

2016 Crop Insurance Workshop:

Livestock Market Outlook
Trent Milacek NW Area Ag Econ Specialist

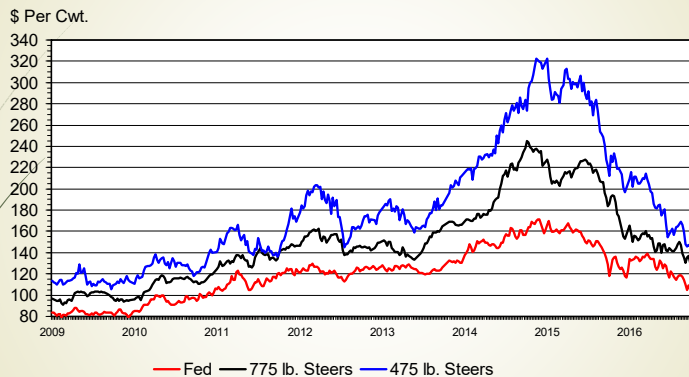


Major Beef Market Factors

- ▶ Cattle Inventory and Beef Production
- ▶ Beef Demand
- ▶ International Trade
- ▶ Feed and Input Markets
- ▶ Forage Conditions



FED, FEEDER AND CALF PRICES Weekly



OK Combined and 5-MKT Fed



Stocker Cattle

A saving grace or another pitfall?

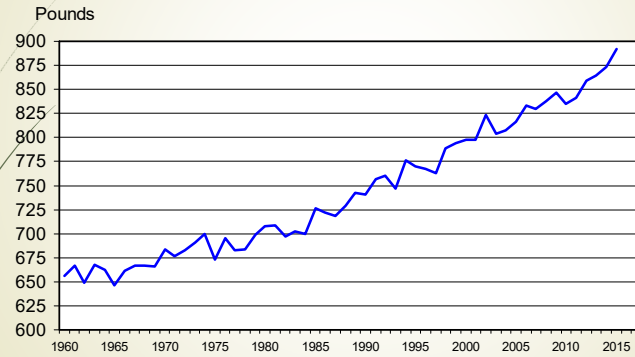


Feeder Cattle

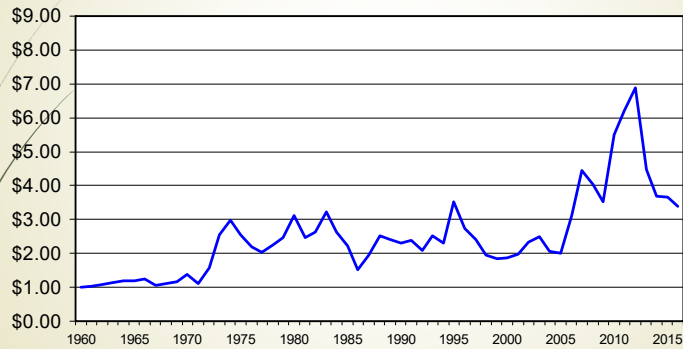
GFF17 - Feeder Cattle - Daily OHLC Chart



Steer Carcass Weight Federally Inspected



Corn Price, Crop Year Average, 1960-2016



Feedlot Cost of Gain Kansas, Monthly, \$/cwt



The Purchase

- ▶ 450lb. calf @ \$145.81/cwt. = \$656.15
- ▶ Average feeder cattle price for the week ending Sept. 16th \$134.09/cwt.
- ▶ Current basis for 4.5 cwt. = +\$11.72/cwt.



What will we sell him for?

- ▶ 700 lb. calf @ \$138.22/cwt. = \$967.54
- ▶ Average feeder cattle price for the week ending Sept. 16th \$134.09/cwt.
- ▶ Current basis for 7 cwt. = +\$4.13/cwt.



What about in March?

- ▶ March feeder contract trading at \$111.225 /cwt.
- ▶ Using a +\$4.13 /cwt. basis suggests that a 700lb. calf will be worth \$807.52 instead of \$967.54
- ▶ Value of gain now sits at \$0.61/lb.



Feeder Cattle Basis Forecast

State: Location: Expected Sale Date: 2/28/2017

Sex: Frame: Grade:

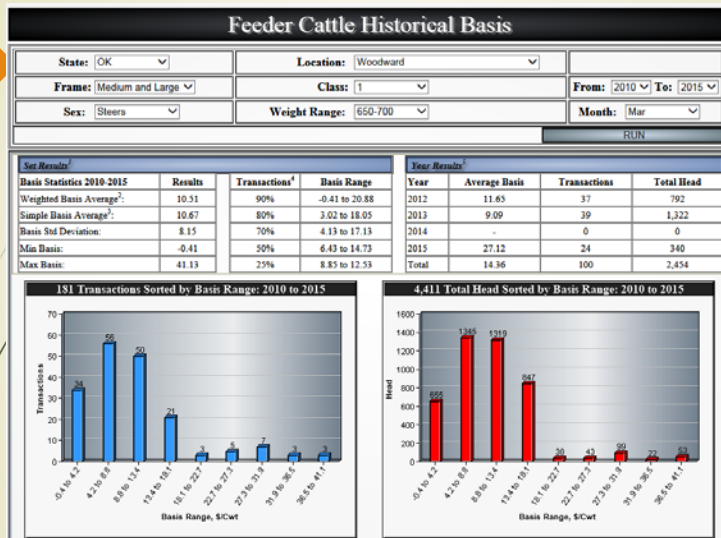
Weight: lbs/head Head:

Feeder Cattle Futures Price: \$/cwt Corn Futures Price: \$/bu

Target Contract: Mar 2017 Target Contract: Mar 2017

Model-Estimated Feeder Cattle Basis Values ¹	Feeder Cattle Basis Results	LRP Cattle Basis Results ⁶
Model-estimated feeder cattle basis, \$/cwt ²	10.33	5.86
Confidence interval for basis, \$/cwt ³	6.27 to 14.39	1.93 to 9.80
Expected cash price, \$/cwt	134.78	130.31
Confidence interval for expected cash price, \$/cwt ³	130.72 to 138.84	126.38 to 134.25
Optimal hedge ratio ⁴	0.9951	N/A
Number of calves hedged per contract ⁵	72	N/A





beefbasis.com

- ▶ March contract at \$111.225/cwt.
- ▶ beefbasis.com prediction of \$6.27-\$14.39 with 68% accuracy
- ▶ Expected cash price between \$117.50 - \$125.62/cwt.



What to expect in March?

- ▶ 700lb. calf sold at \$121.56 = \$850.92
- ▶ Value of gain \$0.78/lb.
- ▶ What should we expect for expenses?



Stocker budget / head

Revenue	Costs
▶ 686lb. X \$121.56 = \$833.90	▶ 450lb. X \$145.81 = \$656.15
	▶ Interest = \$15.84
▶ Assuming a 2% death loss	▶ Marketing = \$10.00
▶ +\$10.33 basis	▶ Pasture = \$87.50
	▶ Other Exp. = \$43.32
▶ Total = \$833.90	▶ Total = \$812.81



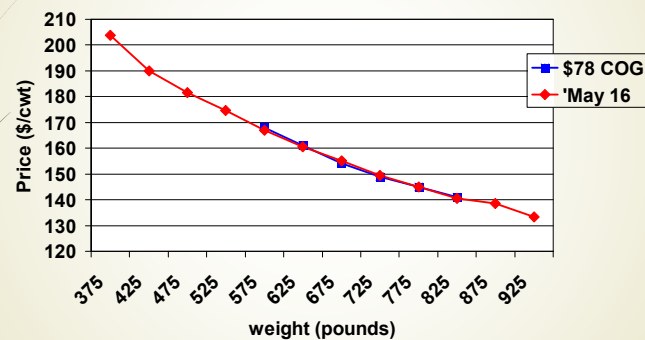
Takeaways

- Breakeven is \$118/cwt. on 700lb. calves.
- Potential \$21/hd. profit if assumptions hold.
- Margins will be tight even given a positive move in the cash market.



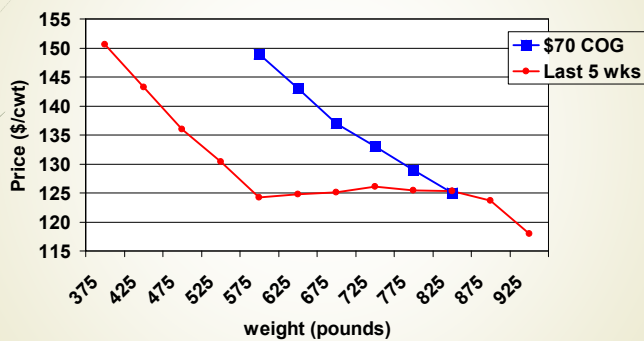
Price-Weight Relationship

Medium/Large No. 1 Steers, Oklahoma



Price-Weight Relationship

Medium/Large No. 1 Steers, Oklahoma



Steer Price, Total Value and Value of Gain Oct 7-Nov 4, 2016, 7 Mkt. Ave., Oklahoma

Weight (lbs)	Average Price (\$/cwt.)	Total Value (\$/hd)	VOG 400 lb. Beg. Weight (\$/lb.)	VOG 450 lb. Beg. Weight (\$/lb.)	VOG 500 lb. Beg. Weight (\$/lb.)	VOG 550 lb. Beg. Weight (\$/lb.)	VOG 600 lb. Beg. Weight (\$/lb.)	VOG 650 lb. Beg. Weight (\$/lb.)
400	\$146.94	\$588						
450	\$139.65	\$628	\$0.81					
500	\$133.18	\$666	\$0.78	\$0.75				
550	\$127.30	\$700	\$0.75	\$0.72	\$0.68			
600	\$124.51	\$747	\$0.80	\$0.79	\$0.81	\$0.94		
650	\$124.95	\$812	\$0.90	\$0.92	\$0.98	\$1.12	\$1.30	
700	\$125.60	\$879	\$0.97	\$1.00	\$1.07	\$1.19	\$1.32	\$1.34
750	\$125.74	\$943	\$1.02	\$1.05	\$1.11	\$1.21	\$1.31	\$1.31
800	\$125.34	\$1,003	\$1.04	\$1.07	\$1.12	\$1.21	\$1.28	\$1.27
850	\$124.48	\$1,058	\$1.05	\$1.07	\$1.12	\$1.19	\$1.24	\$1.23
900	\$120.82	\$1,087	\$1.00	\$1.02	\$1.05	\$1.11	\$1.13	\$1.10



Steer Price, Total Value and Value of Gain
November 4, 2016, 7 Mkt. Ave., Oklahoma

Weight (lbs)	Average Price (\$/cwt.)	Total Value (\$/hd)	VOG 400 lb. Beg. Weight (\$/lb.)	VOG 450 lb. Beg. Weight (\$/lb.)	VOG 500 lb. Beg. Weight (\$/lb.)	VOG 550 lb. Beg. Weight (\$/lb.)	VOG 600 lb. Beg. Weight (\$/lb.)	VOG 650 lb. Beg. Weight (\$/lb.)
400	\$154.52	\$618						
450	\$147.31	\$663	\$0.90					
500	\$140.77	\$704	\$0.86	\$0.82				
550	\$132.93	\$731	\$0.75	\$0.68	\$0.55			
600	\$128.36	\$770	\$0.76	\$0.72	\$0.66	\$0.78		
650	\$127.90	\$831	\$0.85	\$0.84	\$0.85	\$1.00	\$1.22	
700	\$129.69	\$908	\$0.97	\$0.98	\$1.02	\$1.18	\$1.38	\$1.53
750	\$129.62	\$972	\$1.01	\$1.03	\$1.07	\$1.21	\$1.35	\$1.41
800	\$129.60	\$1,037	\$1.05	\$1.07	\$1.11	\$1.22	\$1.33	\$1.37
850	\$131.37	\$1,117	\$1.11	\$1.13	\$1.18	\$1.29	\$1.39	\$1.43
900	\$124.05	\$1,116	\$1.00	\$1.01	\$1.03	\$1.10	\$1.15	\$1.14



Live Cattle Situation

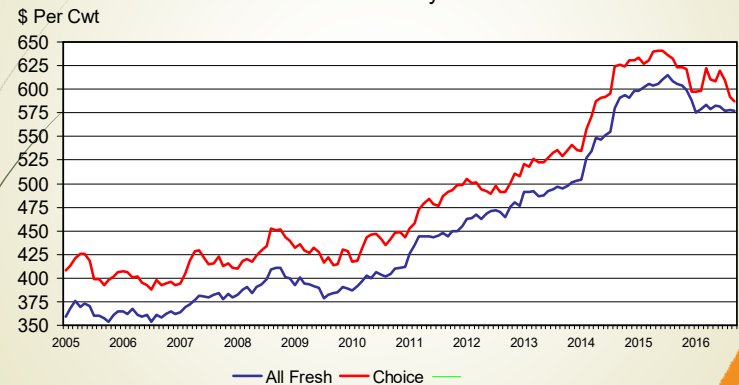
A lot of talk about spreads...



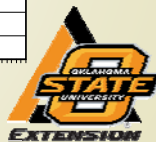
LE - Live Cattle - Weekly Nearest OHLC Chart



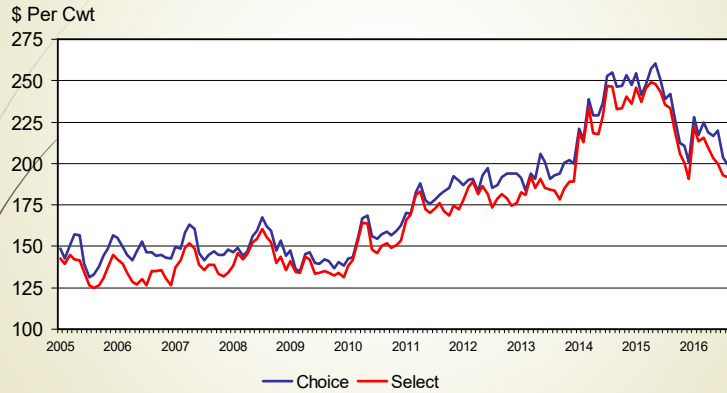
RETAIL BEEF PRICE Monthly



Data Source: USDA-ERS



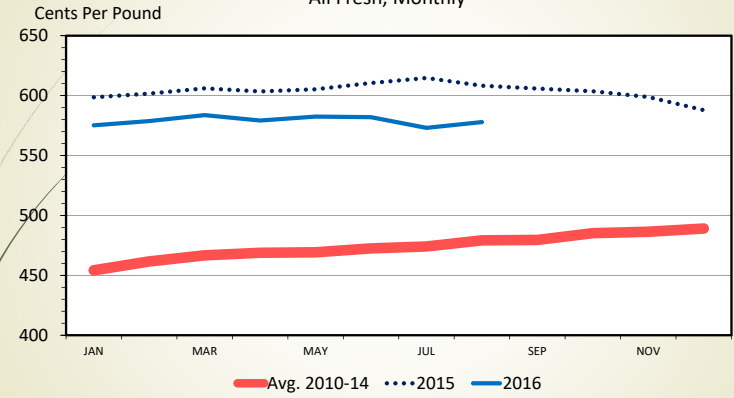
WHOLESALE BEEF PRICE Monthly



Data Source: USDA-AMS



RETAIL BEEF PRICE All Fresh, Monthly

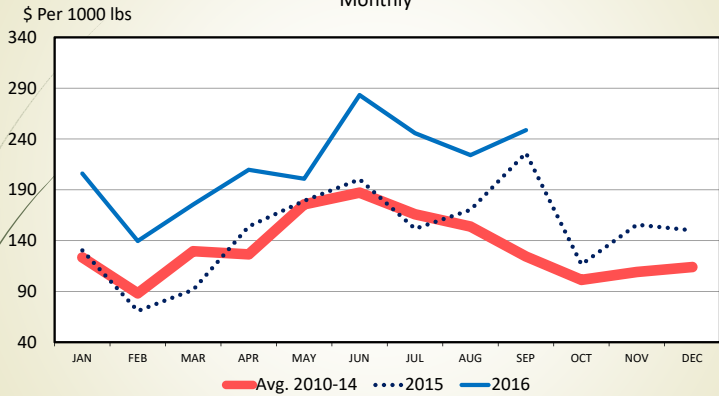


Data Source: Bureau of Labor Statistics & USDA-ERS
Livestock Marketing Information Center

M-P-11
09/16/16



LIVE TO CUTOUT BEEF PRICE SPREAD Monthly

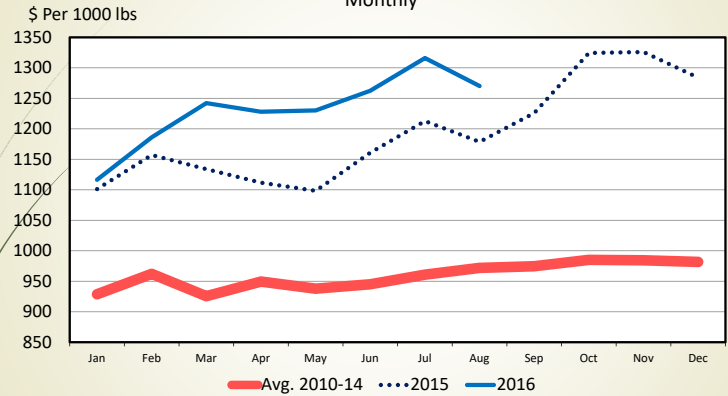


Data Source: USDA-AMS & USDA-ERS, Compiled & Analysis by
LMIC
Livestock Marketing Information Center

C-P-02
10/10/16



CUTOUT TO RETAIL BEEF PRICE SPREAD Monthly



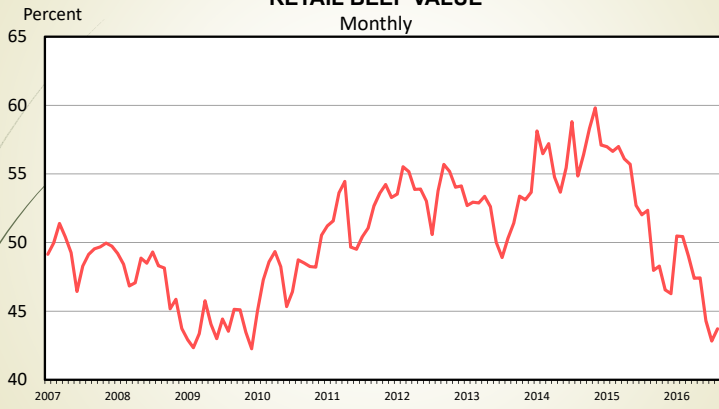
Data Source: USDA-AMS & USDA-ERS, Compiled & Analysis by
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Livestock Marketing Information Center

C-P-04
10/10/16



CHOICE STEER VALUE AS A PERCENT OF RETAIL BEEF VALUE

Monthly



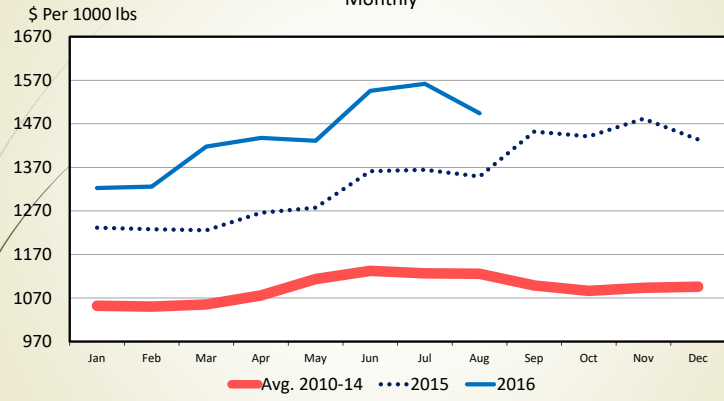
Data Source: USDA-AMS & USDA-ERS, Compiled & Analysis by LMIC
Livestock Marketing Information Center

C-P-05
10/10/16



LIVE TO RETAIL BEEF PRICE SPREAD

Monthly



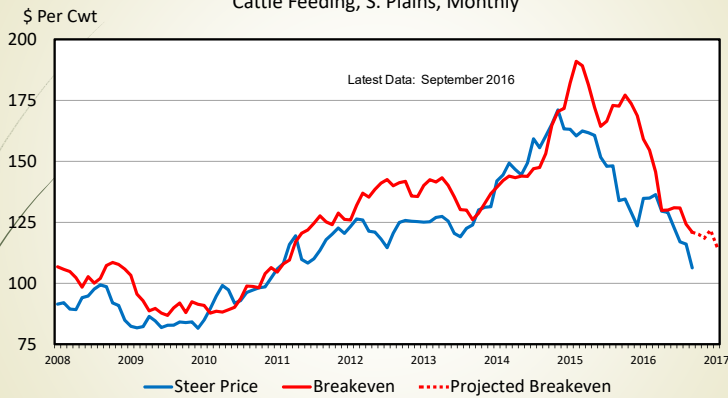
Data Source: USDA-AMS & USDA-ERS, Compiled & Analysis by LMIC
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C-P-07
10/10/16



CHOICE STEER PRICE vs BREAKEVEN

Cattle Feeding, S. Plains, Monthly



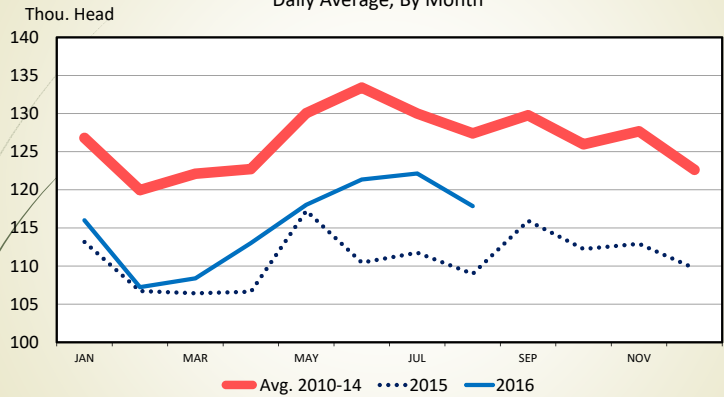
Data Source: USDA-AMS & USDA-NASS, Compiled & Analysis by LMIC
Livestock Marketing Information Center

C-P-21
10/10/16



FEDERALLY INSPECTED CATTLE SLAUGHTER

Daily Average, By Month

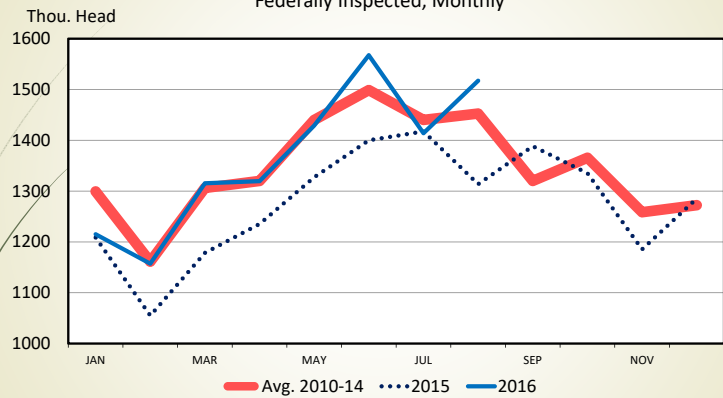


Data Source: USDA-NASS, Compiled & Analysis by LMIC
Livestock Marketing Information Center

C-S-04
09/22/16



STEER SLAUGHTER Federally Inspected, Monthly

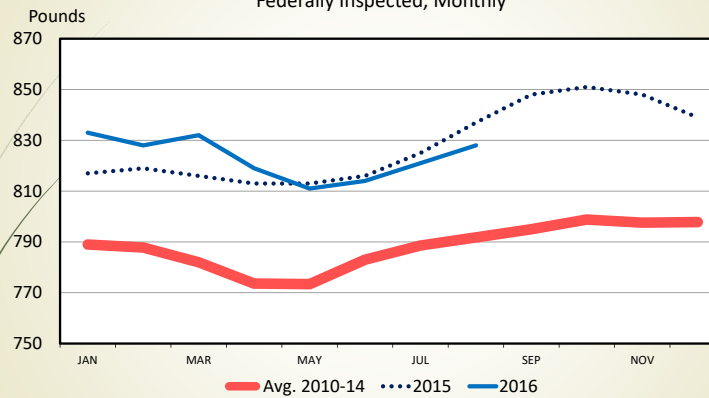


Data Source: USDA-NASS
Livestock Marketing Information Center

C-S-16
09/22/16



AVERAGE DRESSED WEIGHT -- CATTLE Federally Inspected, Monthly

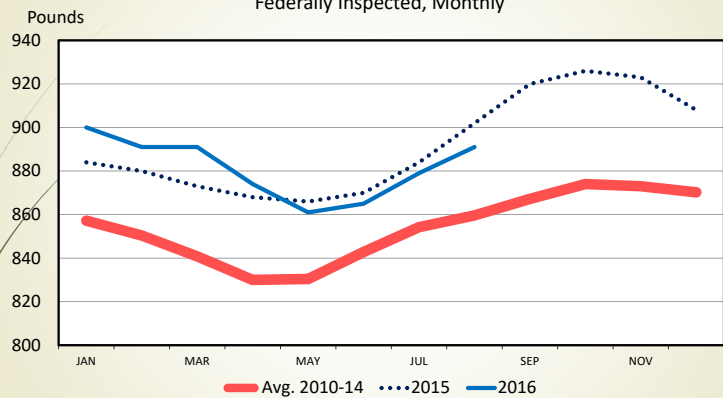


Data Source: USDA-NASS
Livestock Marketing Information Center

C-S-24C
09/22/16



AVERAGE DRESSED WEIGHT -- STEERS Federally Inspected, Monthly

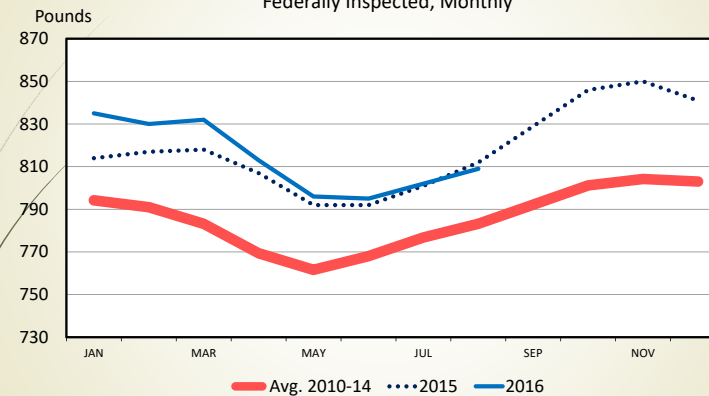


Data Source: USDA-NASS
Livestock Marketing Information Center

C-S-24D
09/22/16



AVERAGE DRESSED WEIGHT -- HEIFERS Federally Inspected, Monthly



Data Source: USDA-NASS
Livestock Marketing Information Center

C-S-24E
09/22/16

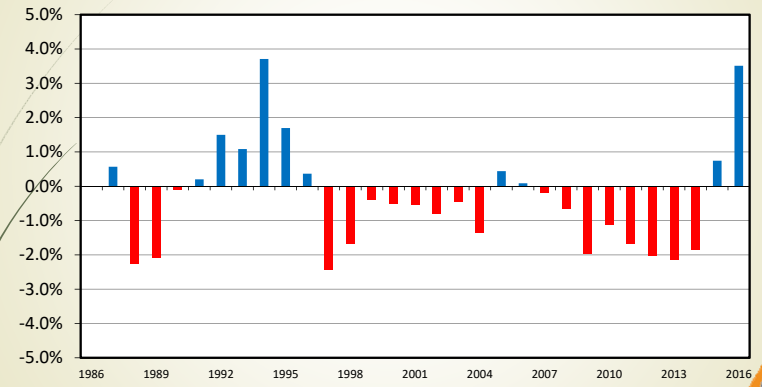


Cow Situation

What are the effects of lower prices.

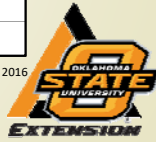


PERCENT CHANGE IN BEEF COW INVENTORY U.S., January 1

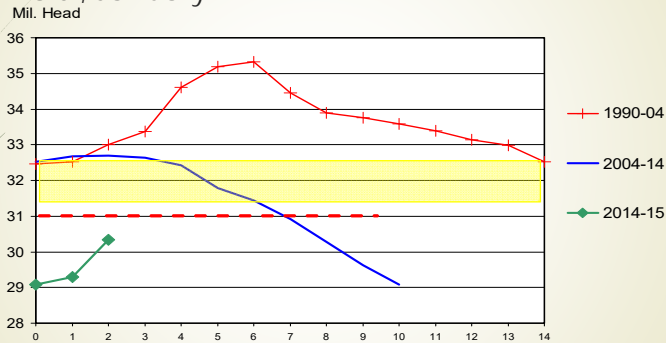


Data Source: USDA-NASS, Analysis by LMIC
Livestock Marketing Information Center

C-N-48
02/01/16



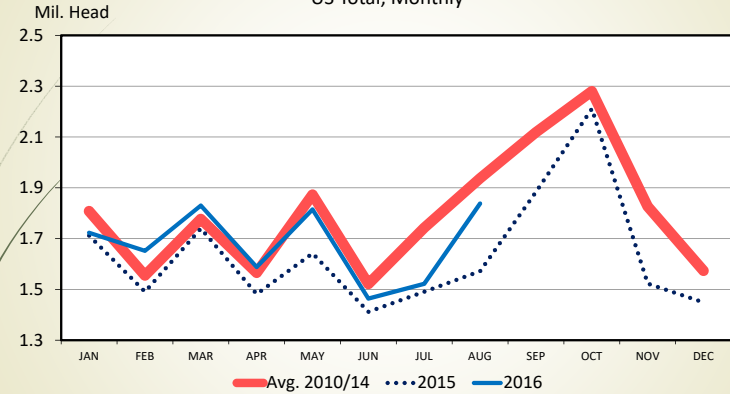
Beef Cow Inventory by Cycle U.S., January 1



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



NET FEEDLOT PLACEMENTS US Total, Monthly

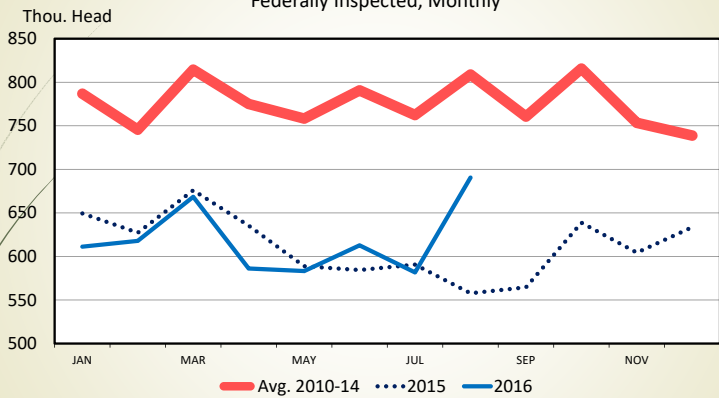


Data Source: USDA-NASS
Livestock Marketing Information Center

C-N-09
09/23/16



HEIFER SLAUGHTER Federally Inspected, Monthly

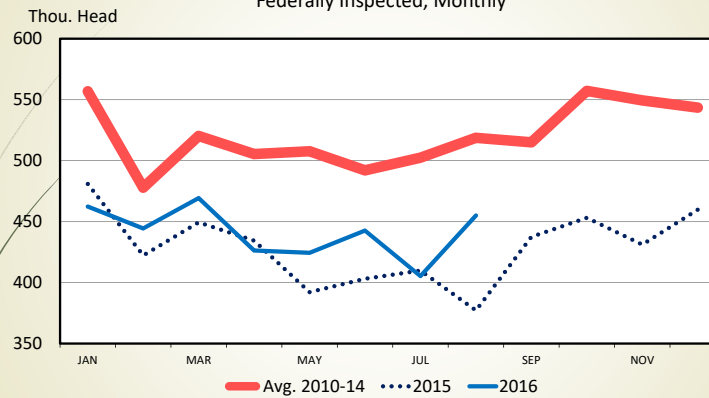


Data Source: USDA-NASS
Livestock Marketing Information Center

C-S-12
09/22/16



COW SLAUGHTER Federally Inspected, Monthly

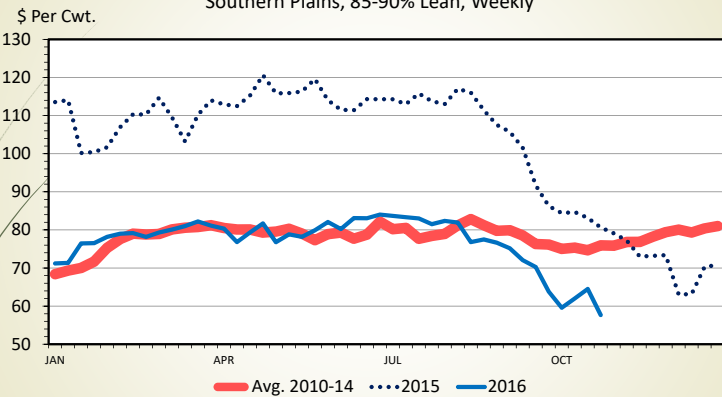


Data Source: USDA-NASS
Livestock Marketing Information Center

C-S-15
09/22/16



SLAUGHTER COW PRICES Southern Plains, 85-90% Lean, Weekly

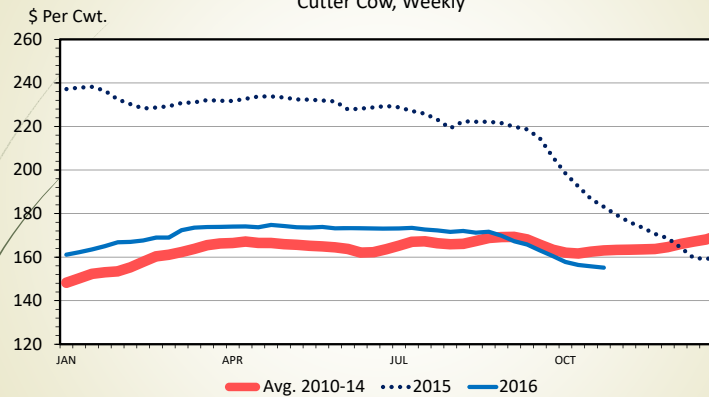


Data Source: USDA-AMS
Livestock Marketing Information Center

C-P-35
10/31/16



BOXED COW-BEEF CUTOUT VALUE Cutter Cow, Weekly



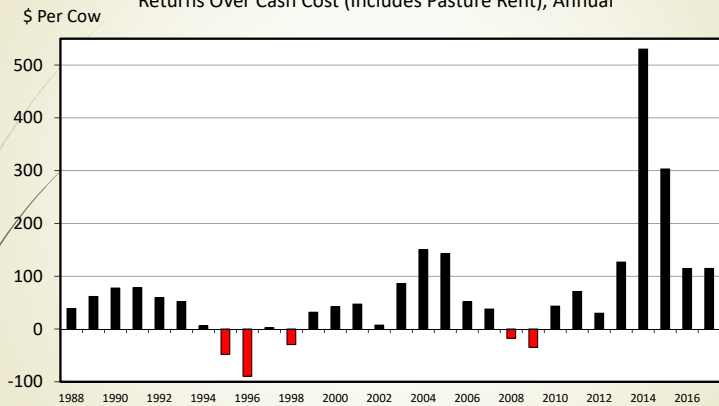
Data Source: USDA-AMS
Livestock Marketing Information Center

10/31/16



ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual



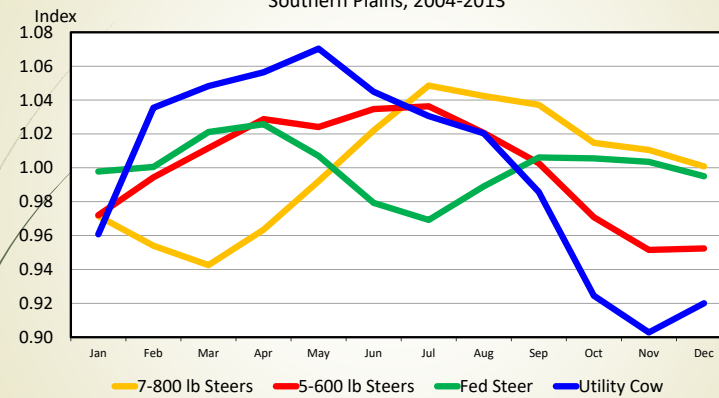
Data Source: USDA & LMIC, Compiled by LMIC
Livestock Marketing Information Center

C-P-66
08/02/16



CATTLE SEASONAL PRICE INDEX

Southern Plains, 2004-2013



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

04/03/14



In Summary

This too, shall pass away...



Use some form of price protection


- ▶ Livestock Risk Protection Insurance
- ▶ Forward Contract
- ▶ Put options, futures contracts, etc.





What to Expect in 2016/17?

- ▶ Feeder cattle yearly % change in prices from 2015 to 2016 will likely resemble price behavior witnessed from 2013 to 2014.
- ▶ Grain prices have seen the majority of their decline.
- ▶ Monthly % changes will likely be smaller for cattle unless another fundamental shock affects those markets.



This too shall pass.

Questions?

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