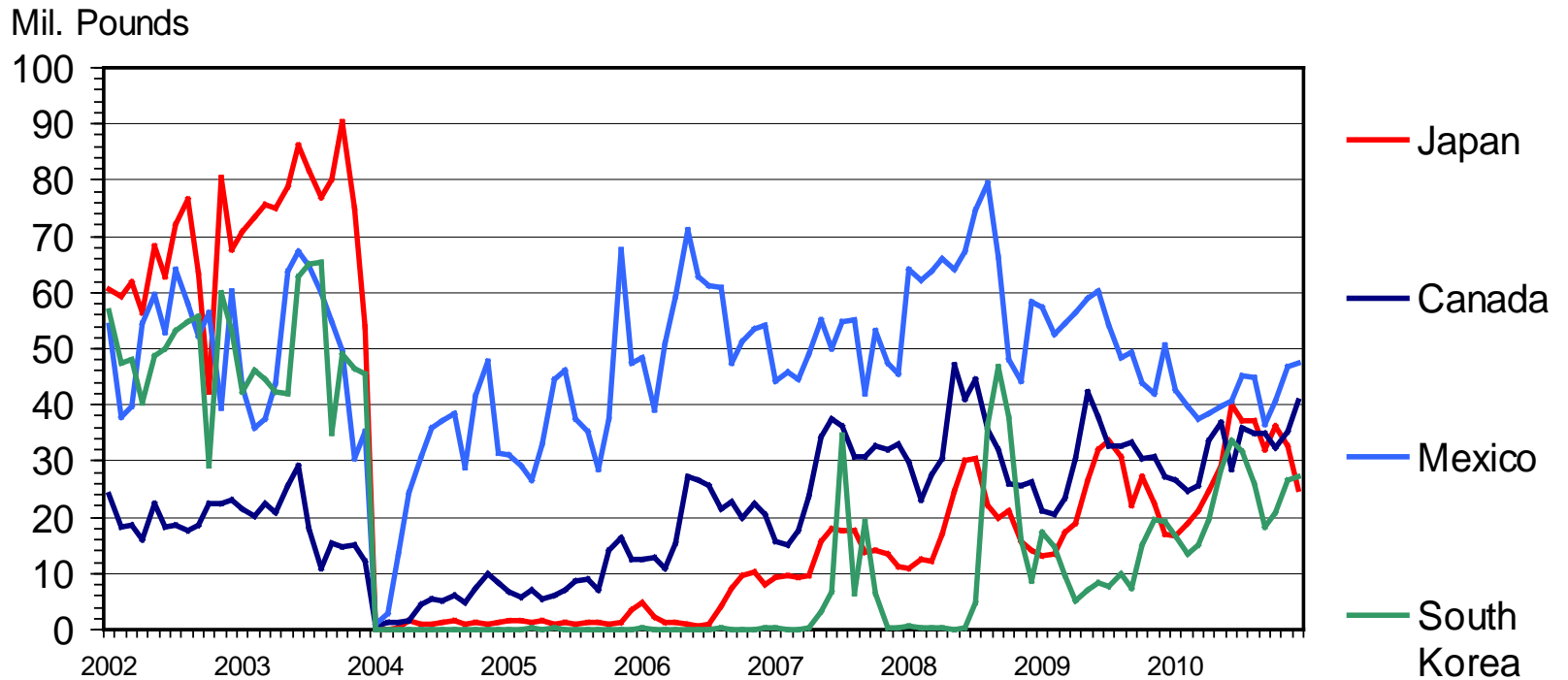
Data Source: USDA-ERS & USDA-FAS

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U S BEEF EXPORTS TO MAJOR MARKETS

Carcass Weight, Monthly



Livestock Marketing Information Center

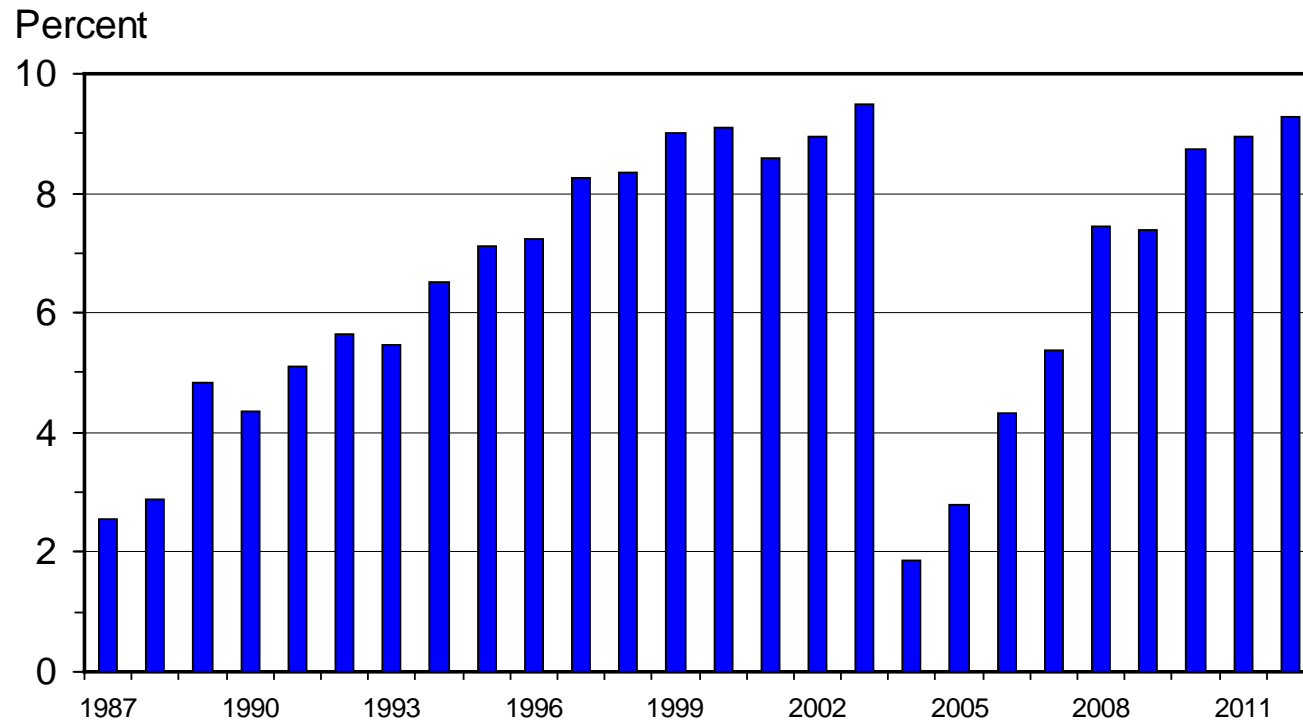
Data Source: USDA-ERS & USDA-FAS

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U S BEEF AND VEAL EXPORTS

As a Percentage of Production, Carcass Weight, Annual



Livestock Marketing Information Center

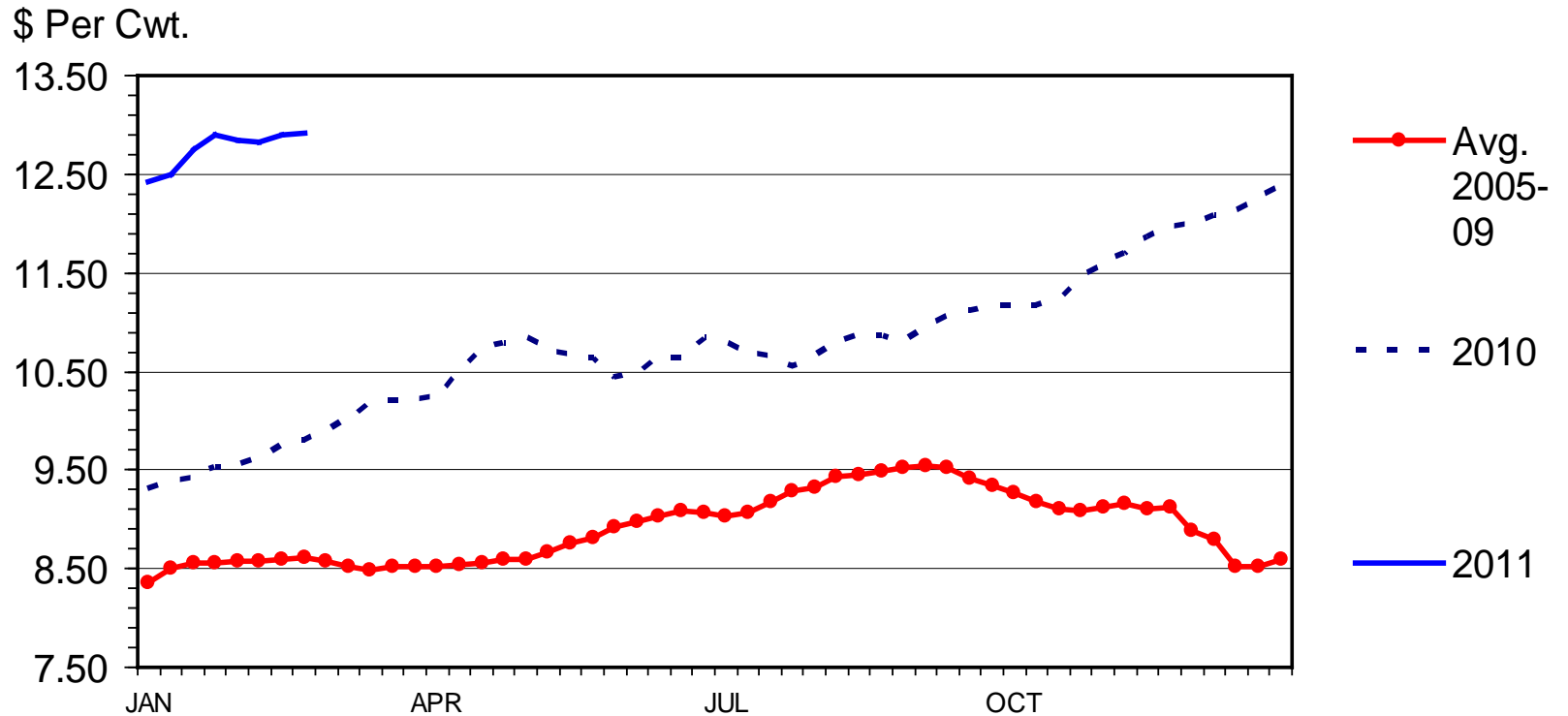
Data Source: USDA-ERS & USDA-FAS, Compiled & Analysis by LMIC

I-N-07
01/04/11



STEER HIDE AND OFFAL VALUE

Live Animal Basis, Weekly



Livestock Marketing Information Center

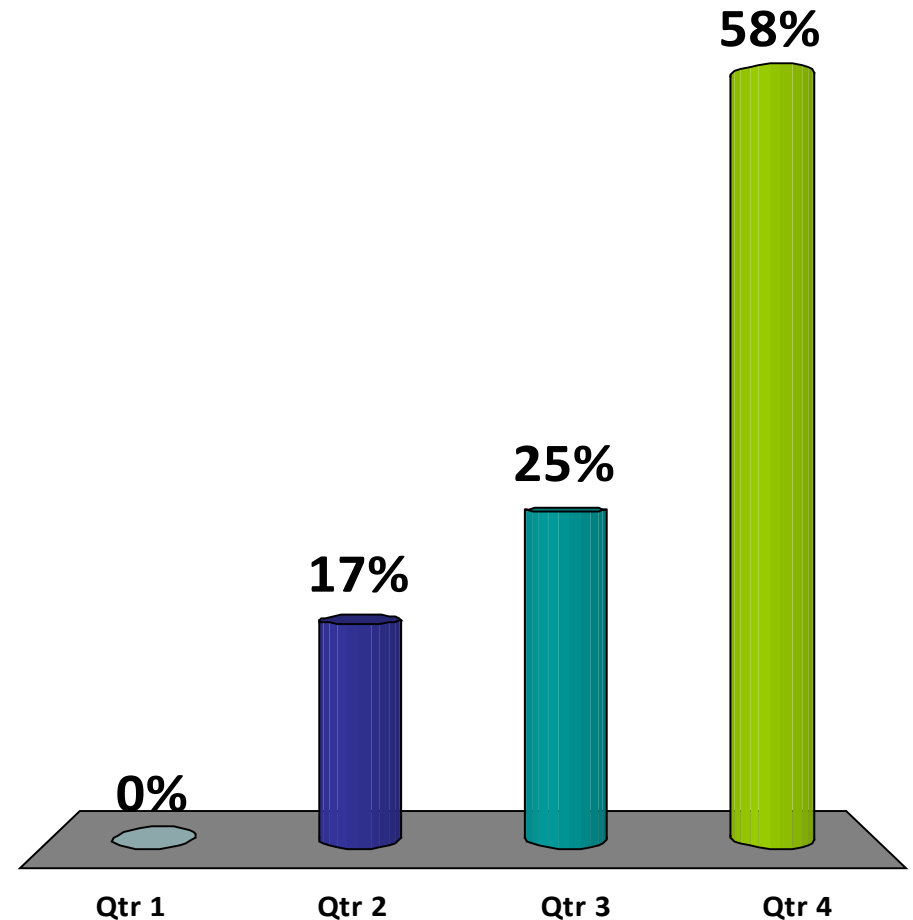
Data Source: USDA-AMS

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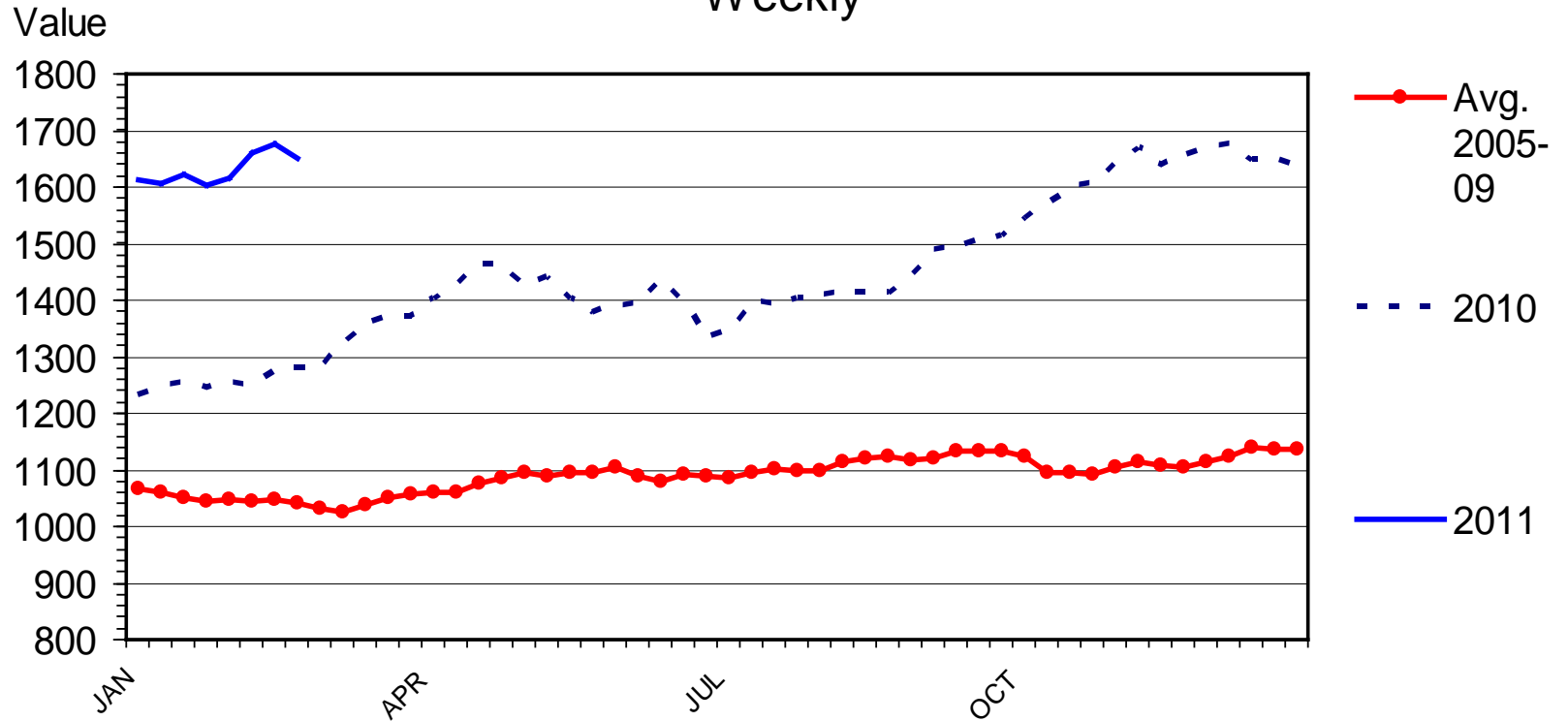
What quarter of 2010 had the strongest beef demand (relative to previous year)?

1. Qtr 1 (Jan-Mar)
2. Qtr 2 (Apr-Jun)
3. Qtr 3 (Jul-Sep)
4. Qtr 4 (Oct-Dec)



NATIONAL RESTAURANT NEWS STOCK MARKET INDEX

Weekly



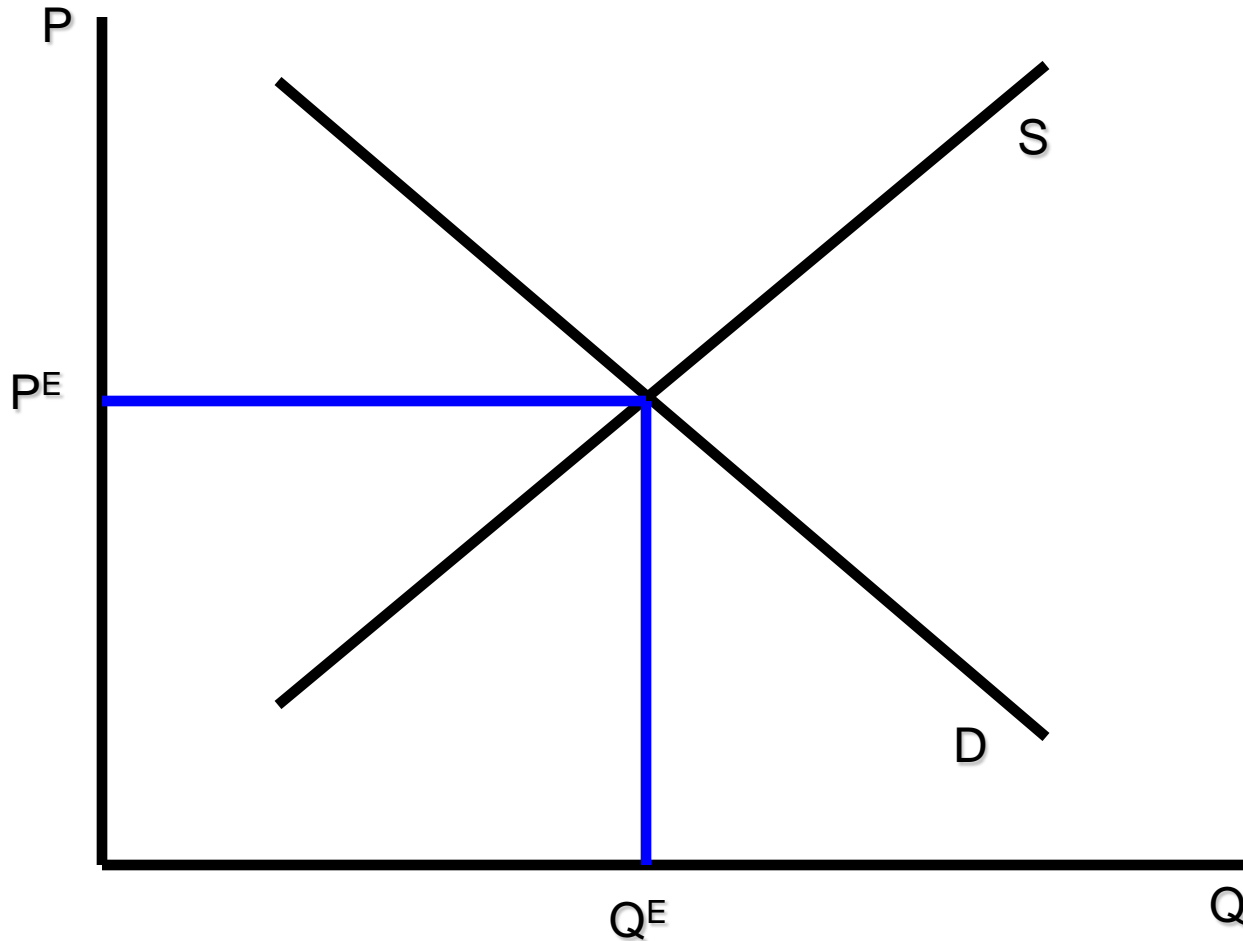
Livestock Marketing Information Center

02/23/11

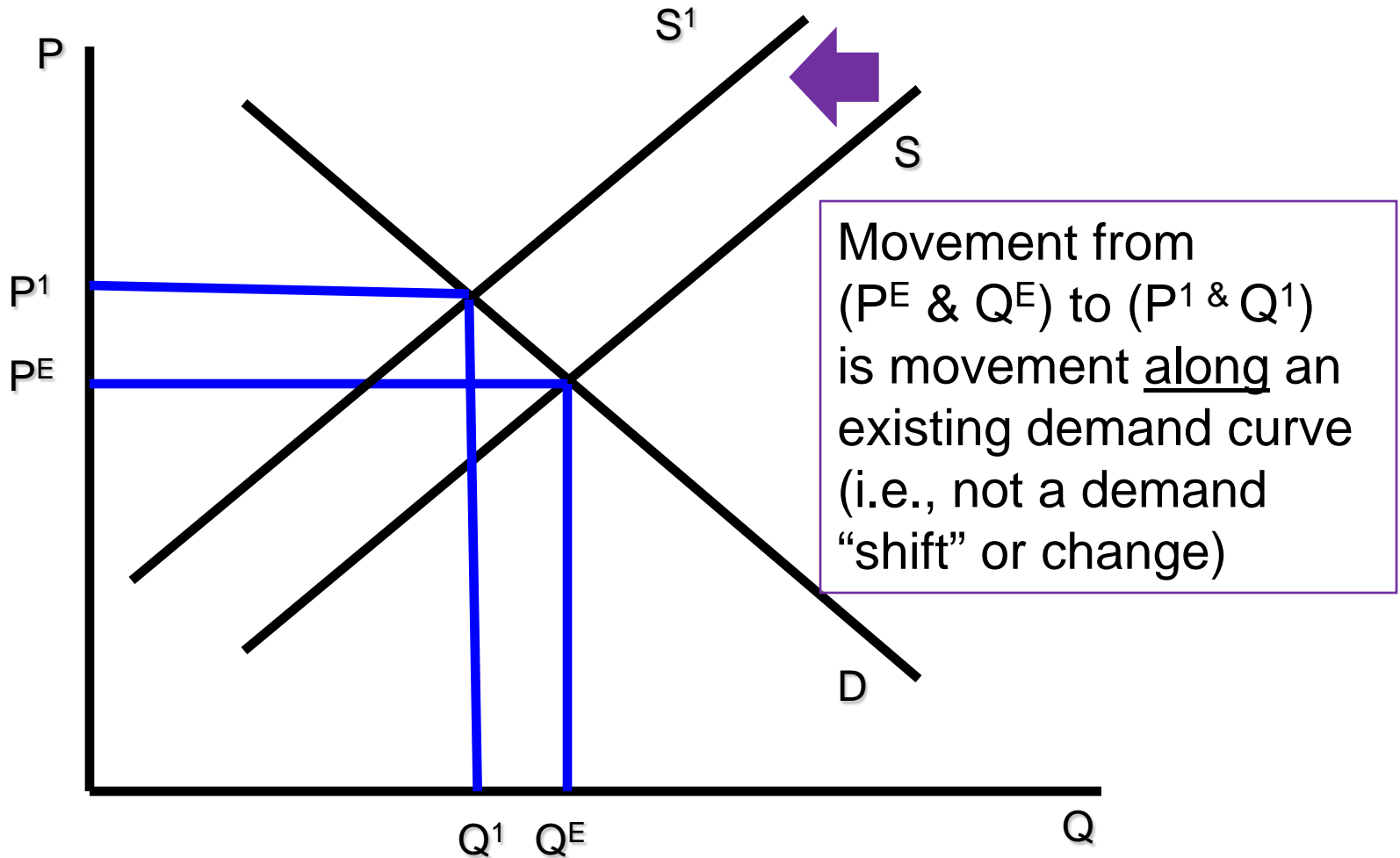
Data Source: National Restaurant News, Compiled & Analysis by LMIC



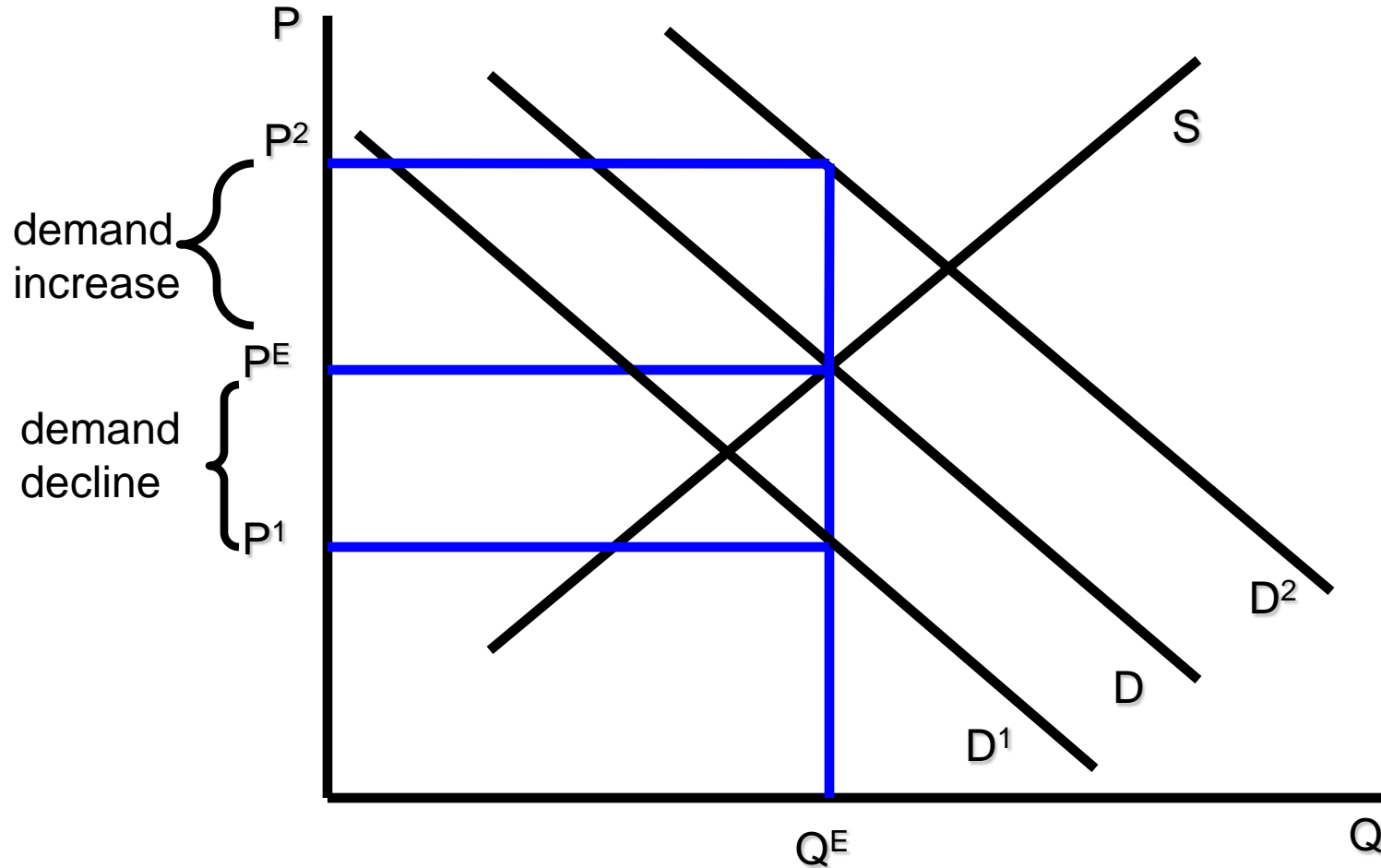
Beef Market Equilibrium



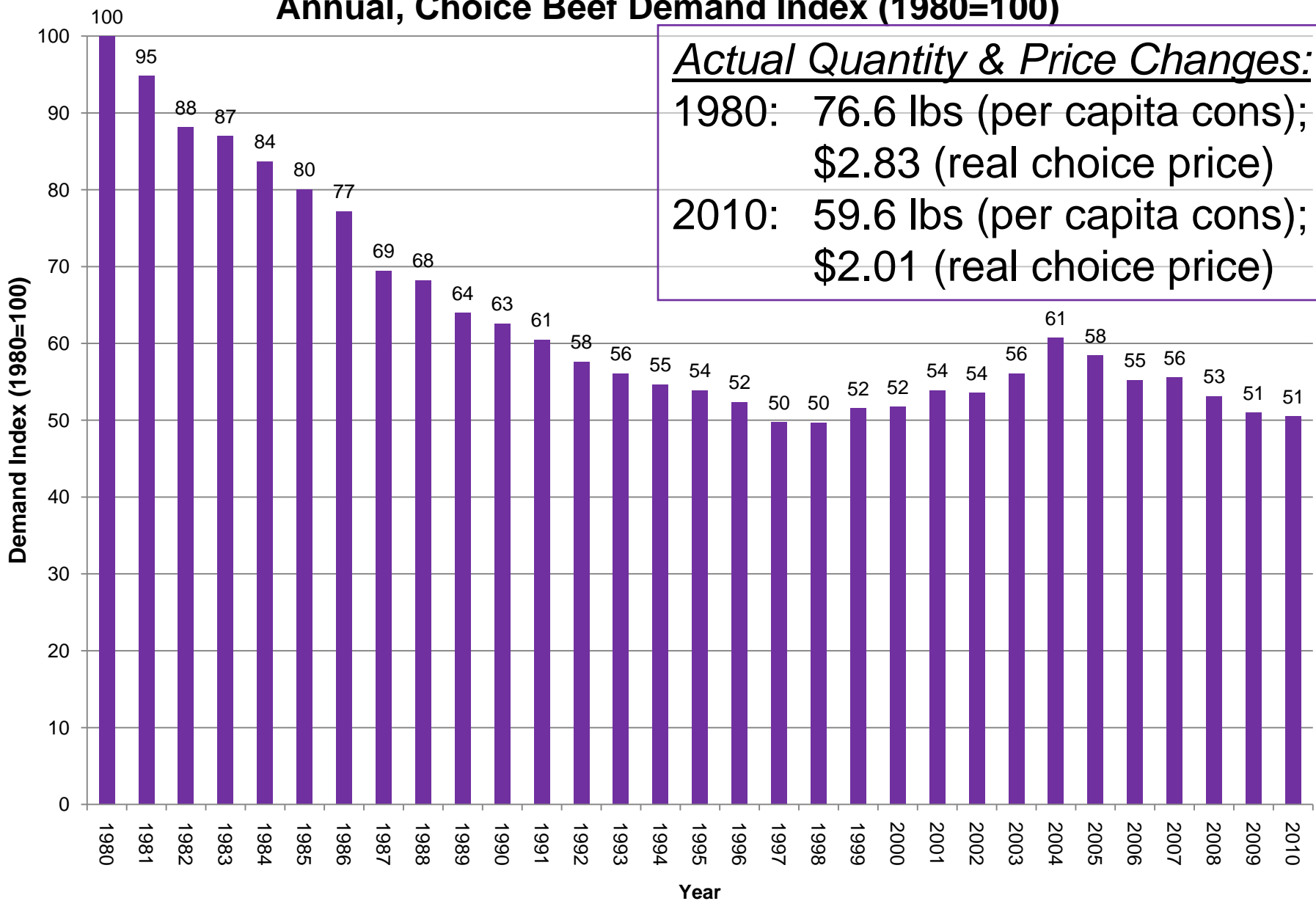
Beef Market Equilibrium



Measuring Demand Shifts



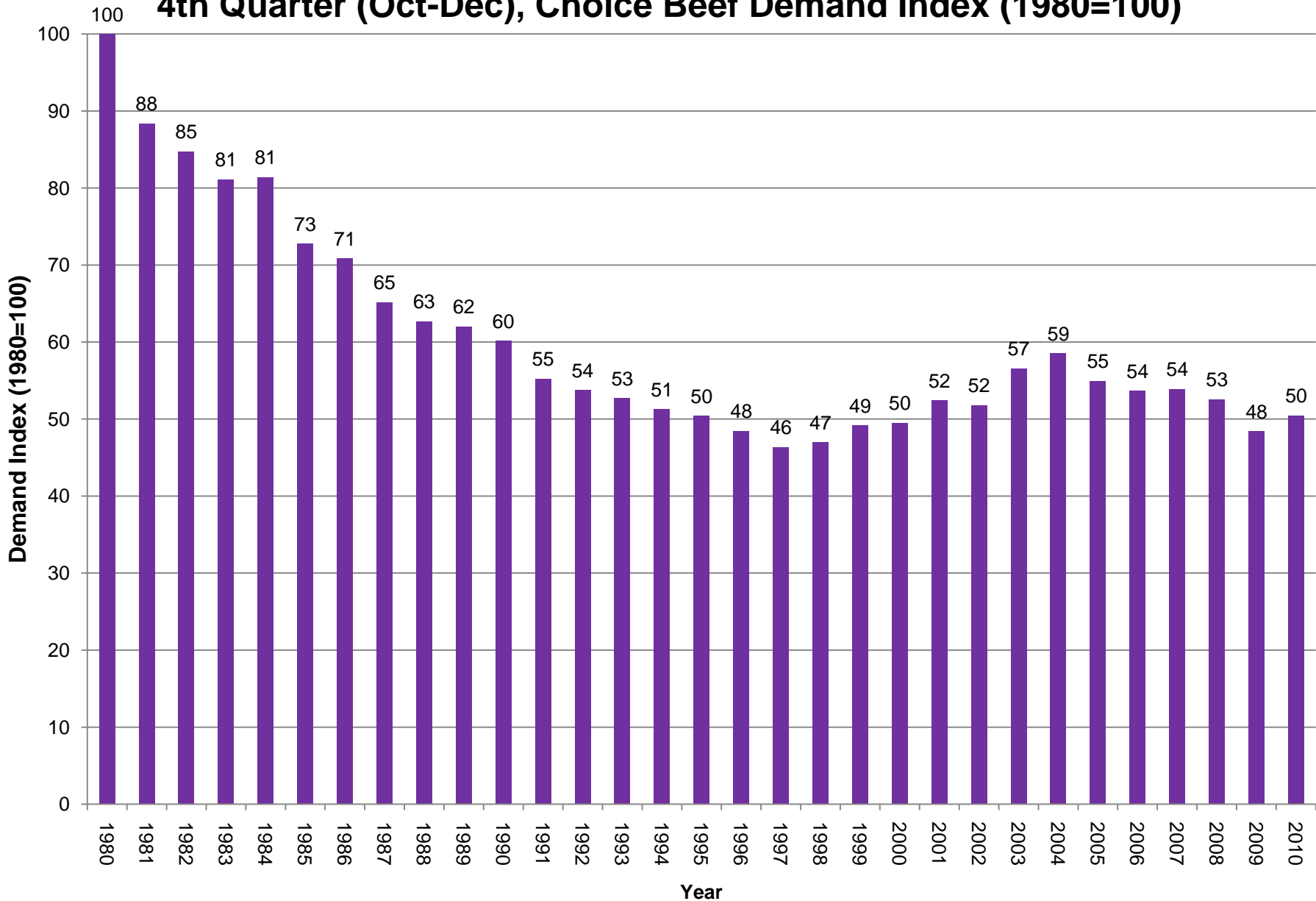
Annual, Choice Beef Demand Index (1980=100)



Source: Glynn T. Tonsor, Kansas State University, Jan. 2011



4th Quarter (Oct-Dec), Choice Beef Demand Index (1980=100)

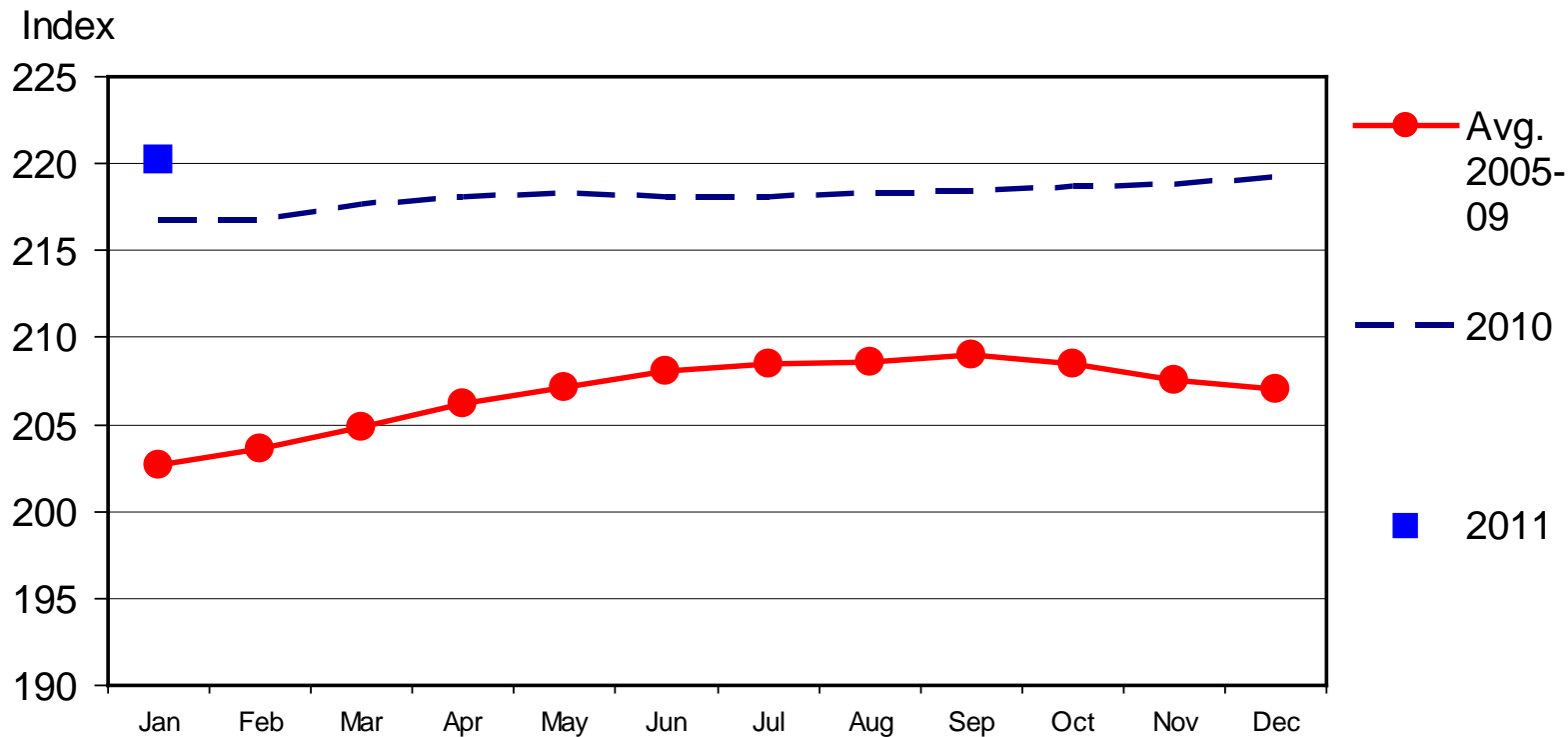


Source: Glynn T. Tonsor, Kansas State University, Jan. 2011



CONSUMER PRICE INDEX - ALL ITEMS

1982-1984 Base, Monthly



Livestock Marketing Information Center

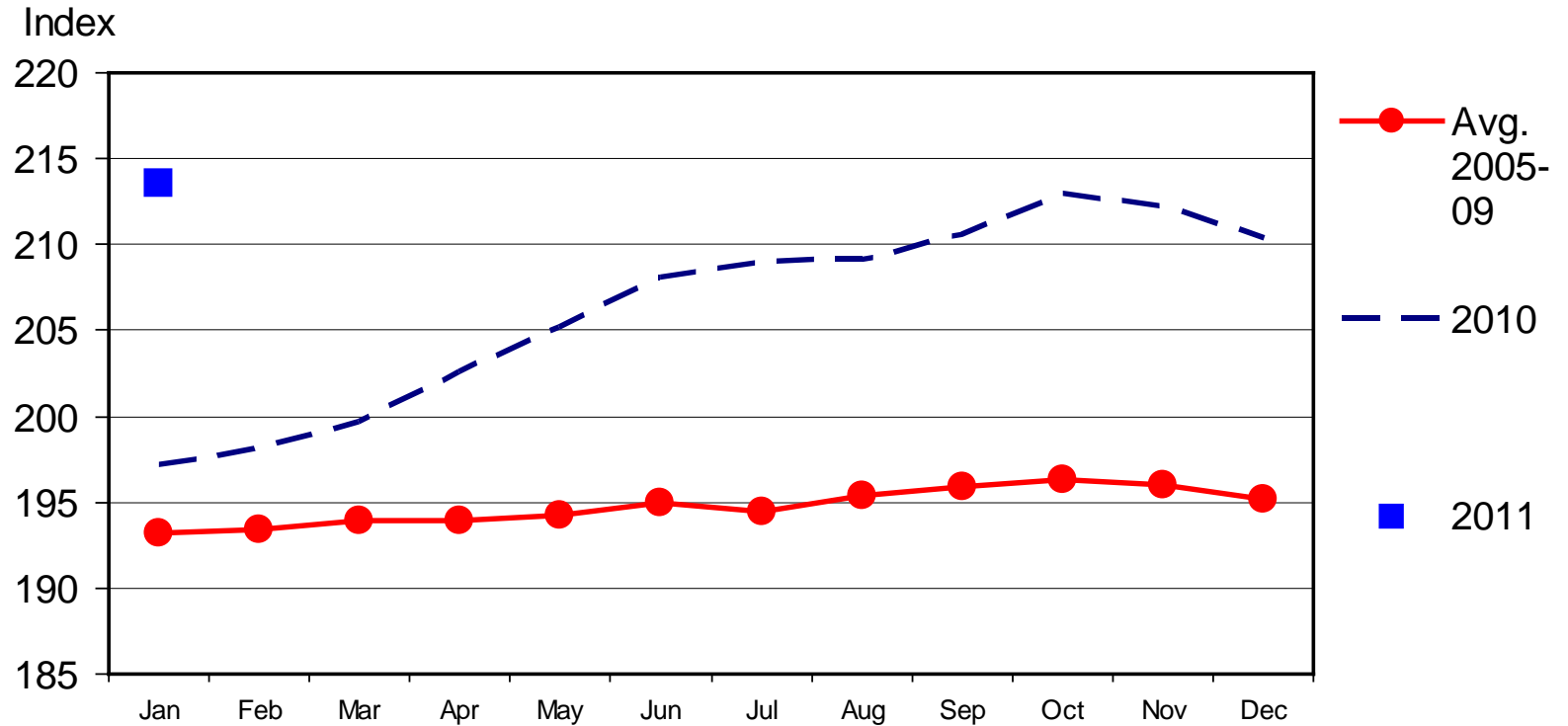
02/17/11

Data Source: Bureau of Labor Statistics



CPI - MEATS

1982-1984 Base, Monthly



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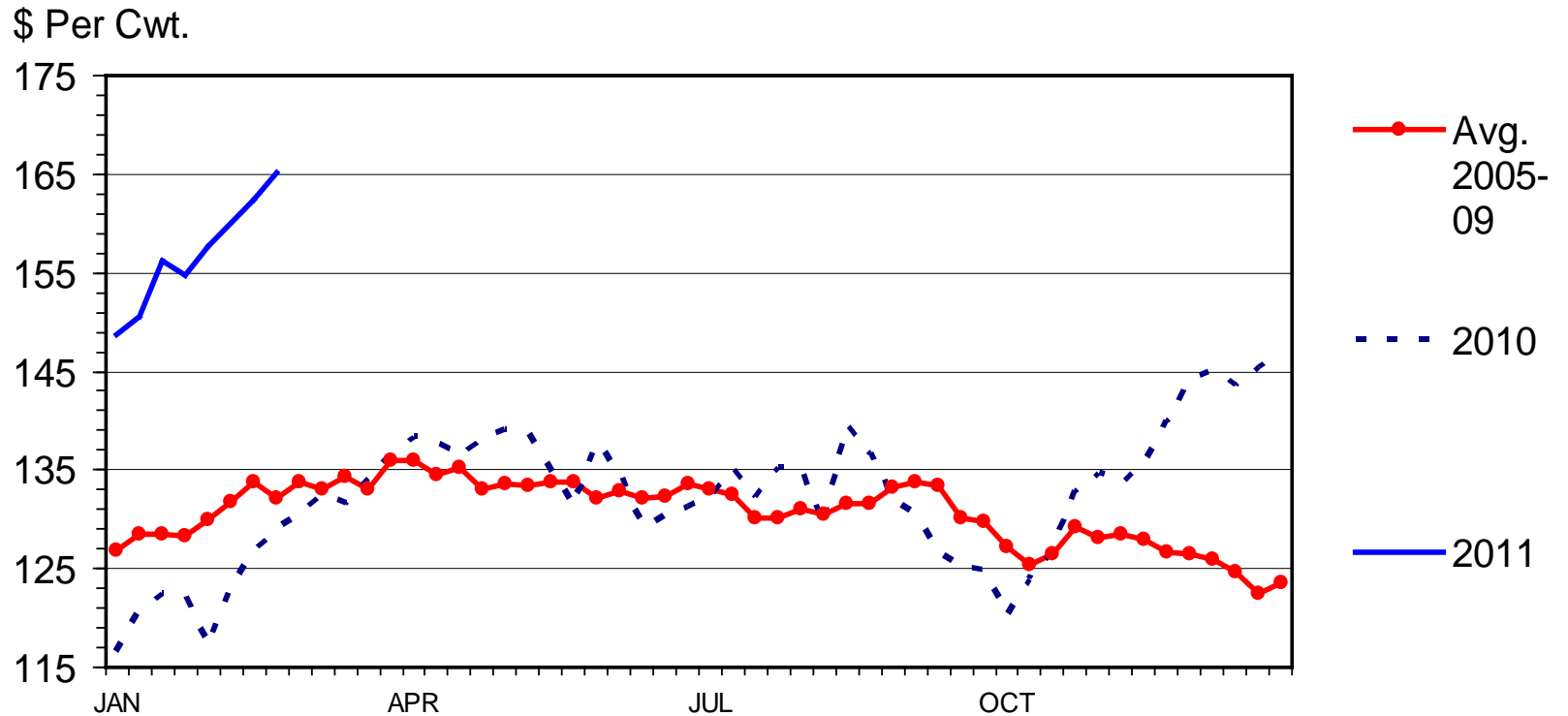
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Data Source: Bureau of Labor Statistics



MED. & LRG. #1 STEER CALF PRICES

400-500 Pounds, Southern Plains, Weekly



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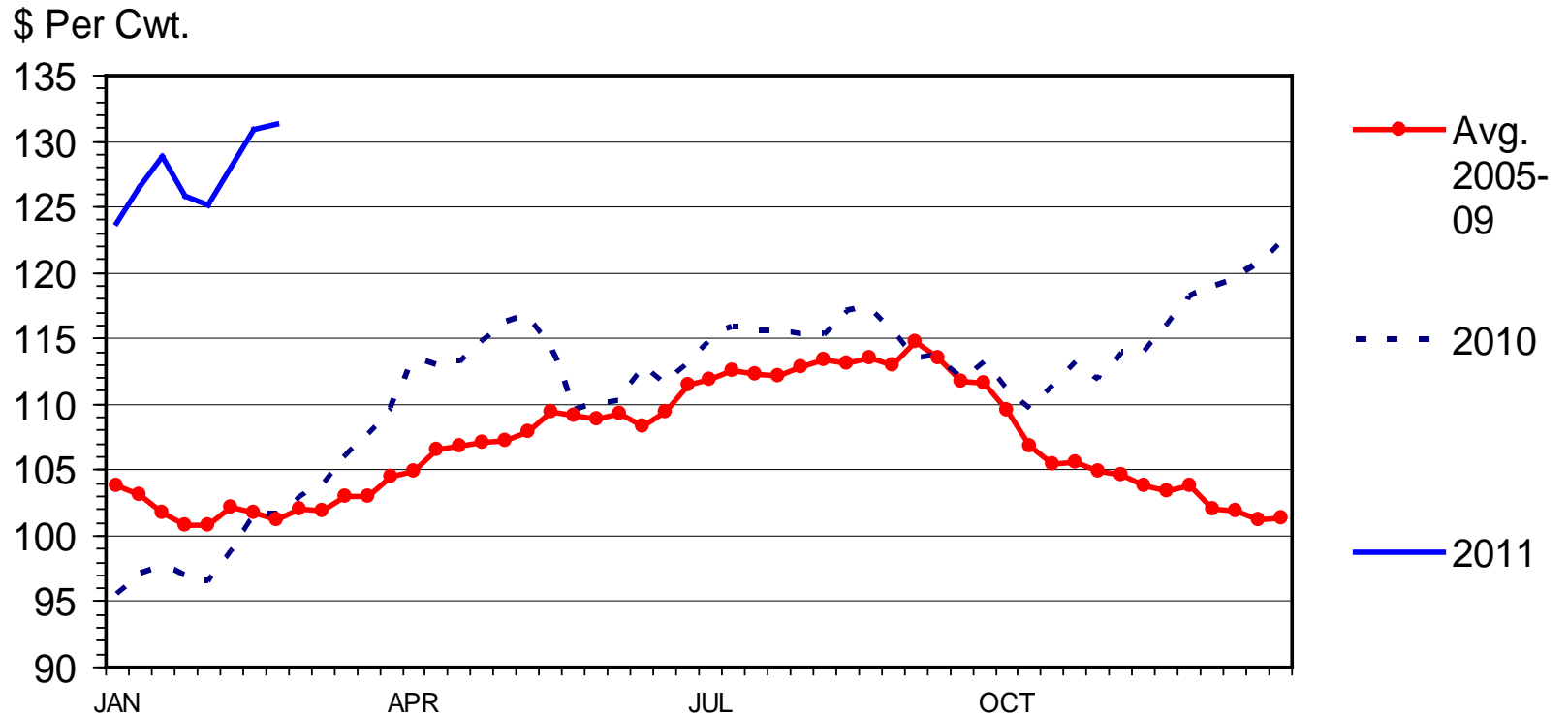
Data Source: USDA-AMS, Compiled & Analysis by LMIC

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02/28/11



MED. & LRG. #1 FEEDER STEER PRICES

700-800 Pounds, Southern Plains, Weekly



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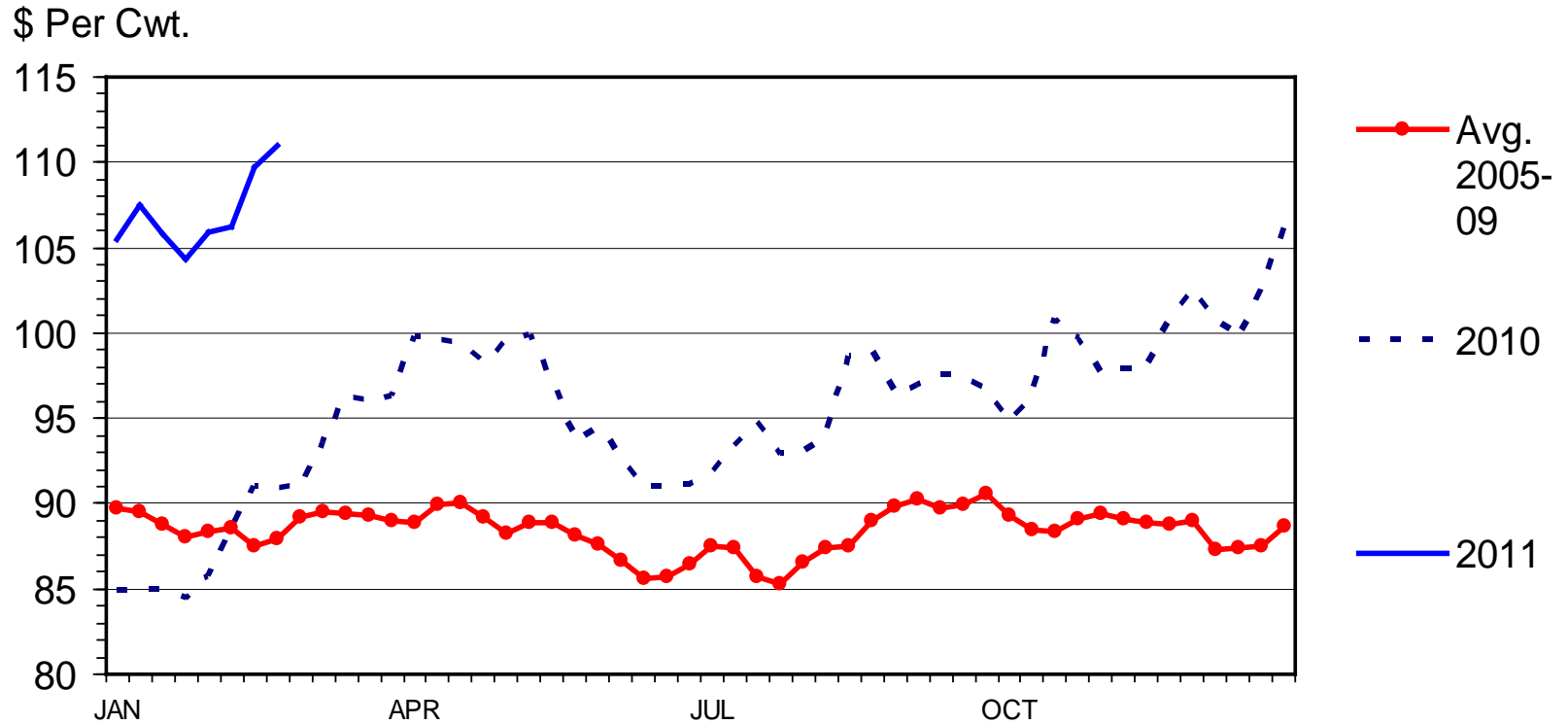
Data Source: USDA-AMS, Compiled & Analysis by LMIC

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SLAUGHTER STEER PRICES

5 Market Weighted Average, Weekly



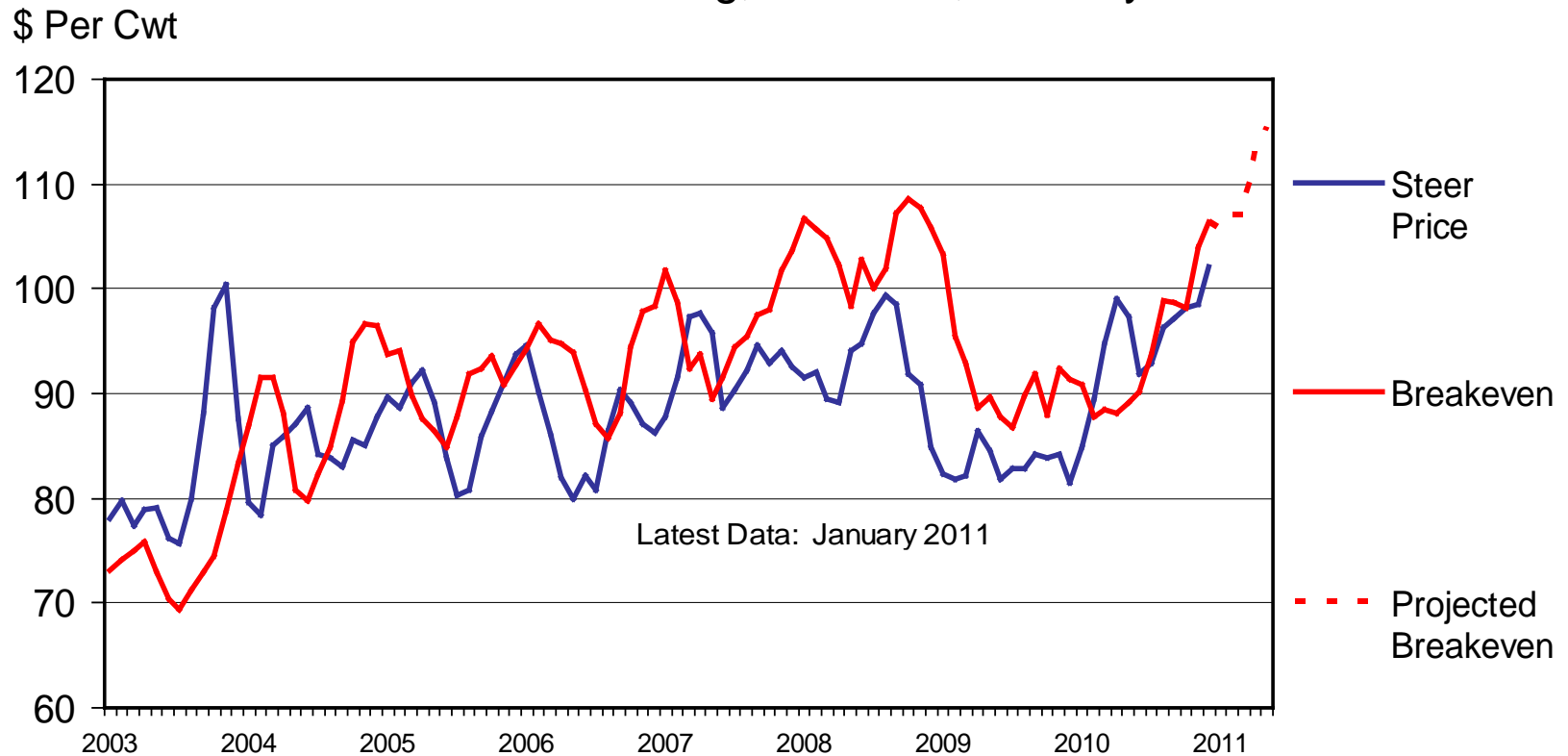
Livestock Marketing Information Center

Data Source: USDA-AMS



CHOICE STEER PRICE vs BREAKEVEN

Cattle Feeding, S. Plains, Monthly



Livestock Marketing Information Center

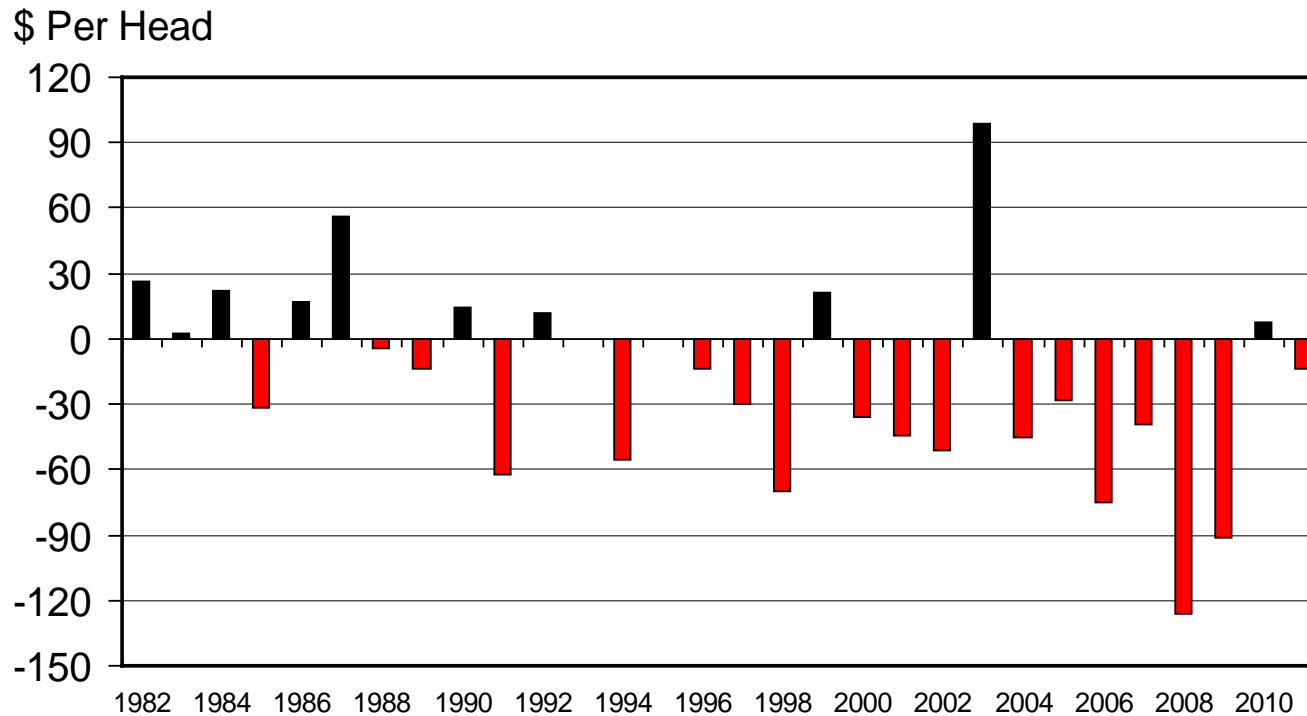
Data Source: USDA-AMS & USDA-NASS, Compiled & Analysis by LMIC

C-P-21
02/01/11



AVERAGE RETURNS TO CATTLE FEEDERS

Feeding 725 Lb. Steers, S. Plains, Annual



Livestock Marketing Information Center

Data Source: USDA-AMS & USDA-NASS, Compiled & Analysis by LMIC

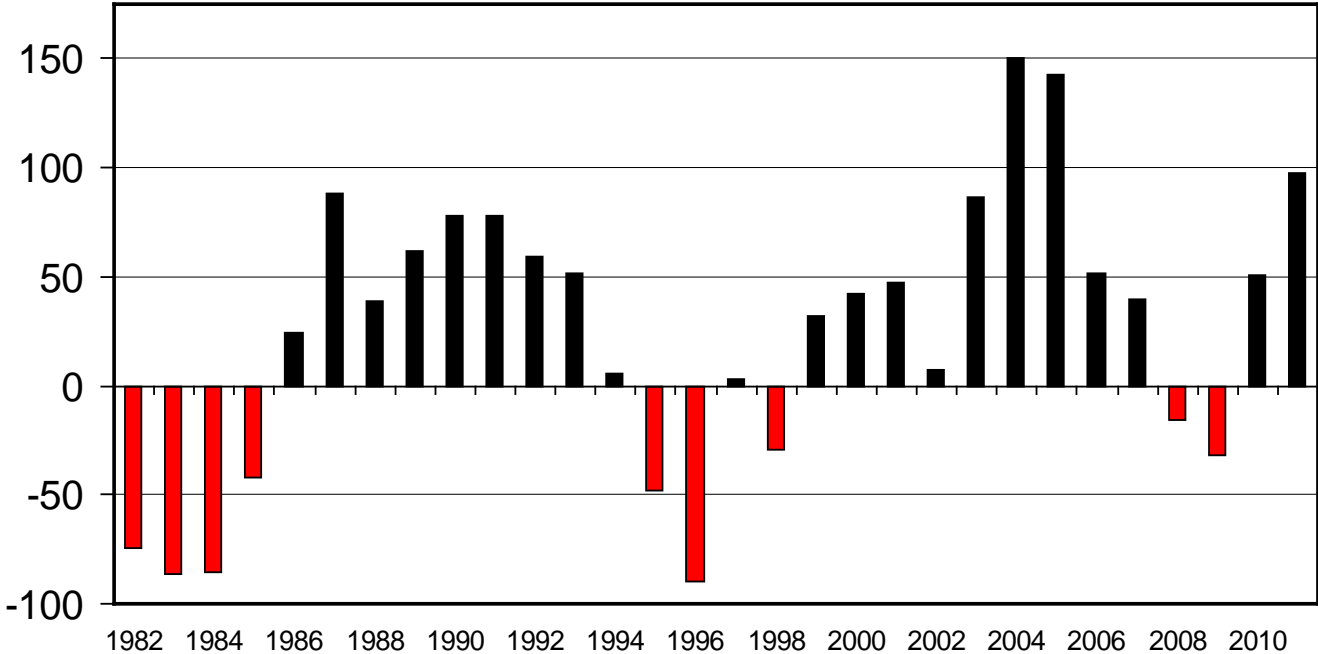
C-P-10
02/11/11



ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual

\$ Per Cow



Livestock Marketing Information Center

Data Source: USDA-AMS & USDA-NASS, Compiled & Analysis by LMIC

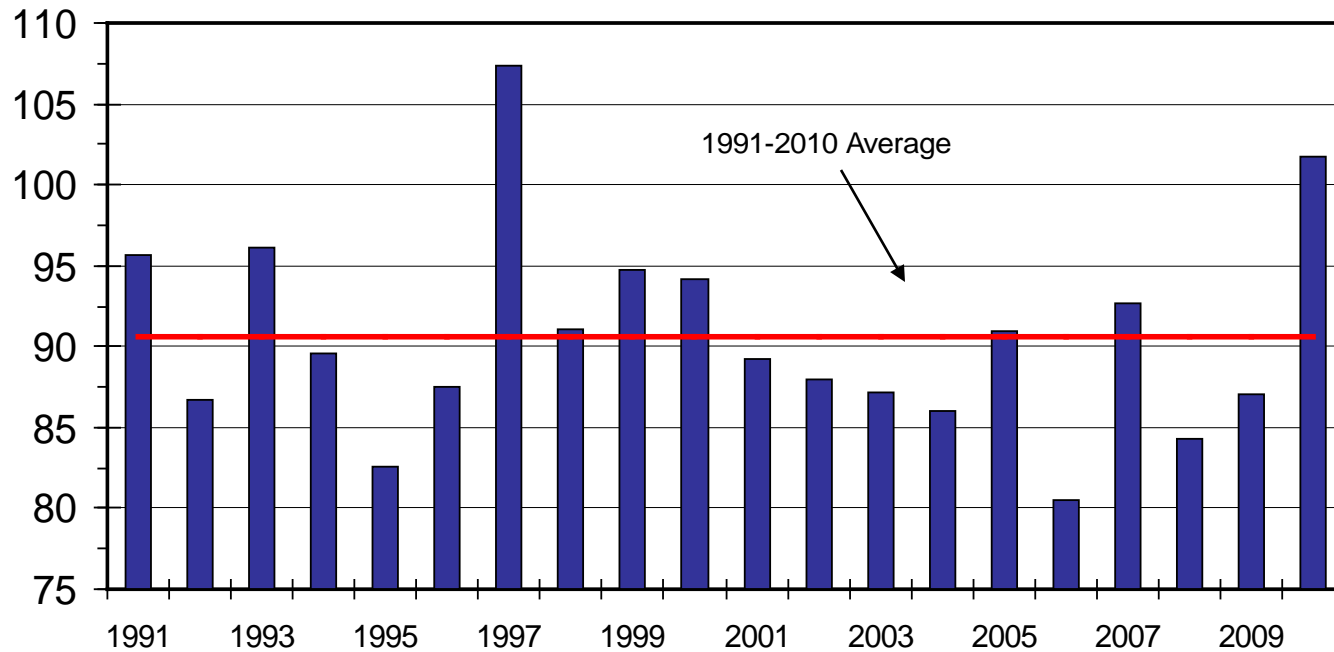
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02/17/11



BUY/SELL MARGINS

S. Plains, Mar. 7-800 lb. Steer as % of Nov. 5-600 lb. Steer

Percent



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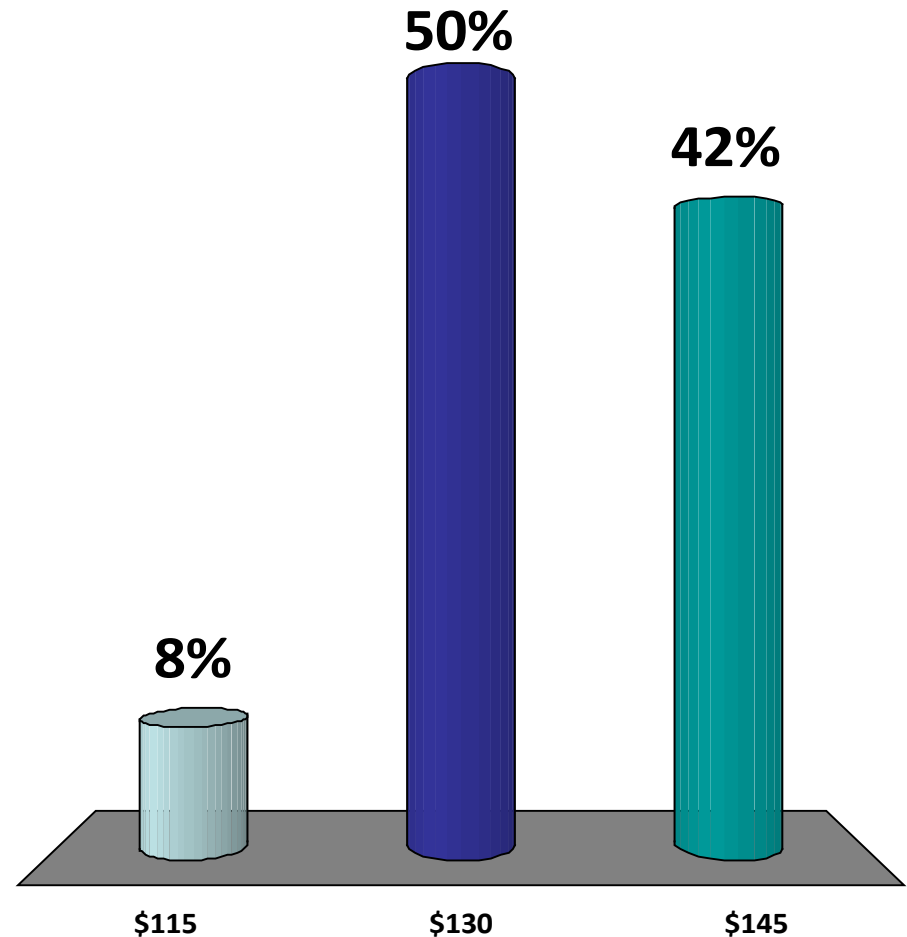
Data Source: USDA-AMS, Compiled & Analysis by LMIC

C-P-60
02/17/11

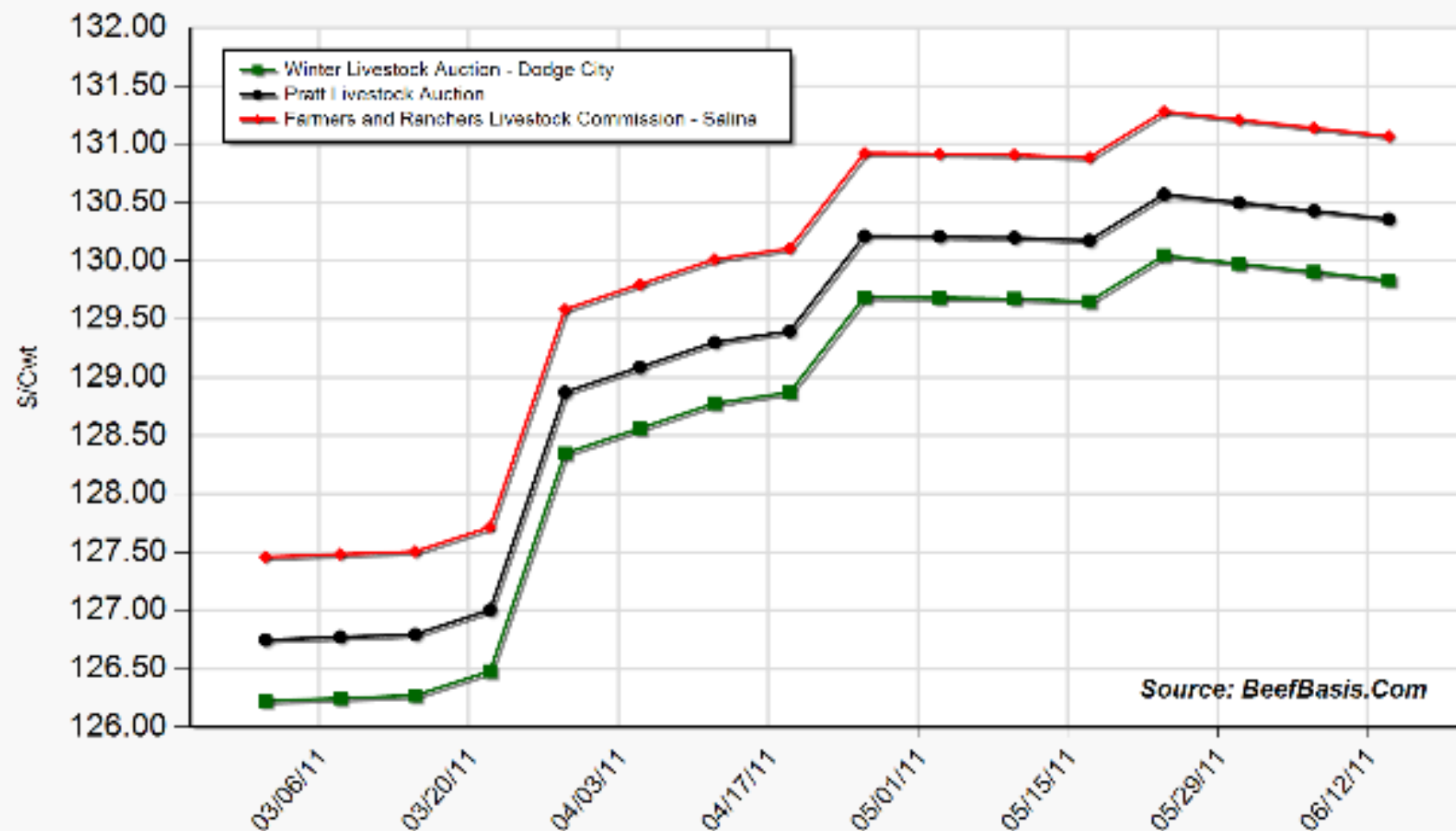


The futures market implied (basis adjusted) price for 750 lb steers in Salina in April 2011 is:

1. \$115/cwt
2. \$130/cwt
3. \$145/cwt

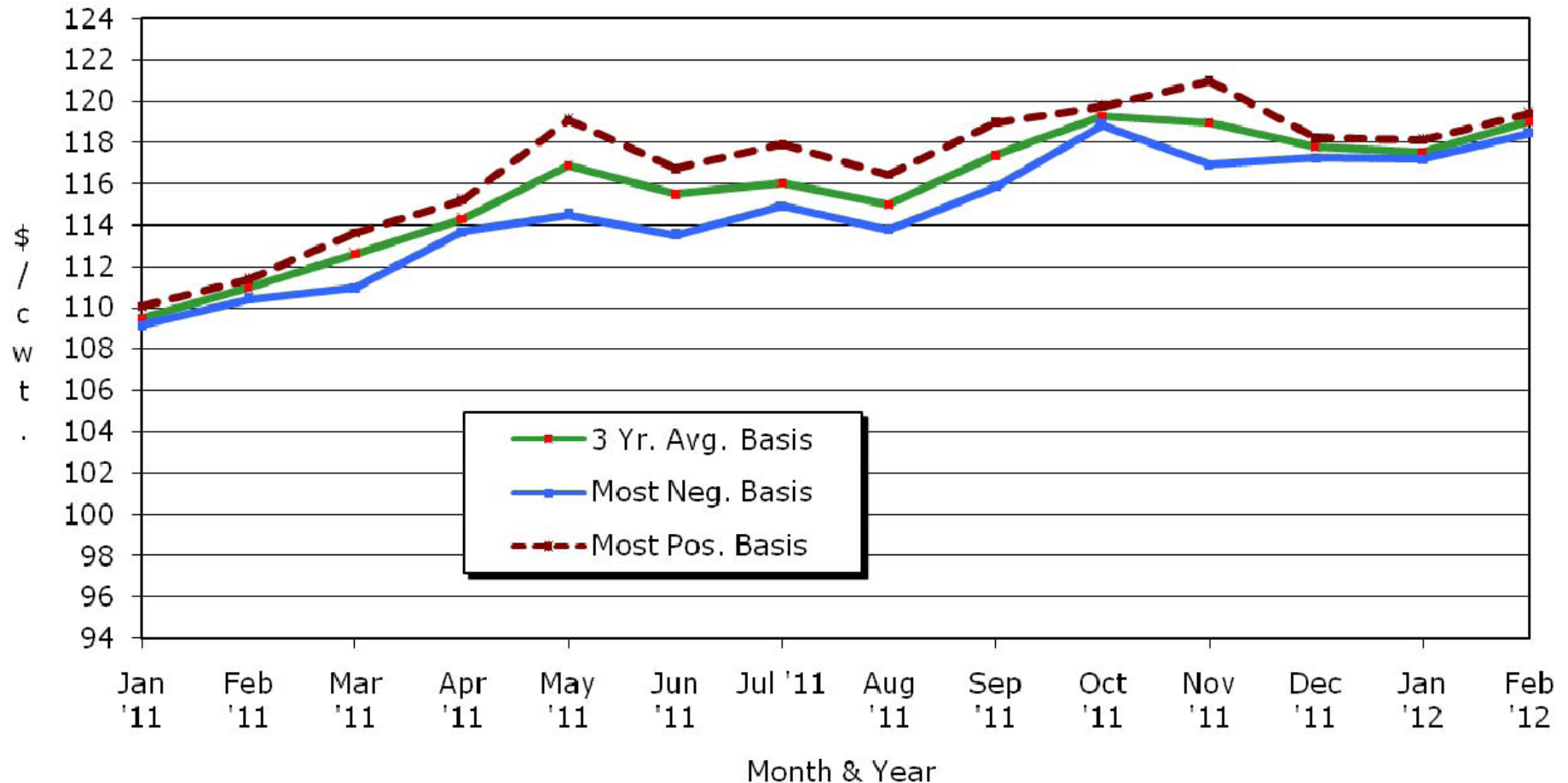


Projected Price for 750 Lb Steer at Selected Kansas Auctions



Kansas Slaughter Steer Price Forecasts

Mid-Month Futures Based Price Forecasts



Source: USDA-AMS, CME, & K-State Ag. Economics
Based on 2.25.11 CME Live Cattle settlement prices

KSU Dept. of Ag Econ
www.agmanager.info



QUARTERLY FORECASTS (LMIC: 3/1/11')

Year Quarter	Comm'l Slaughter	% Chg. from Year Ago	Average Dressed Weight	% Chg. from Year Ago	Comm'l Beef Production	% Chg. from Year Ago
2010						
I	8,168	2.4	765	-2.3	6,251	0.0
II	8,683	0.9	754	-1.7	6,549	-0.8
III	8,754	2.8	773	-1.5	6,771	1.2
IV	8,660	5.1	779	-0.1	6,746	5.0
Year	34,265	2.8	768	-1.4	26,316	1.4
2011						
I	8,211	0.5	775	1.2	6,361	1.8
II	8,559	-1.4	765	1.4	6,548	0.0
III	8,505	-2.8	782	1.1	6,651	-1.8
IV	8,109	-6.4	785	0.7	6,363	-5.7
Year	33,384	-2.6	777	1.1	25,923	-1.5
2012						
I	7,928	-3.4	783	1.1	6,211	-2.4
II	8,156	-4.7	771	0.8	6,292	-3.9
III	8,135	-4.4	791	1.2	6,437	-3.2
IV	7,868	-3.0	791	0.8	6,223	-2.2
Year	32,087	-3.9	784	1.0	25,163	-2.9



QUARTERLY FORECASTS (LMIC: 3/1/11')

Year Quarter	Live Sltr. Steer Price	% Chg. from	Feeder Steer Price	
	5-Mkt Avg	Year Ago	7-800#	5-600#
2010				
I	89.44	8.84	100.88	116.23
II	96.33	14.04	113.04	127.77
III	95.47	14.95	115.12	124.10
IV	100.28	20.39	114.52	123.26
Year	95.38	14.72	110.89	122.84
2011				
I	105-107	18.5	125-127	139-142
II	106-109	11.6	124-128	138-144
III	101-105	7.9	126-132	138-145
IV	105-110	7.2	120-127	131-141
Year	104-108	11.0	123-129	136-144
2012				
I	107-113	3.8	121-130	135-146
II	110-117	5.6	126-136	137-149
III	106-114	6.8	129-139	138-150
IV	108-118	5.1	122-133	132-146
Year	108-115	5.2	125-134	136-147



Summary

- Duration of supply situation:
 - Cow herd liquidation continuing in face of expected profits...
 - Battle over limited feeders may be intense...
 - Continued stocker segment incentives likely...
- Duration of demand situation:
 - Domestic concerns w/r/t relative meat prices may emerge
 - Export growth vital both in short run & long run



*Looking Beyond Today's
Ps & Qs*



Additional Demand Drivers/Issues in need of Evaluation:

- Animal welfare

- “social pressures” are here to stay ...
 - Oprah’s recent show talked more about AW than food safety...
- beef/cattle are not immune:
 - Recent analysis suggests meat expenditures reallocate to non-meat in response to increasing media attention...



Export Importance = Need for Global Comparative Advantage Assessment

- State of National Animal ID & Traceability
 - Current & future roles in trade negotiations:
 - South Korea: has 12/2010 rule of all imported meat being traceable...
 - Canada: national program facilitating age verification...



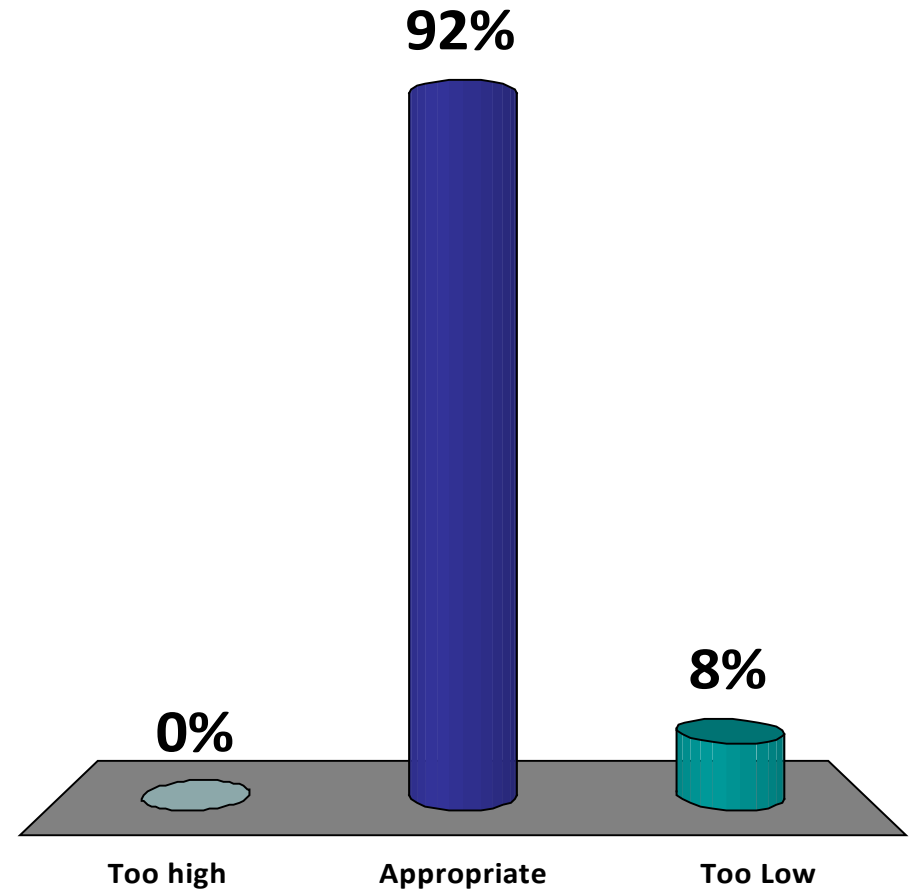
Impacts of New/Potential Policy on Markets is Needed

- Multiple regulation discussions:
 - “fair market” proposed rules / “anti-competition” listening sessions ...
 - More broadly uncertainty holding back investment throughout supply chain???
- Retail price data accuracy & implications...
 - Farm-retail margin issues
 - BLS data avg. 17% higher than scanner data (15 beef products, April 2008)



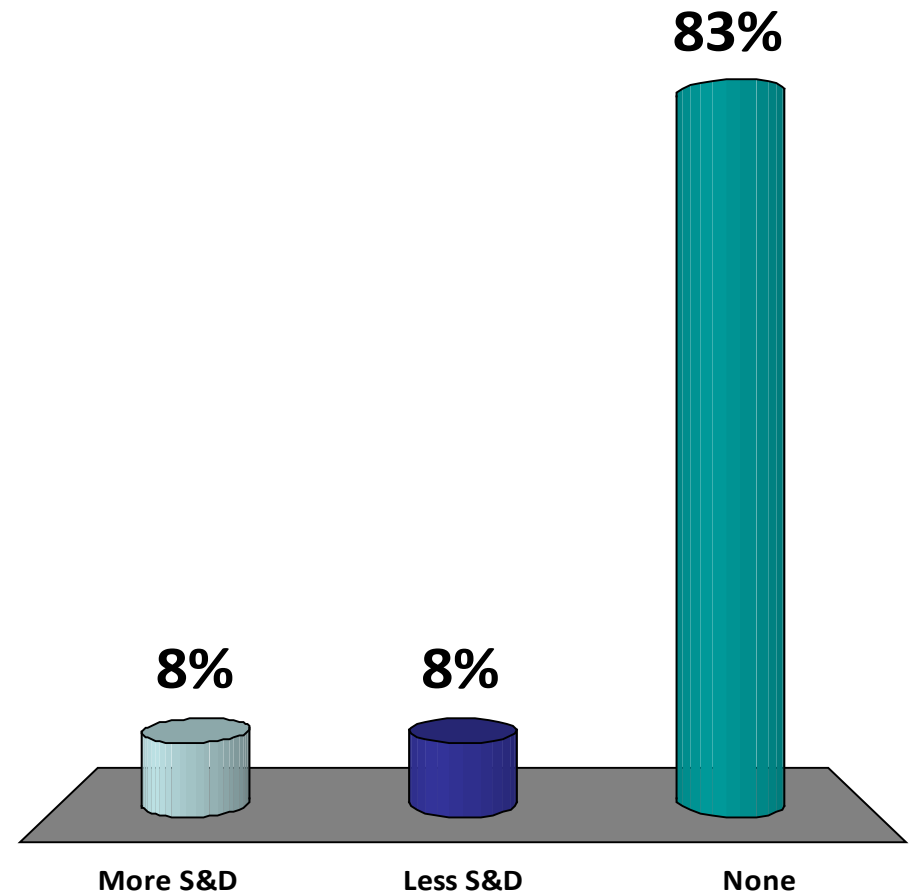
What best describes your sentiment regarding the current cattle marketplace?

1. Current prices are too high given fundamentals
2. Current prices are appropriate given fundamentals
3. Current prices are too low given fundamentals



What best describes adjustments you would like to see in my presentation?

1. MORE “current supply & demand oriented discussion”
2. LESS “current supply & demand oriented discussion”
3. No major adjustment desired



More information available at:
AgManager (<http://www.agmanager.info/>)

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Notable AgManager Resources

(<http://www.agmanager.info/livestock/marketing/>)

- Weekly commentary & newsletters
- Current & historical price information
- Risk management/forecasting tools



Weekly Email Distribution of AgManager Updates

- <http://listserv.ksu.edu/web?SUBED1=AGMANAGERUPDATE&A=1>

OR email your request to:

- Rich Llewelyn
[rllewely@AGECON.KSU.EDU]



Regular Newsletters & Commentary

- KSU Radio Interview

- (<http://www.agmanager.info/livestock/marketing/outlook/newsletters/default.asp>)
- OR (<http://www.ksre.k-state.edu/news/DesktopDefault.aspx?tabid=66>)
- Weekly, released on Mondays
(Tonsor, Mark, Peel, LMIC)

- “In the Cattle Markets”

- (<http://www.lmic.info/memberspublic/InTheCattleMarket/CattleMktsframe.html>)
- Weekly (Mark, Feuz, Petry, Riley/Anderson)

- Recent Cattle Finishing Returns

- (<http://www.agmanager.info/livestock/marketing/outlook/newsletters/FinishingReturns/default.asp>);
- monthly updates based on *Focus on Feedlots* newsletter



Regular “Situation Update” Commentary: LMIC

- “Chart of the Week”
 - (<http://www.lmic.info/index.shtml>)
- “Weekly Price & Production Summary”
 - (<http://www.lmic.info/priprod/pandp.html>)
- “Quick Market Reports”
 - (<http://www.lmic.info/quick/quickdr.html>)



Current Price & Basis Information

- Futures Markets

- (<http://www.cmegroup.com/trading/commodities/>) OR
(<http://www.agmanager.info/livestock/marketing/futures/default.asp>)
- LC, FC, LH & C, SB, S, W

- Cash Markets

- [http://www.agmanager.info/livestock/marketing/graphs/default.asp#Price Charts](http://www.agmanager.info/livestock/marketing/graphs/default.asp#Price%20Charts)
- [http://www.agmanager.info/livestock/marketing/database/default.asp#Cattle and Beef Databases](http://www.agmanager.info/livestock/marketing/database/default.asp#Cattle%20and%20Beef%20Databases)
 - Dodge City, Pratt, & Salina 700-800 lb steer; KS Direct Slaughter steer prices

- Basis (Cash - Futures) Information

- [http://www.agmanager.info/livestock/marketing/graphs/default.asp#Basis Charts](http://www.agmanager.info/livestock/marketing/graphs/default.asp#Basis%20Charts)
- BeefBasis.com (<http://www.beefbasis.com/>)



Risk Management and Return Forecasting Tools Available:

- Feeder Cattle Sales Risk Management Tool,
 - Compare expected sales prices of alternative FC marketing strategies
 - (<http://www.agmanager.info/livestock/marketing/LRP/default.asp>)
- Feedlot Profitability Tool: NAIBER's Feeding Risk Analyzer
 - Forecasts feedlot returns and variability in returns for future placements
 - (<http://www.naiber.org/cattleriskanalyzer/>)
- BeefBasis.com
 - Decision support for hedging feeder cattle (output for cow-calf; input for feedlots)
 - (<http://www.beefbasis.com/Home/tabid/53/Default.aspx>)

