



Jan Feb

CattleFax

Ag Forum

Arizona Chapter of Farm Managers and Rural Appraisers

Phoenix, AZ

February 19, 2016



Relevant Trends in the Cattle Industry

Alan Smith

Director of Protein Research & Risk Management

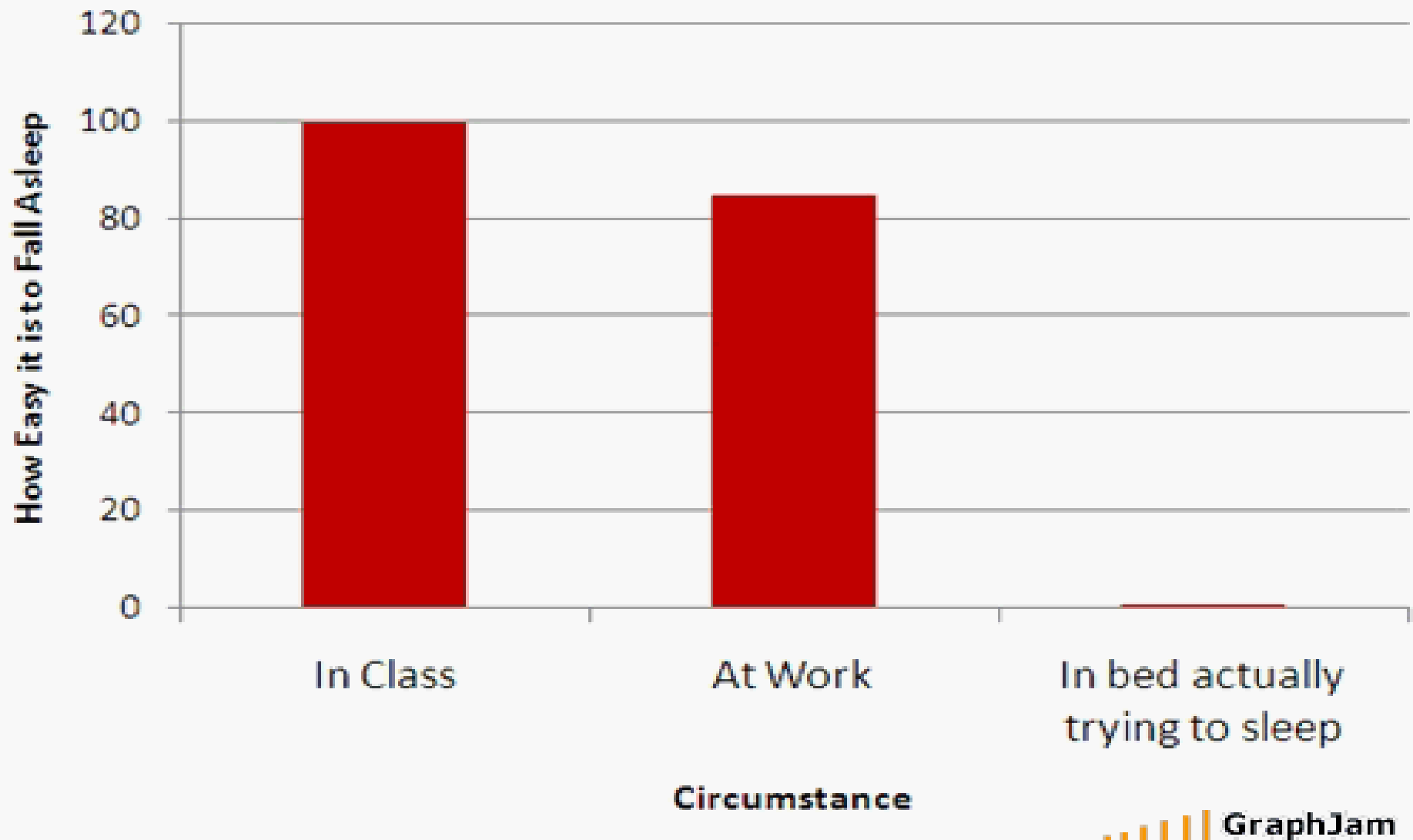


What are we going to talk about – Relevant Cattle/Beef Trends?

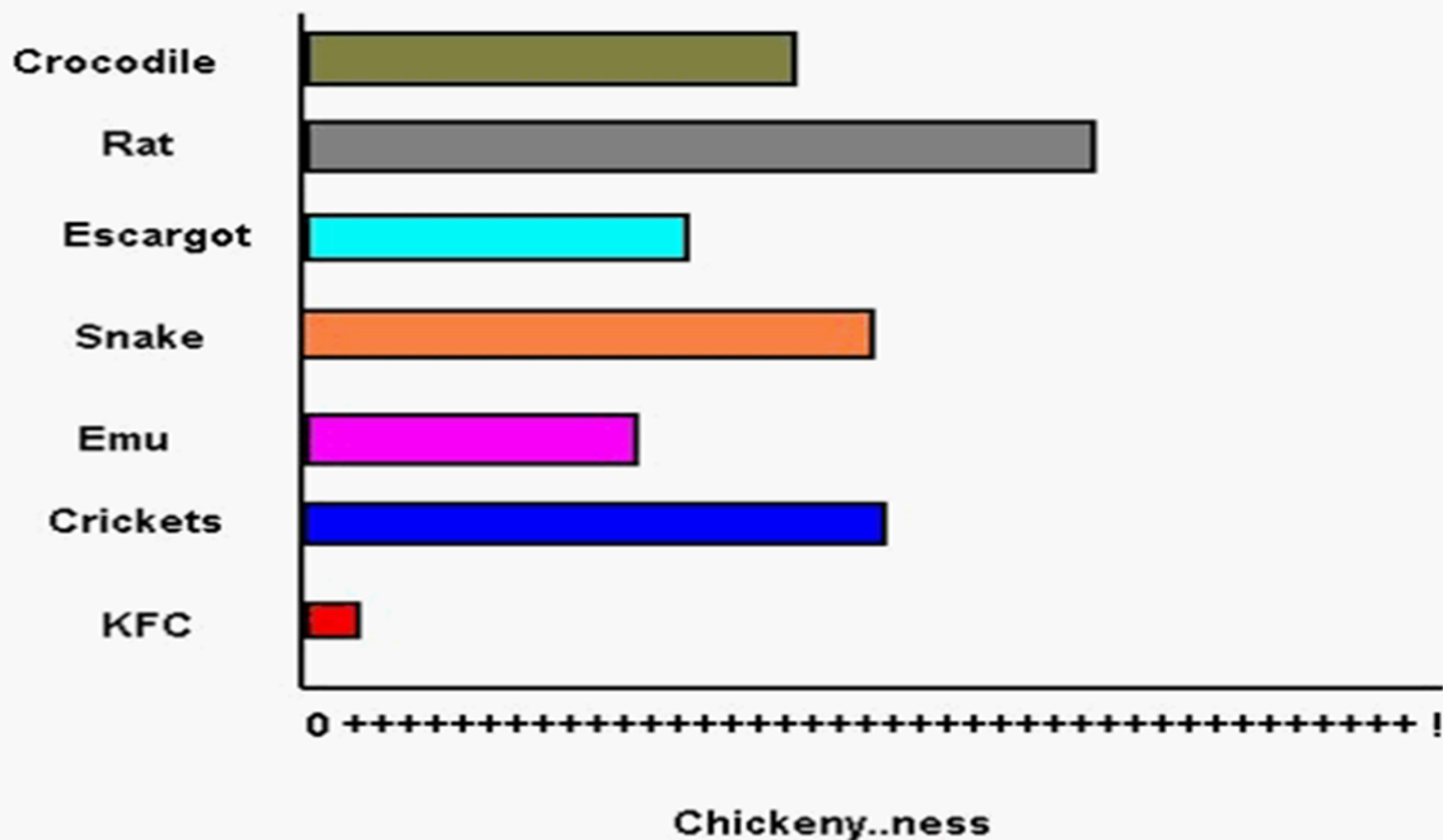
- Herd Expansion
- Total protein and beef supplies
- Trade
- Profitability
- Market volatility
- Fed cattle marketing methods/North South spreads

Not necessarily in this order

When Falling Asleep Feels the Easiest

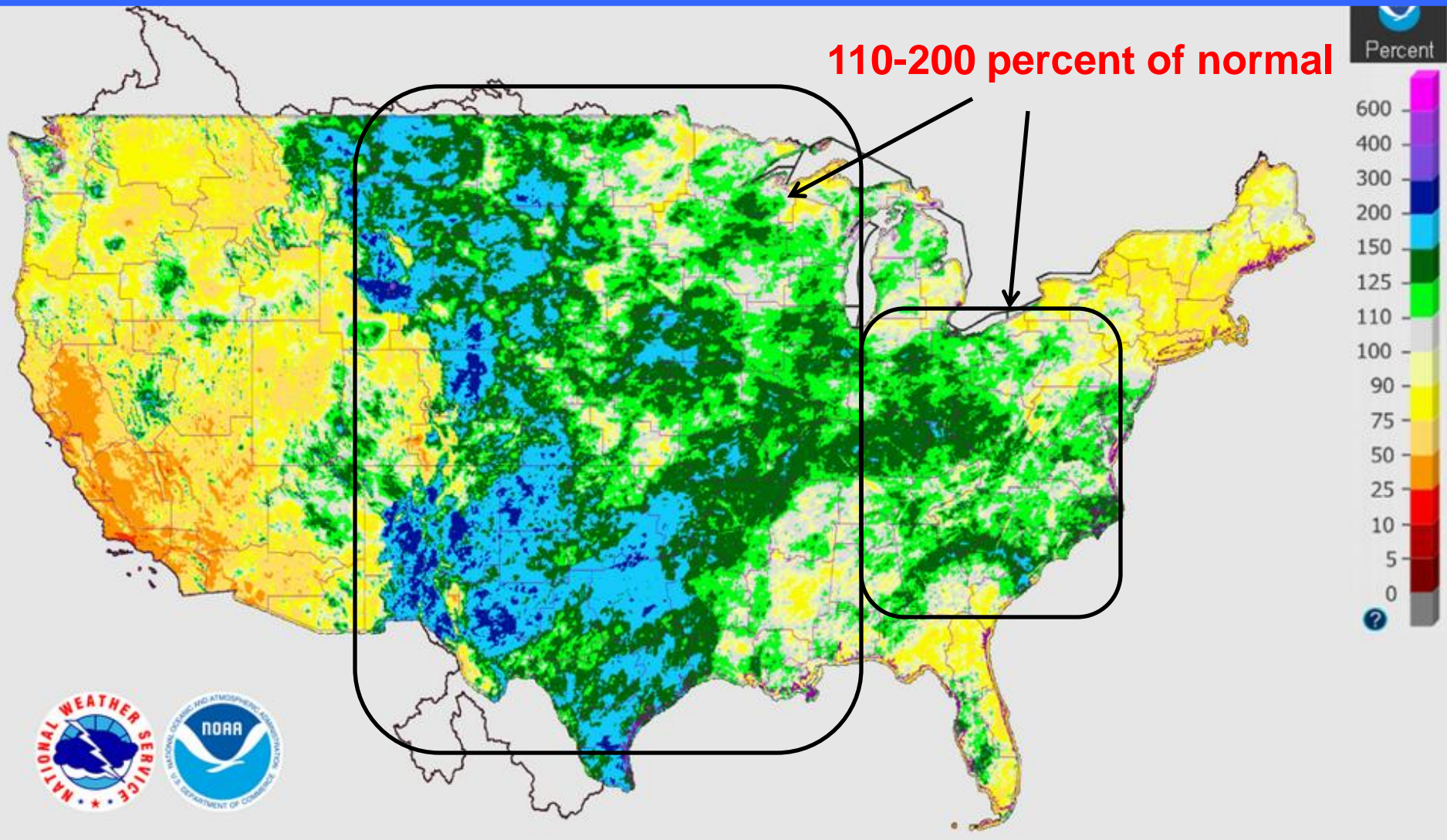


Things that Reportedly Taste Like Chicken

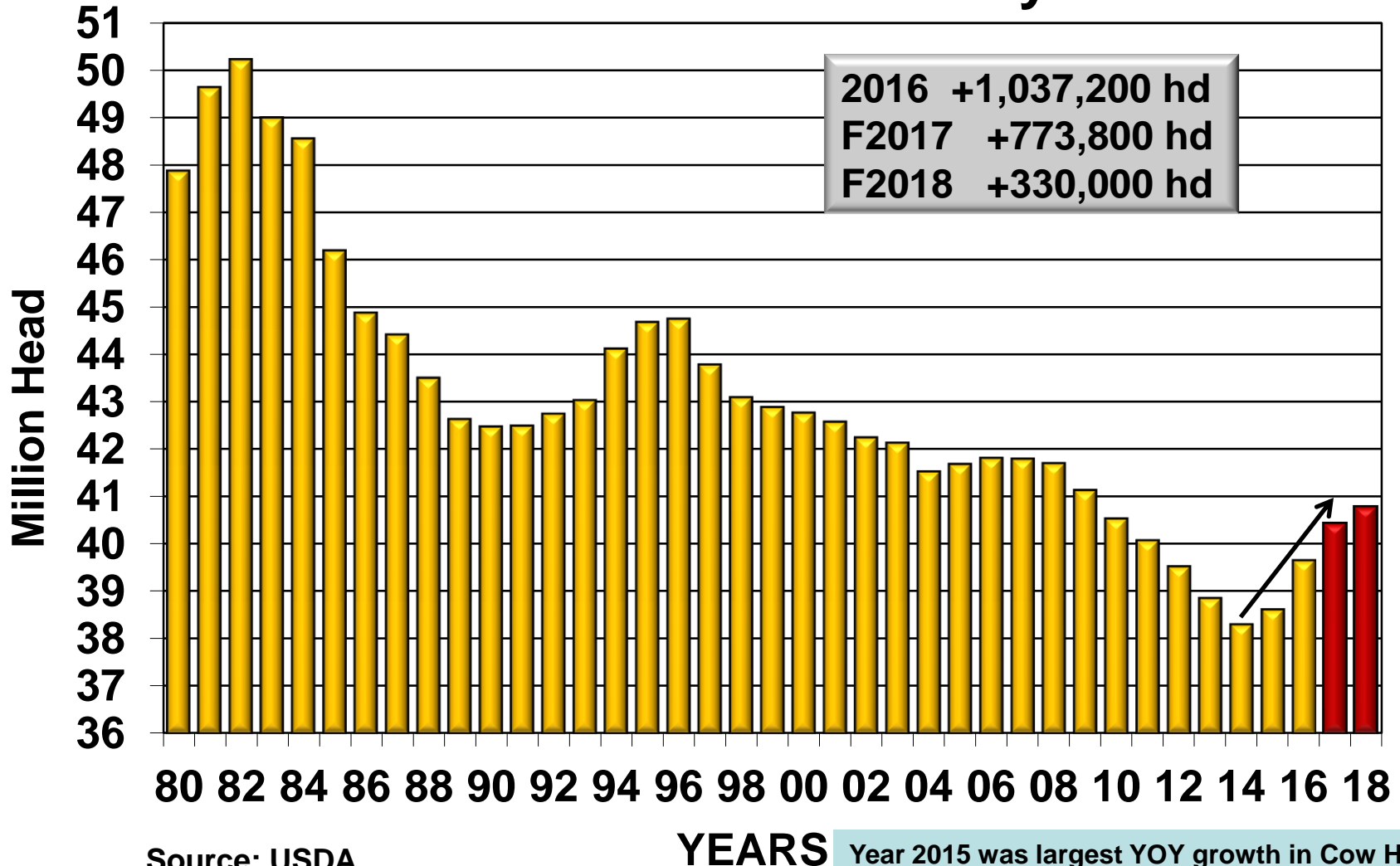


GraphJam

2015 Precipitation as a Percent of Normal



U.S. Total Cow Inventory

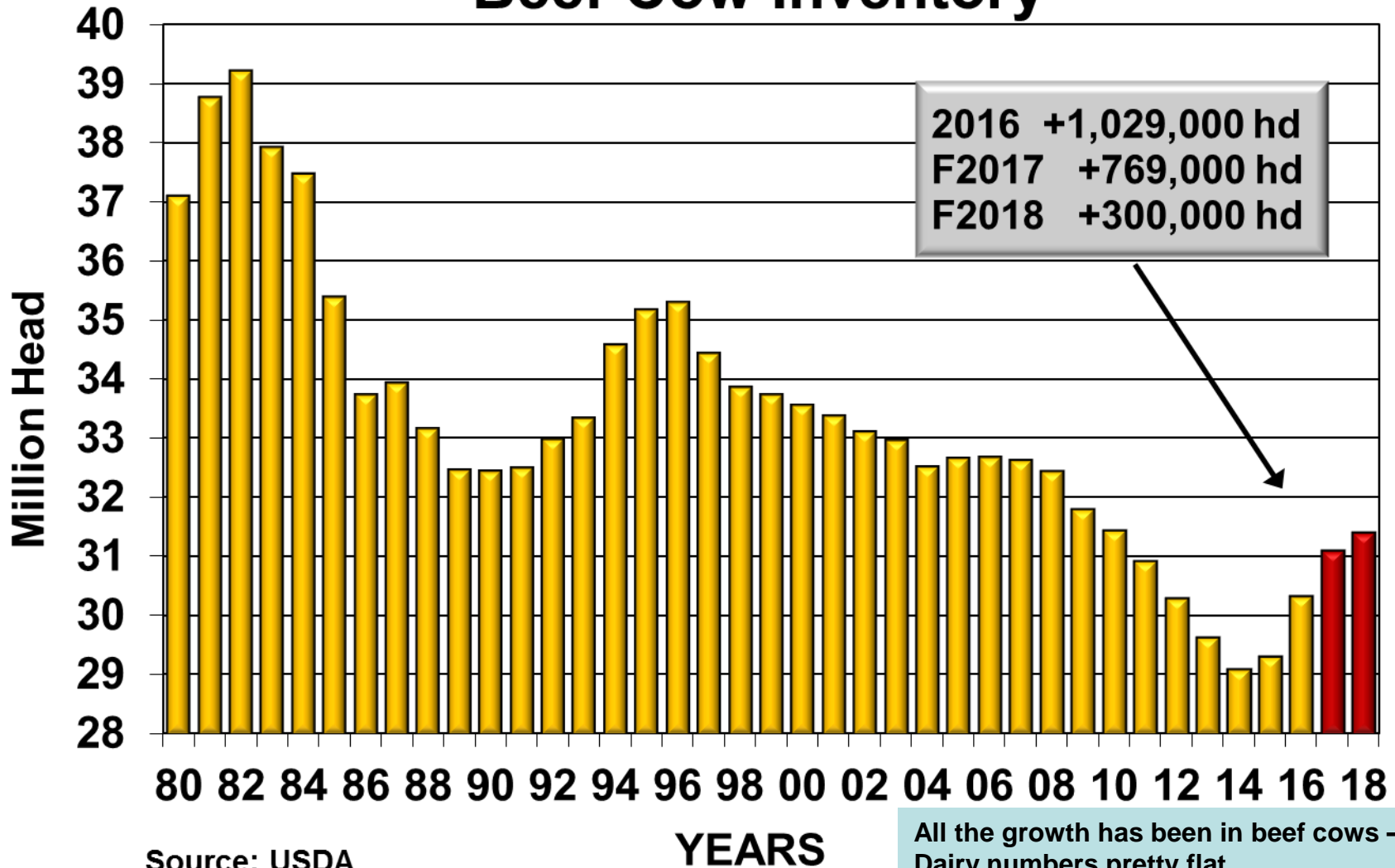


2016 +1,037,200 hd
 F2017 +773,800 hd
 F2018 +330,000 hd

Source: USDA
 Projected 2017-2018

Year 2015 was largest YOY growth in Cow Herd since 1994. Third largest YOY growth going back to 1980.

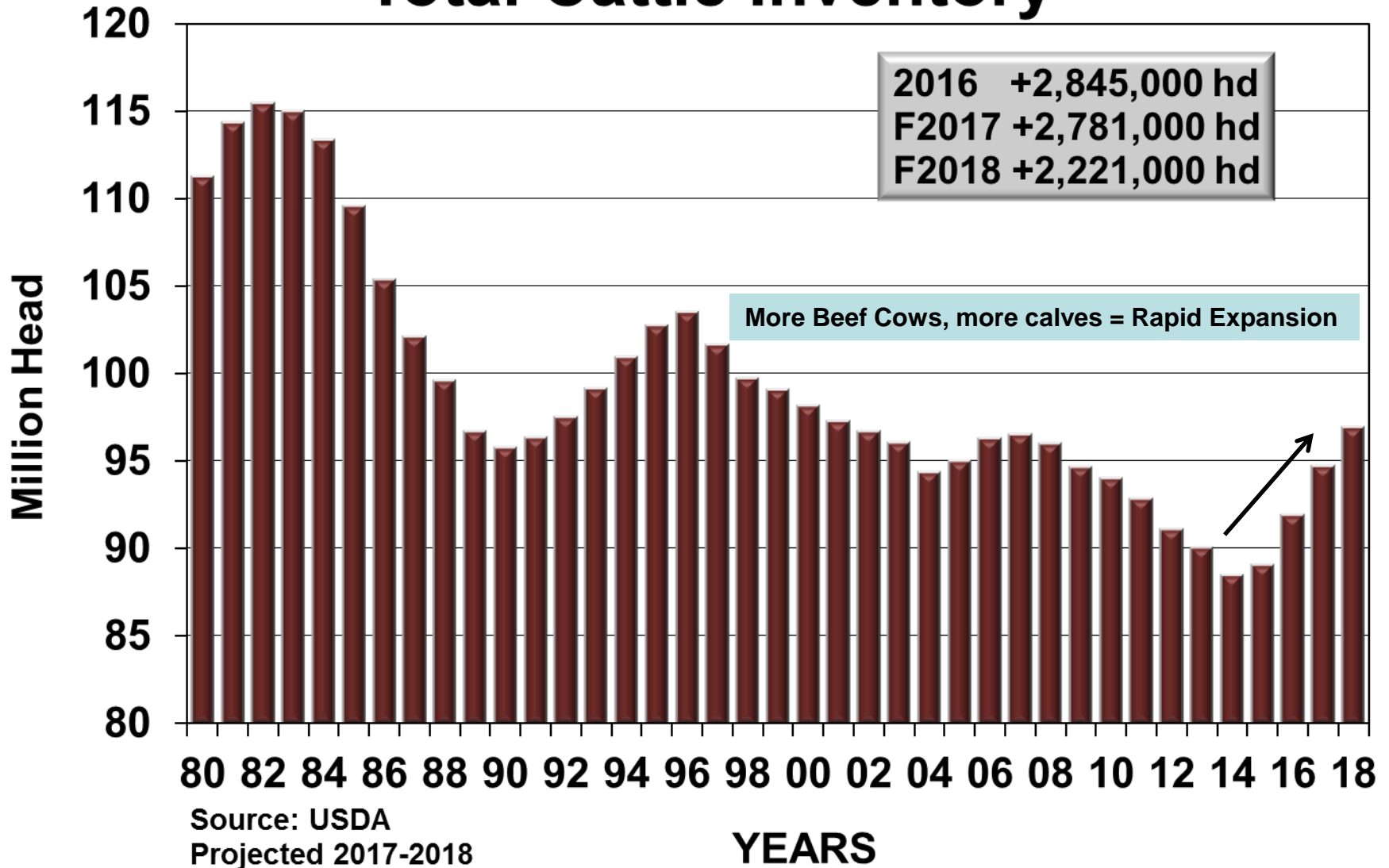
Beef Cow Inventory



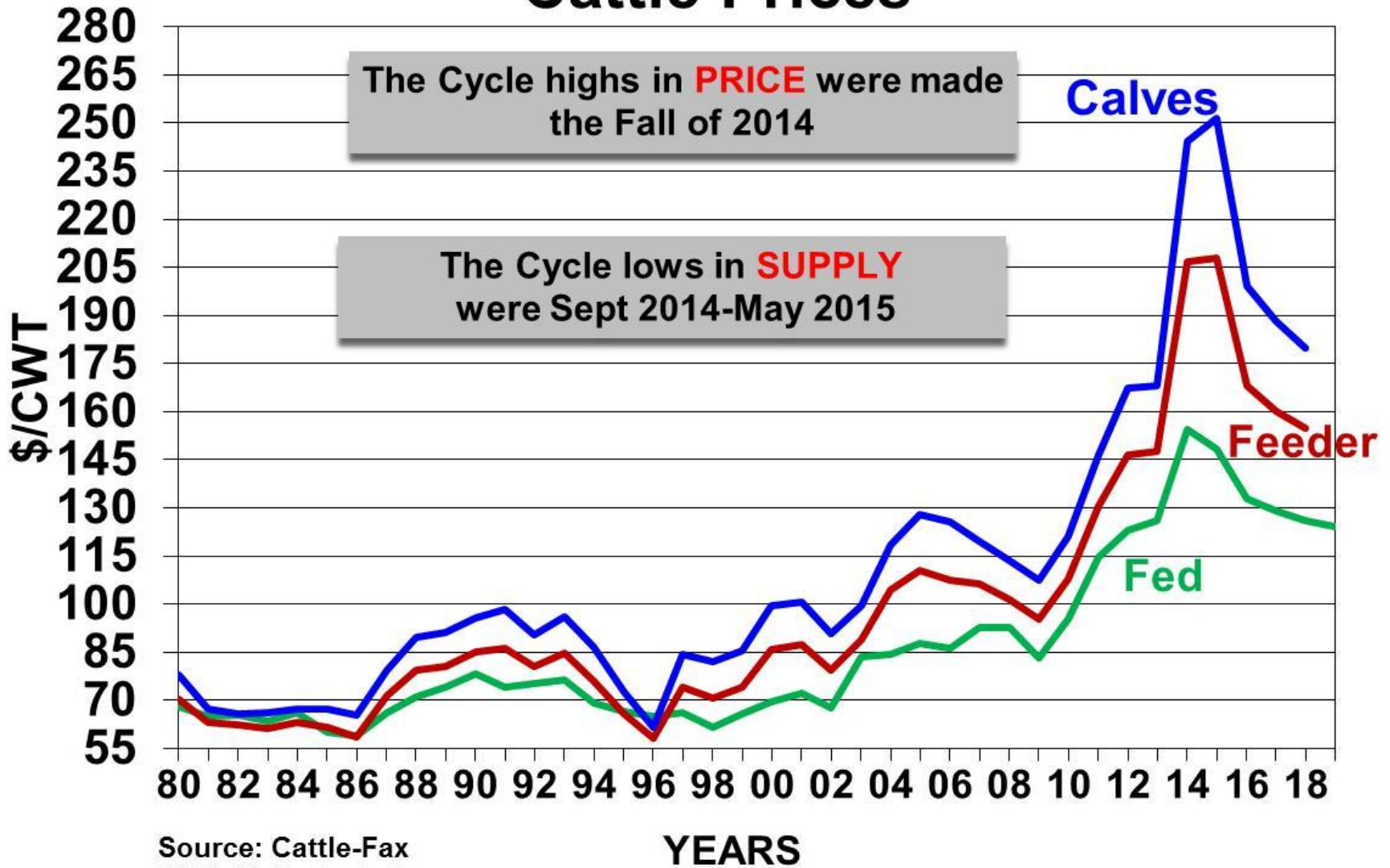
Source: USDA
 Projected 2017-18

All the growth has been in beef cows – Dairy numbers pretty flat.

Total Cattle Inventory

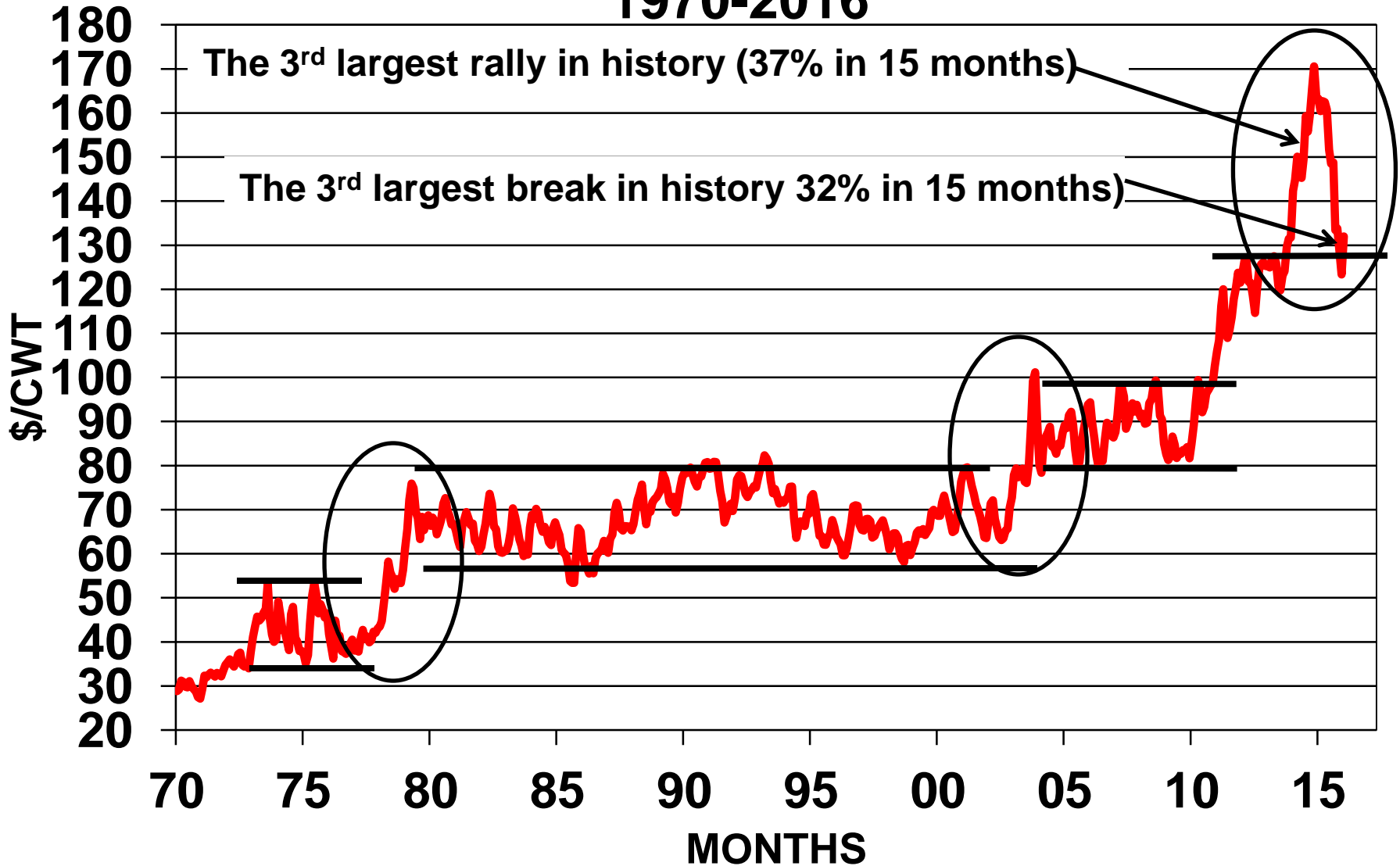


Cattle Prices

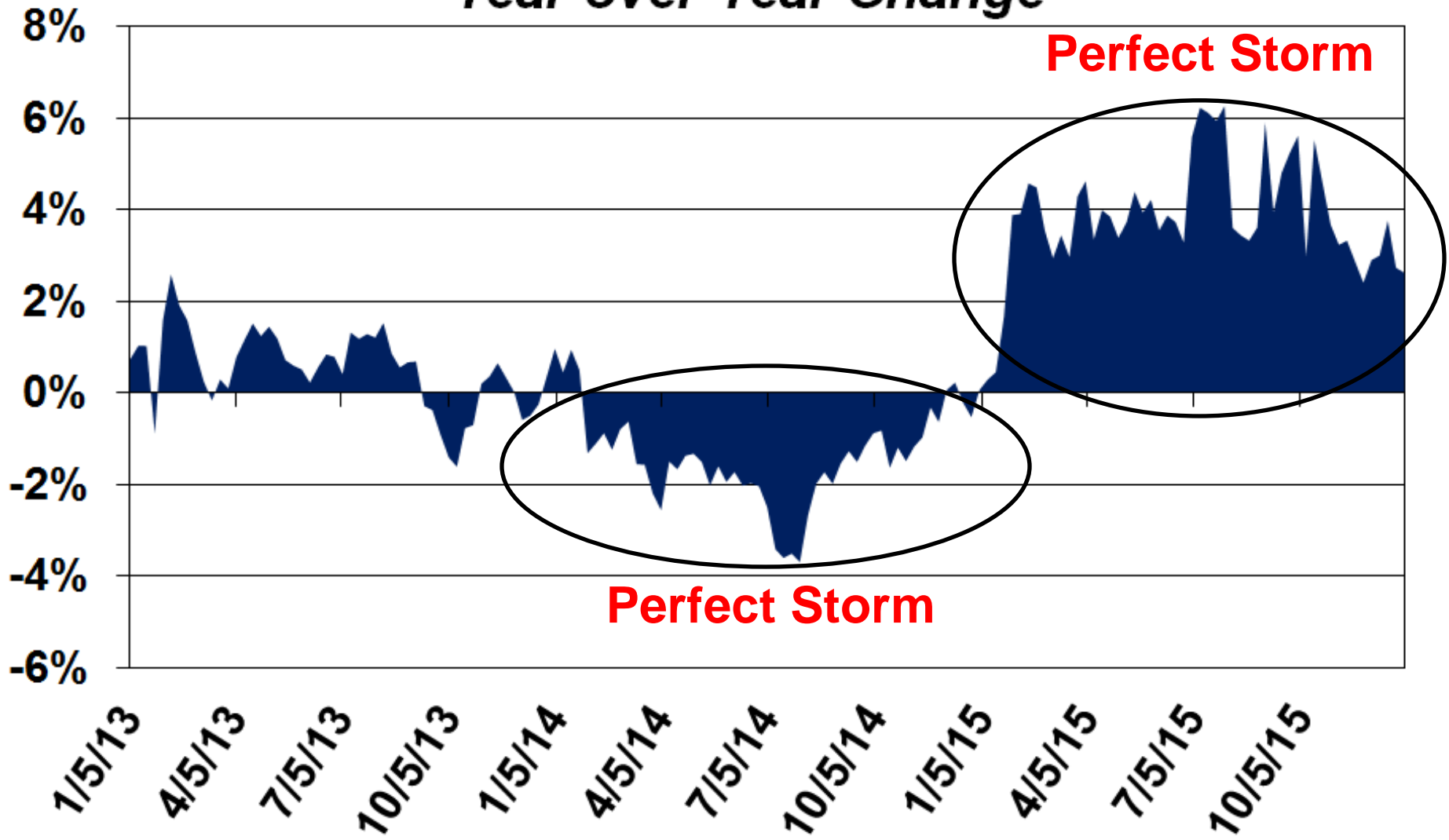


Source: Cattle-Fax
2015-18 Projected

CattleFax Fed Steer Price 1970-2016

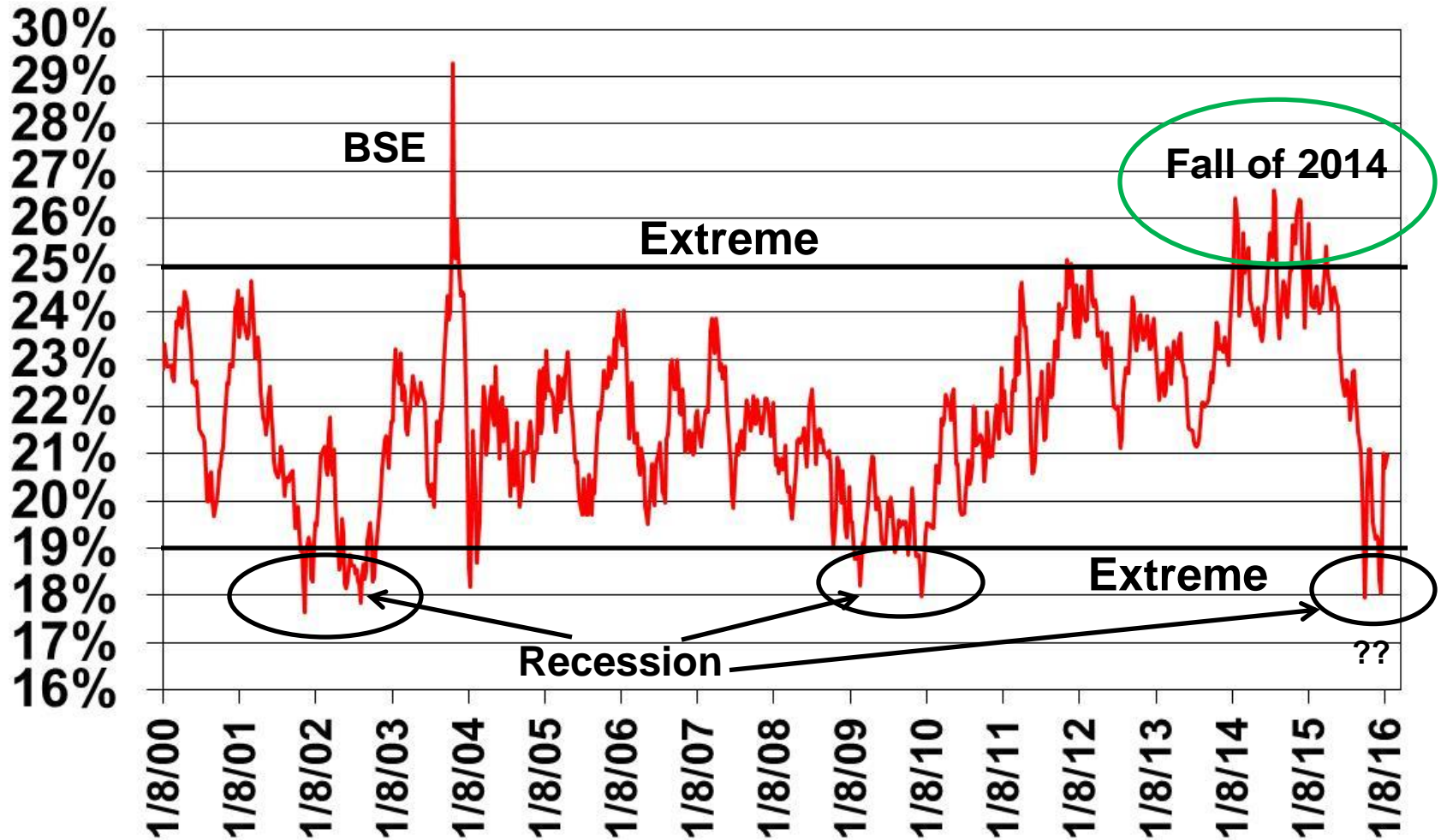


Weekly Beef, Pork, Broiler Production Year over Year Change



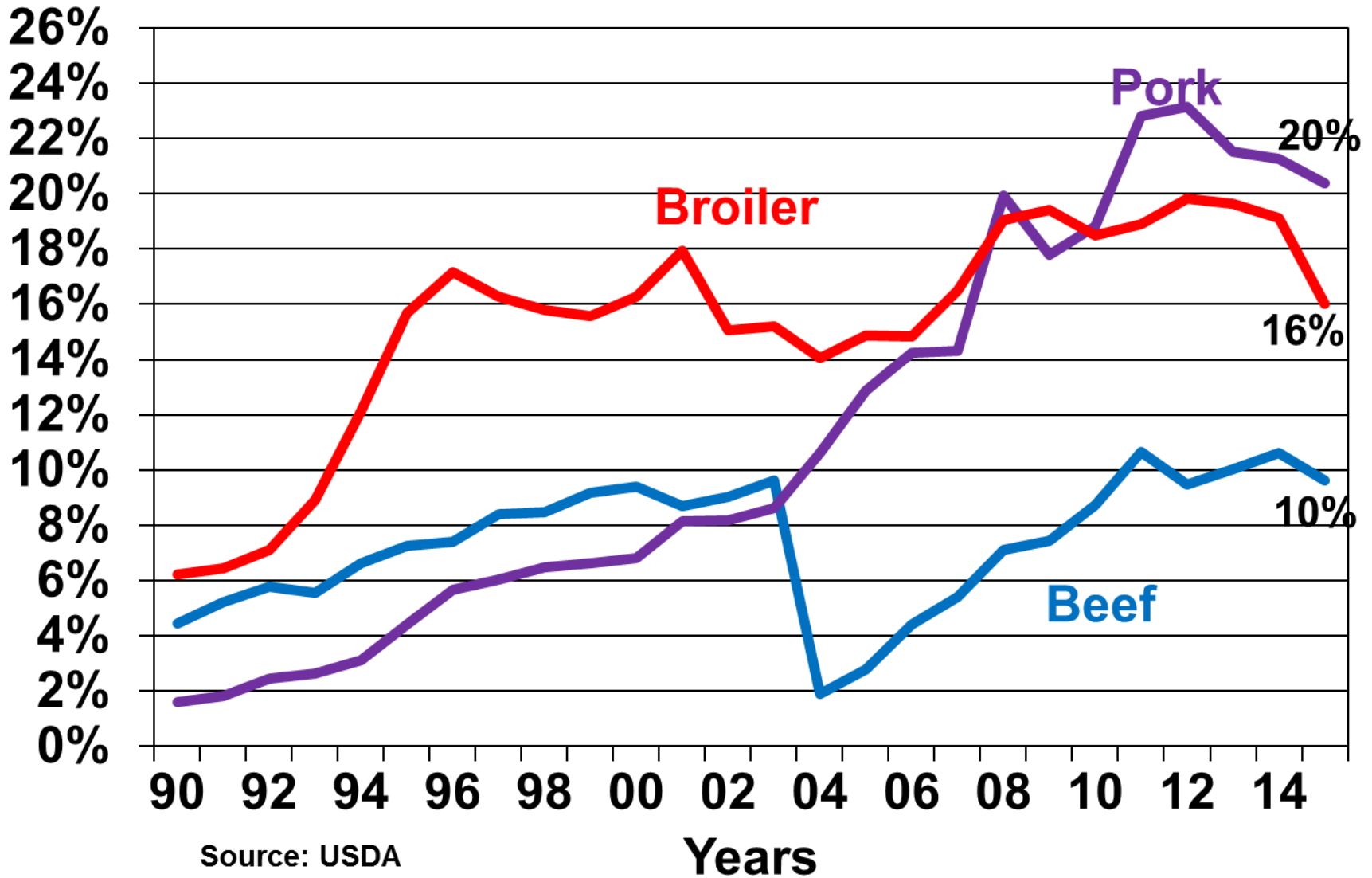
Source: USDA

Fed Price as Percent of Retail Beef Price

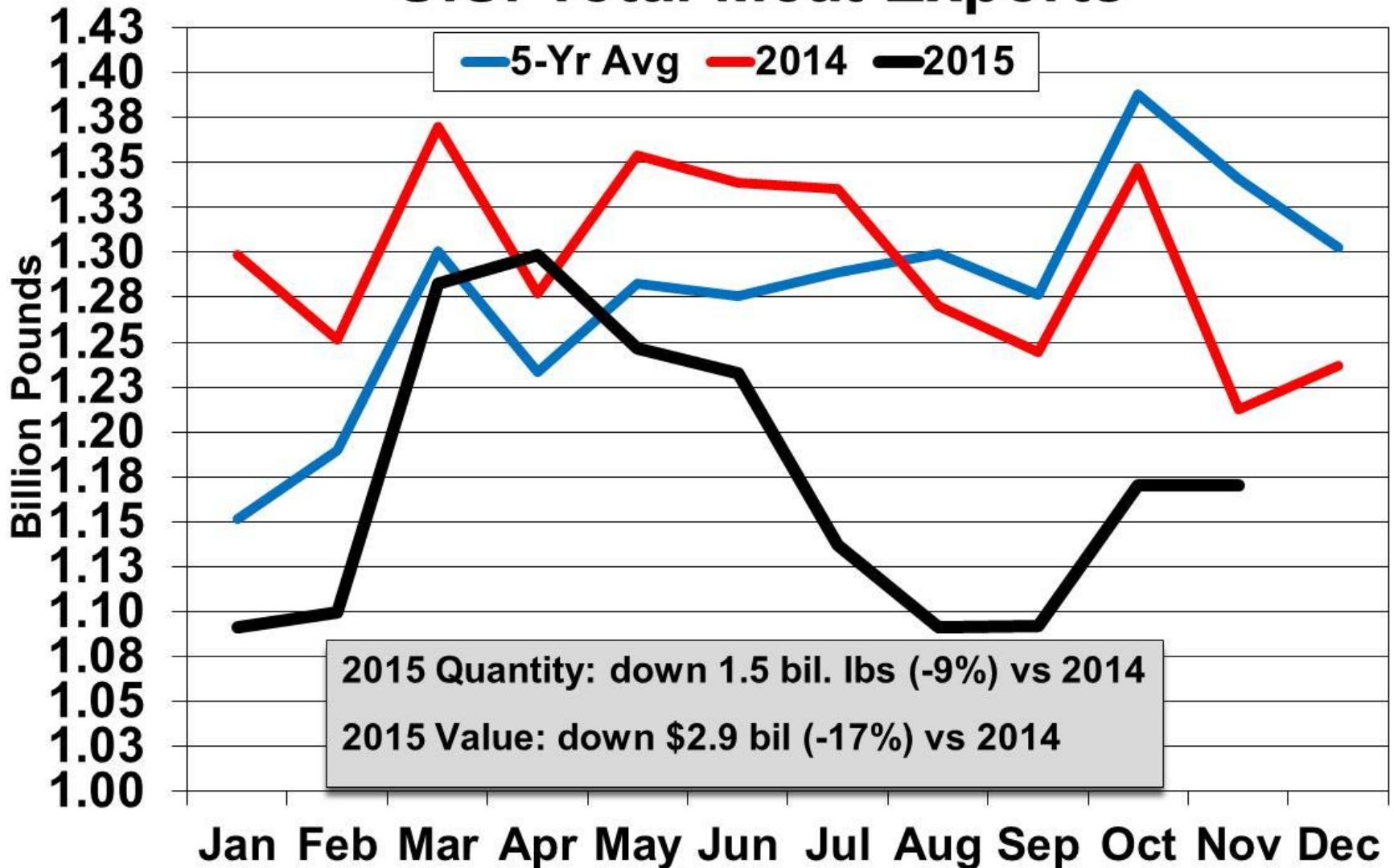


Source: USDA
Excludes drop credit

Exports as a % of Production

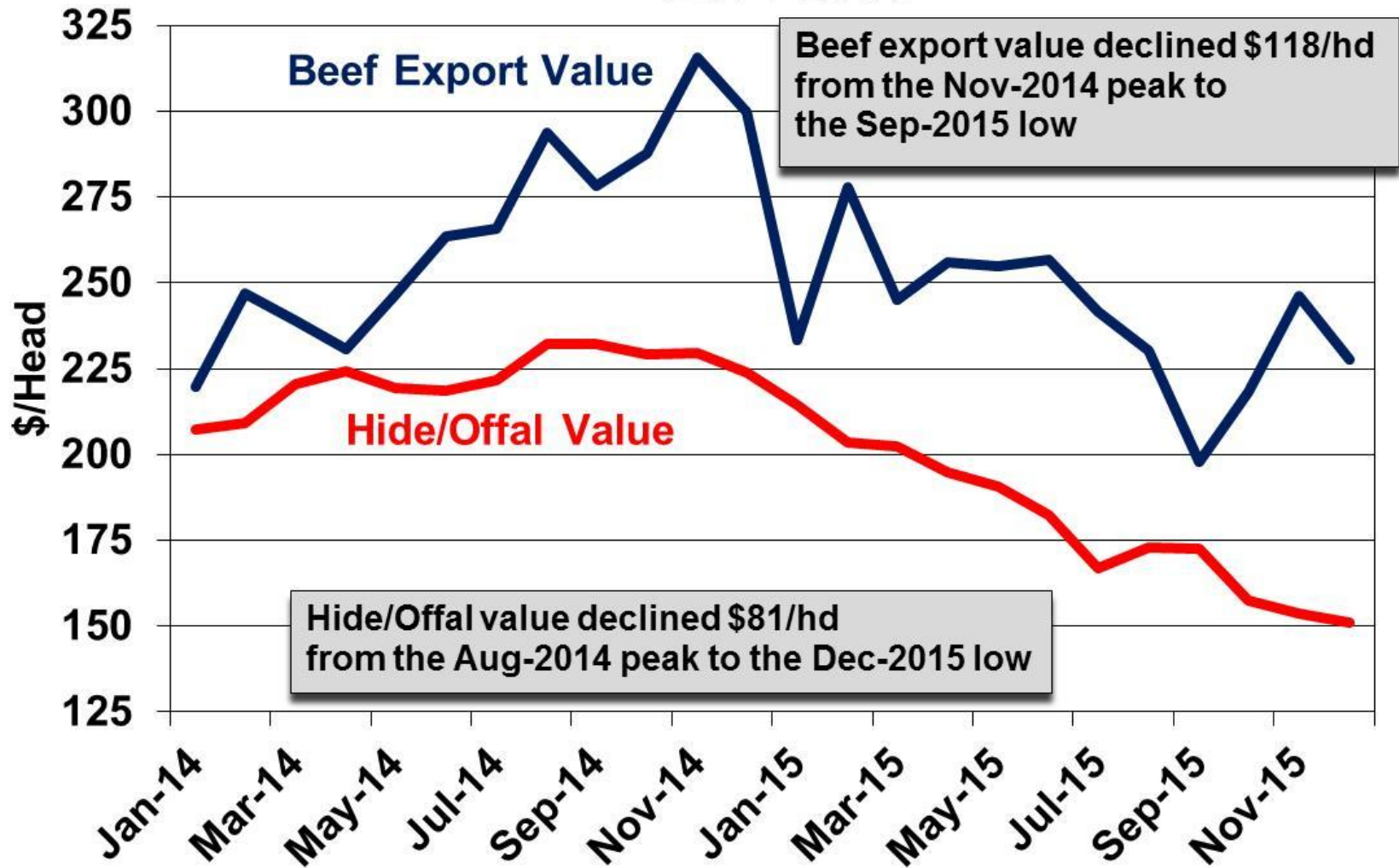


U.S. Total Meat Exports



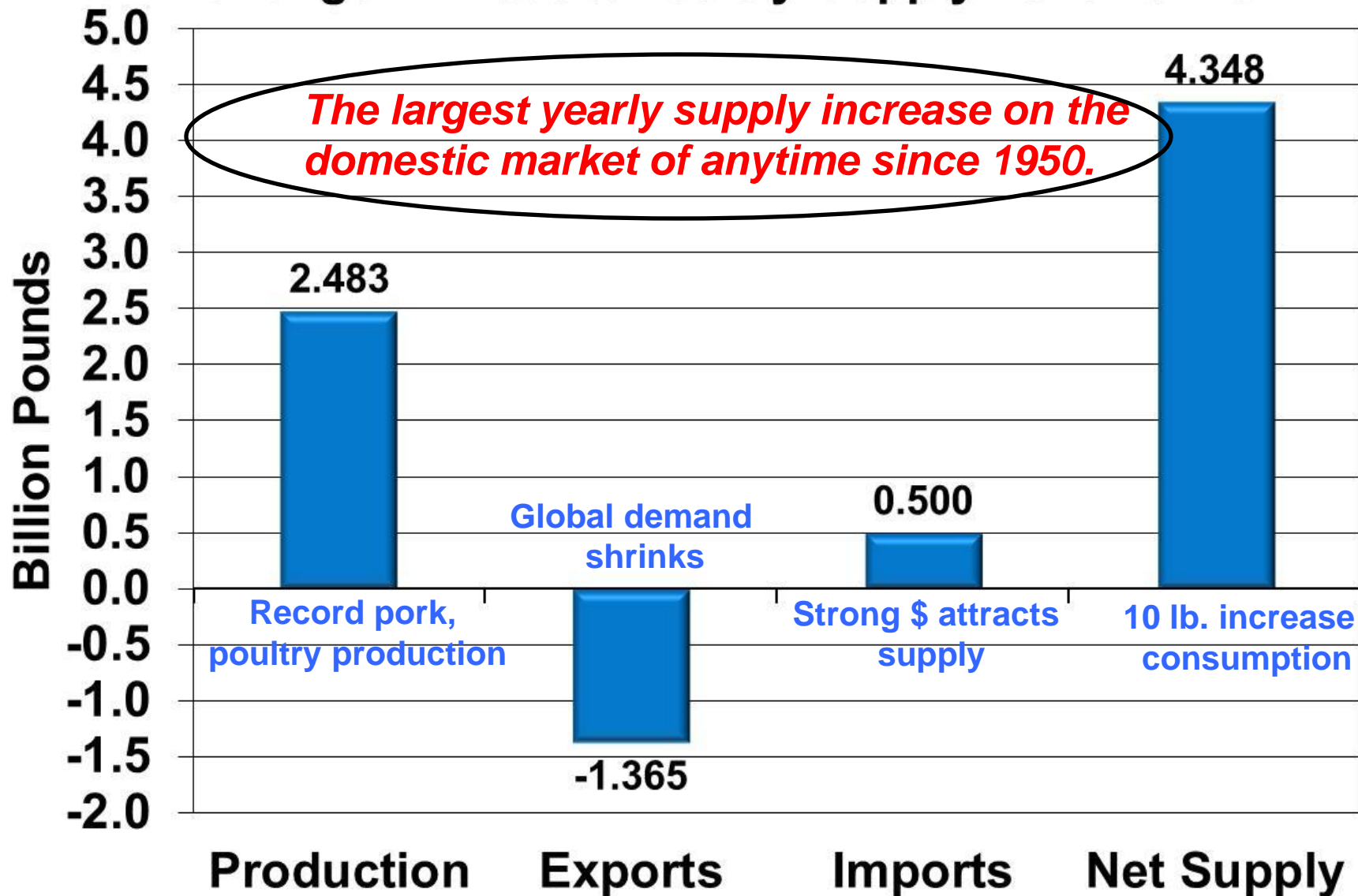
Source: USDA

Beef Export & Hide/Offal Value 2014-2015



Source: USDA

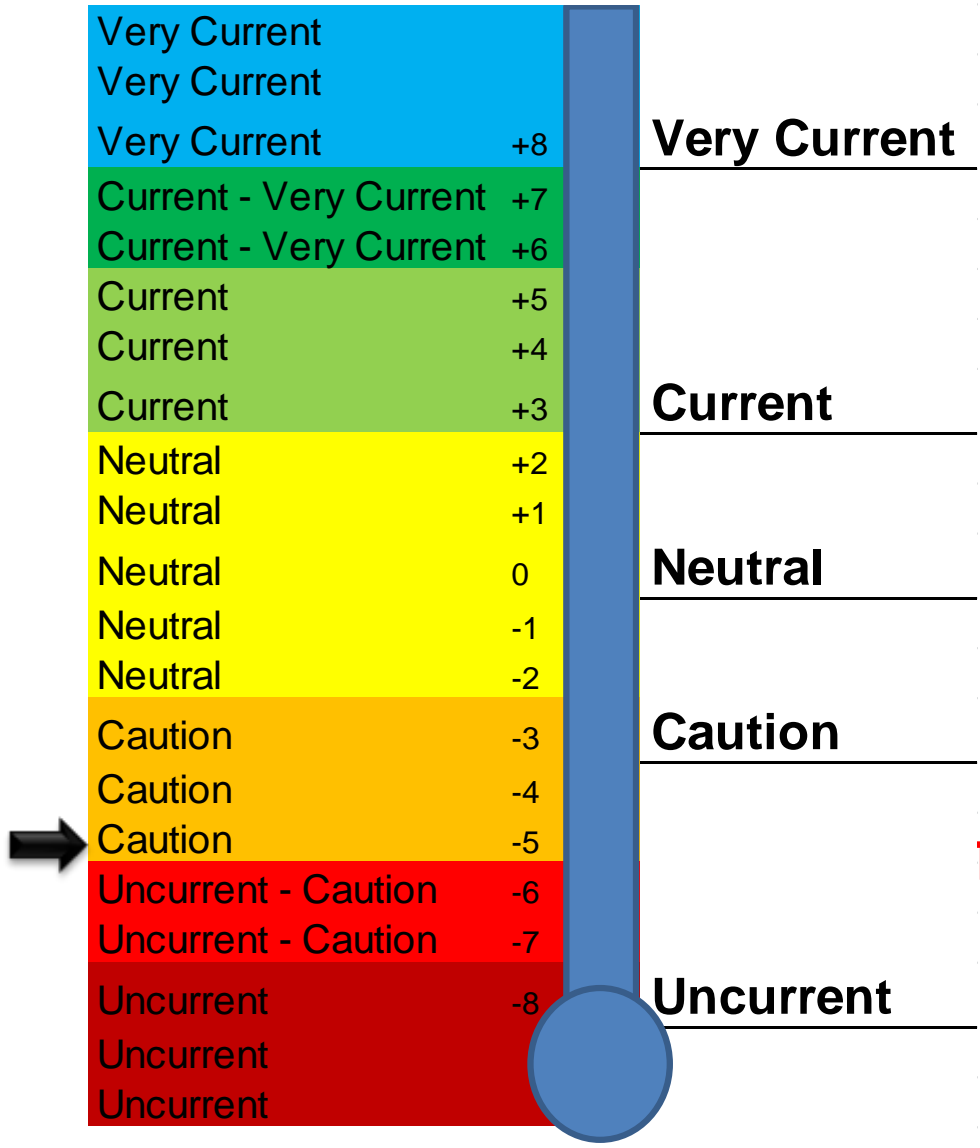
Change in Meat & Poultry Supply 2015 vs. 2014



Remember: Net Supply = Production - Exports + Imports

$$+4.348 = +2.483 - (-1.365) + 0.5$$

CattleFax Currentness Index



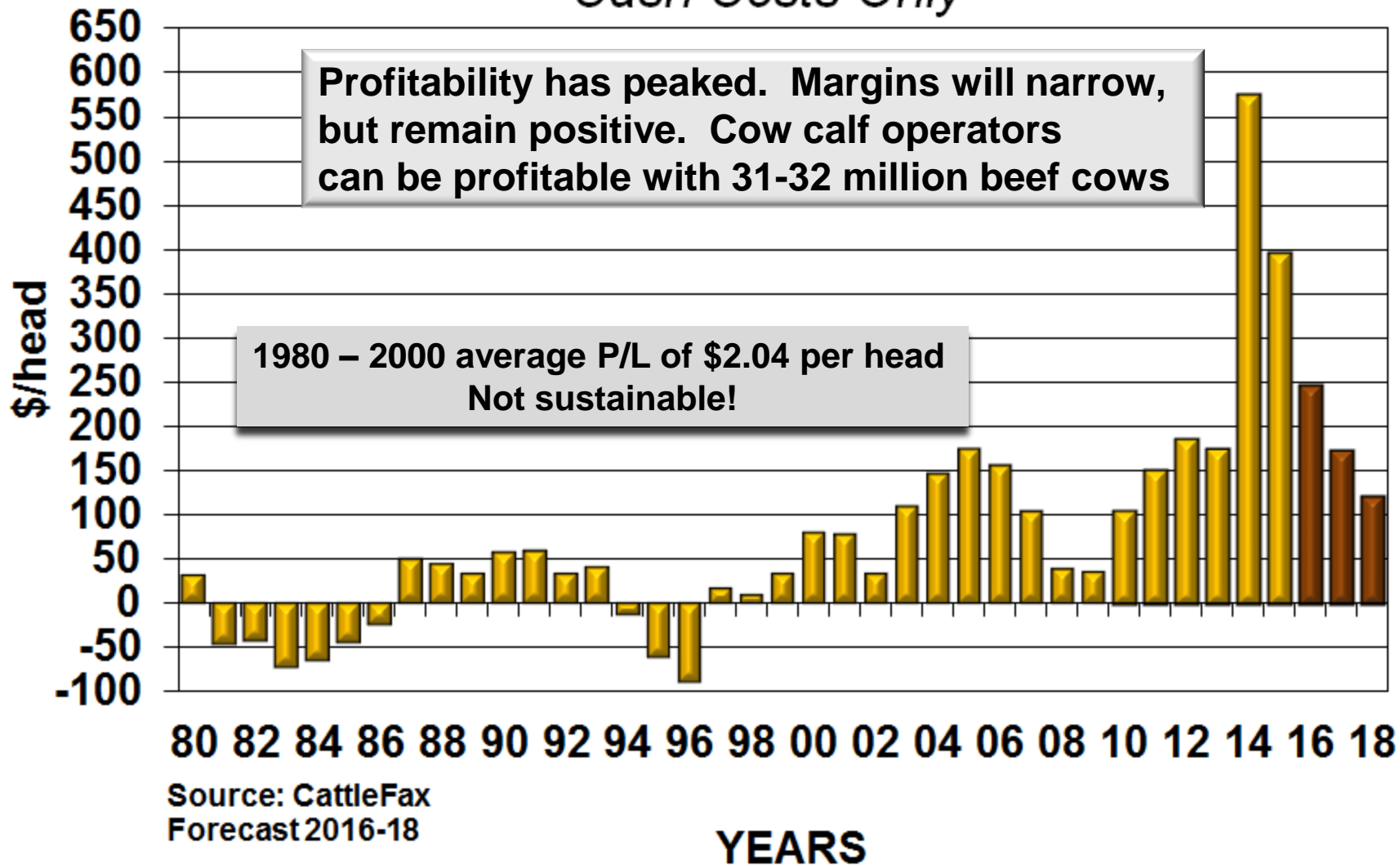
Too many heavy weights
and YG 4's & YG 5's



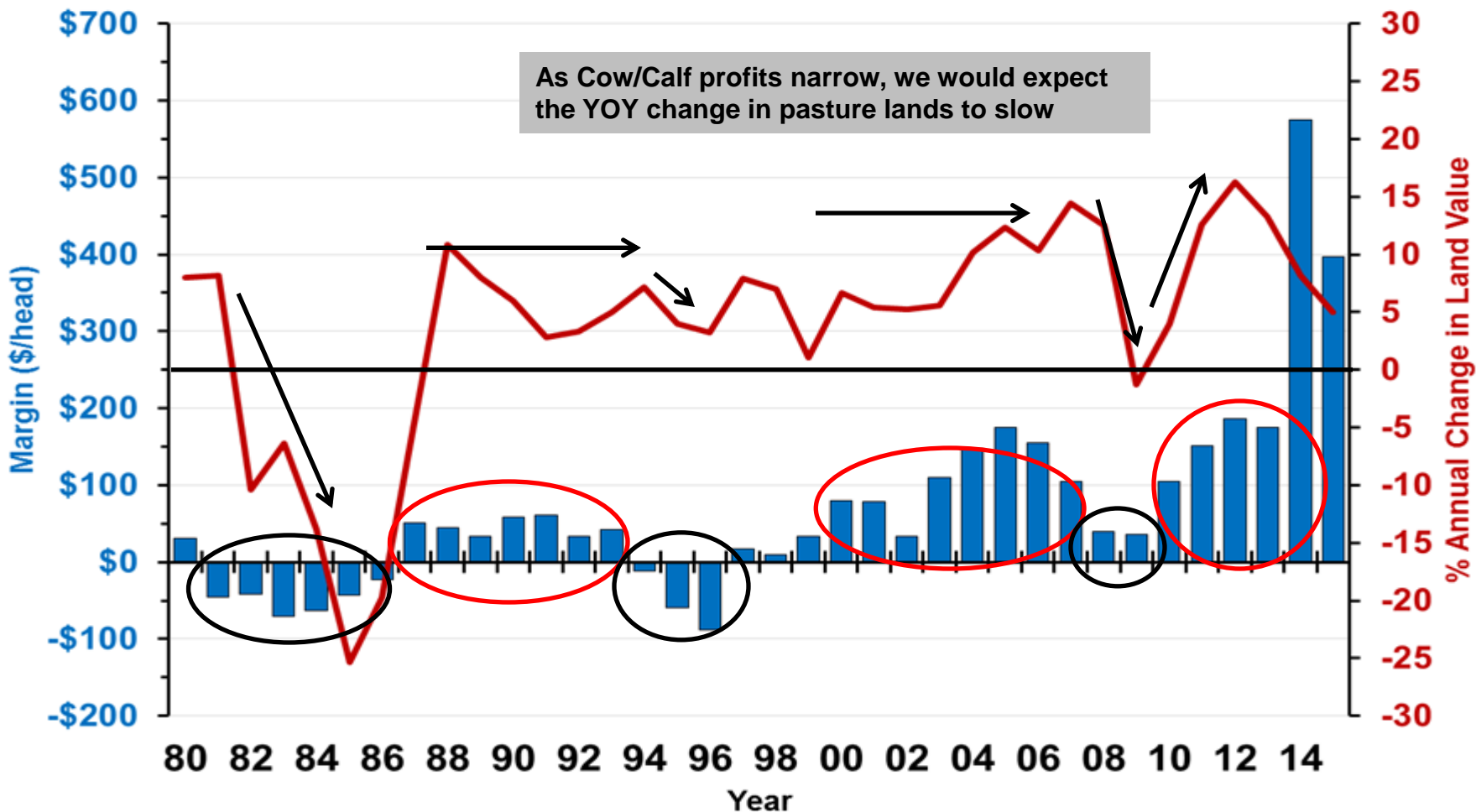
Longer Term Outlook and Other Factors to Consider

Average Cow/Calf Profit (Loss)

Cash Costs Only

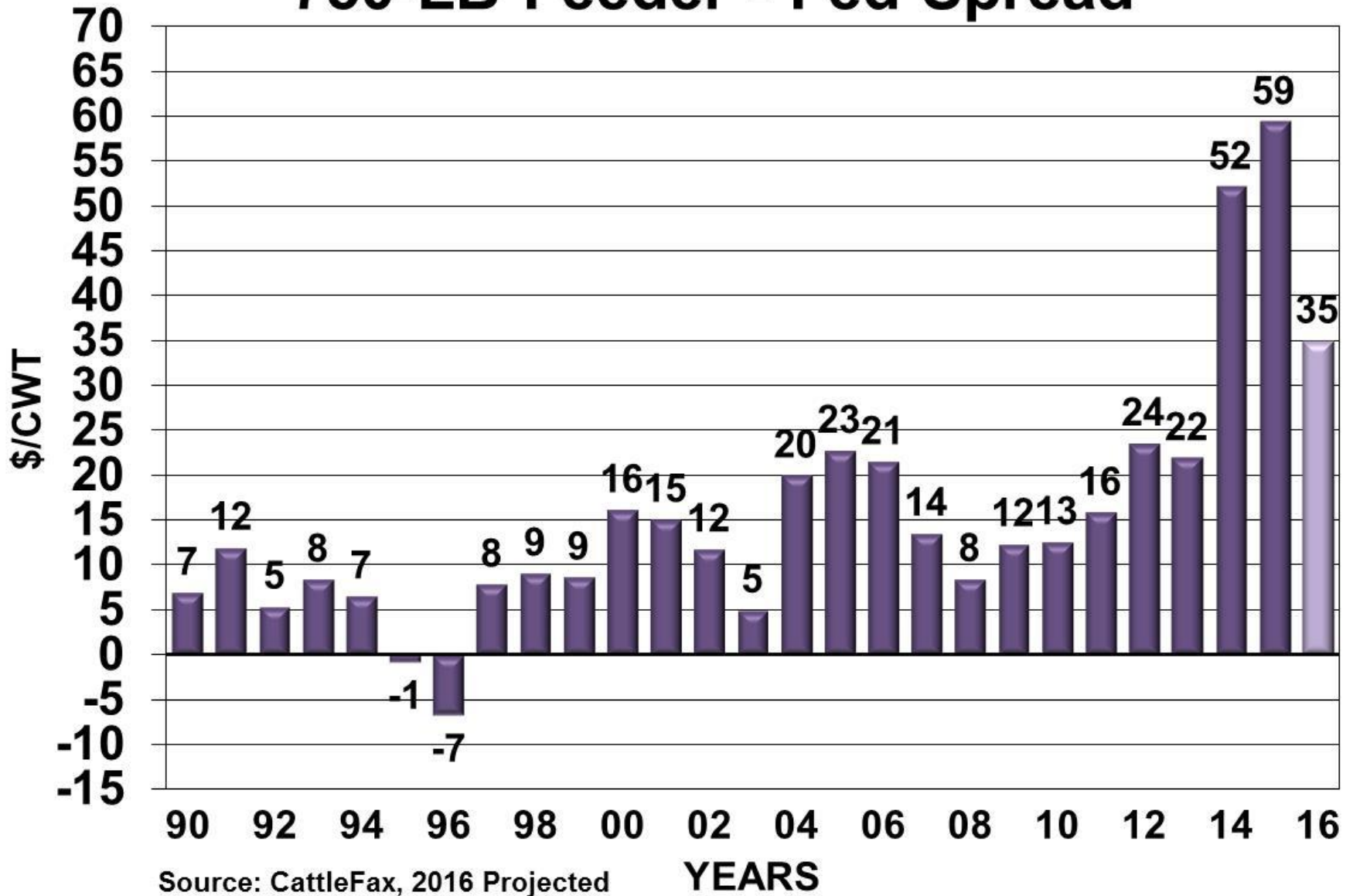


Cow-Calf Cash Profit & Loss vs. % Annual Chng in Central U.S. Pasture Values

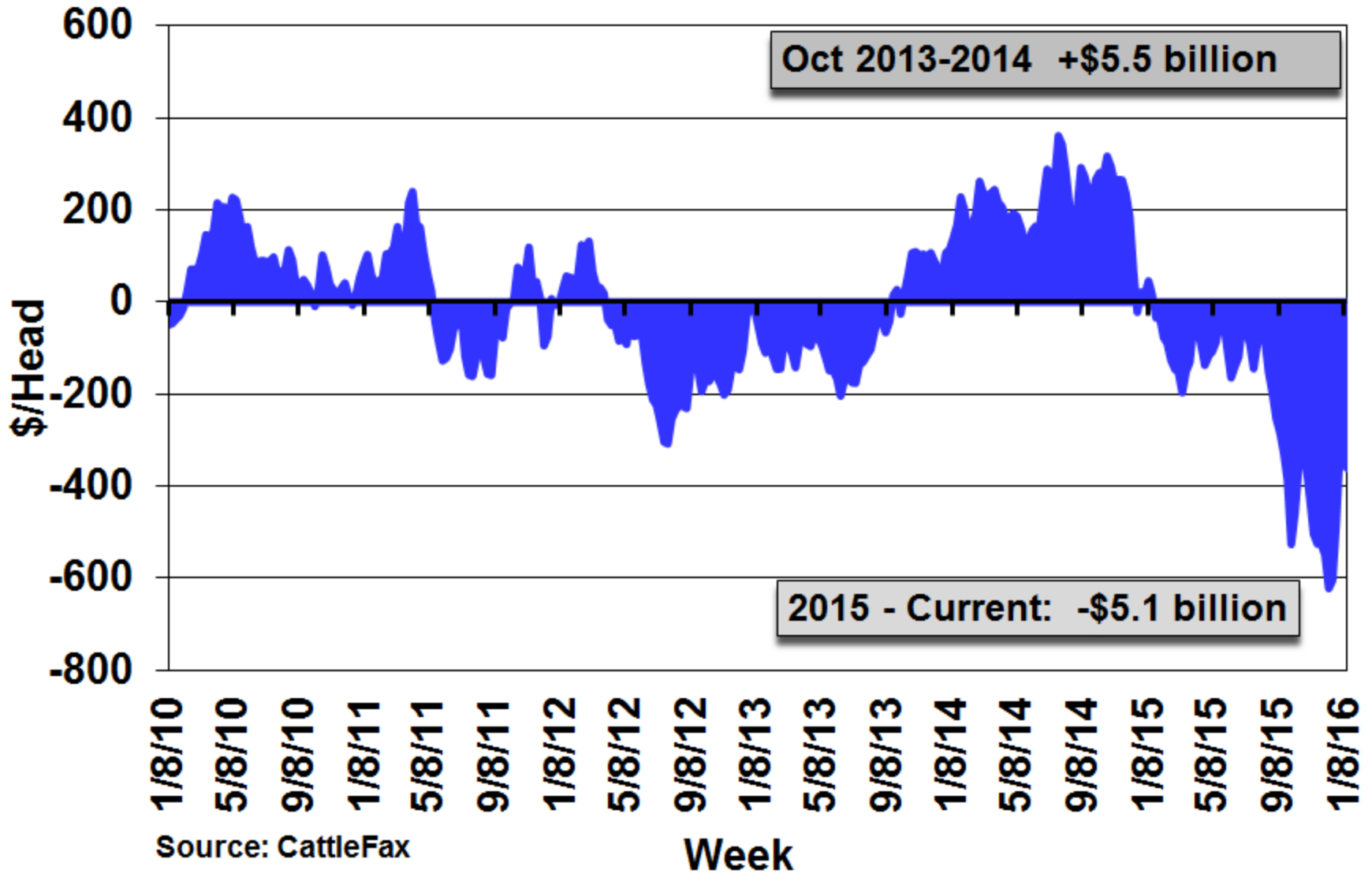


Source: CattleFax, Federal Reserve Bank of Kansas City

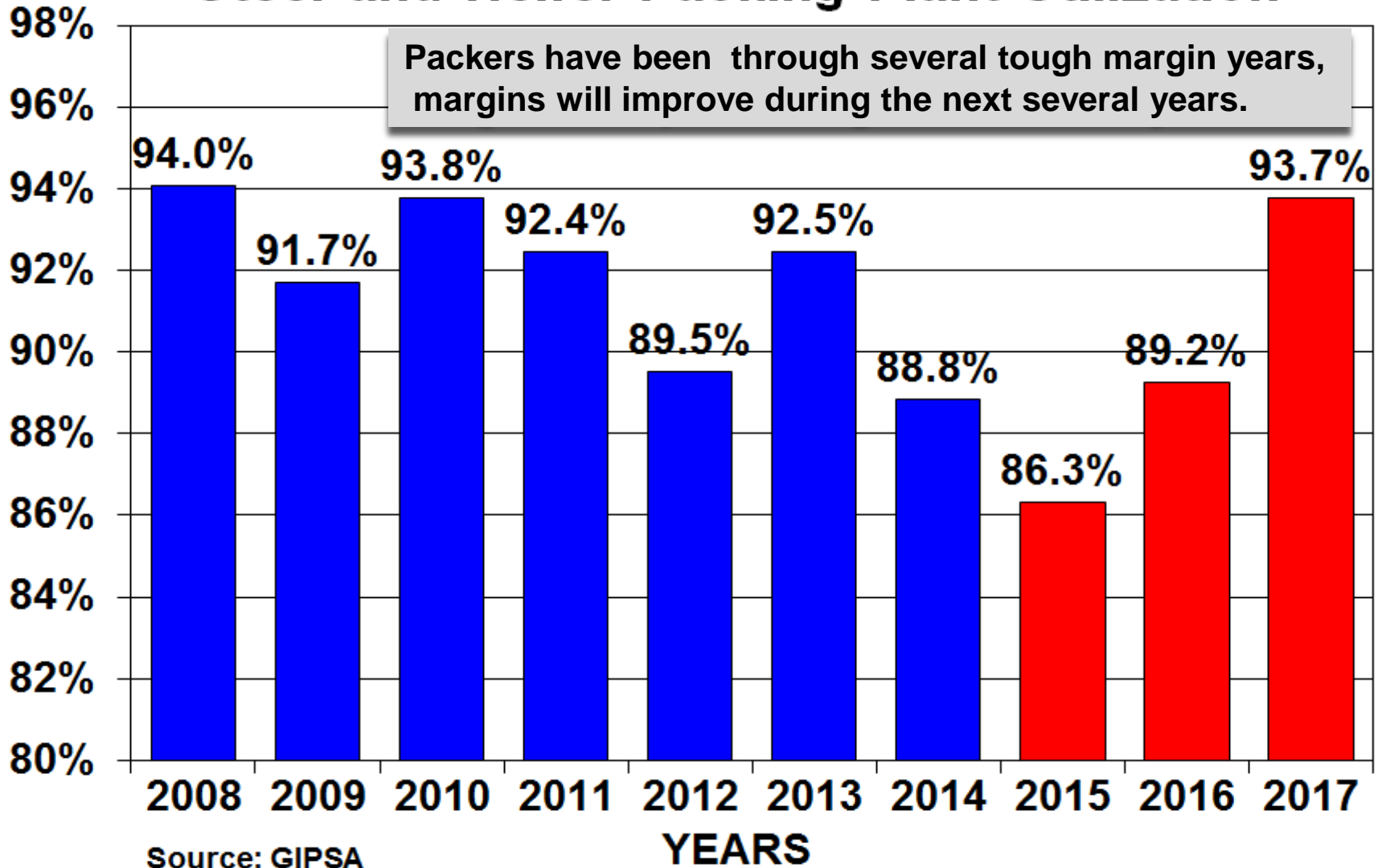
750-LB Feeder - Fed Spread



Fed Cattle Profit/Loss



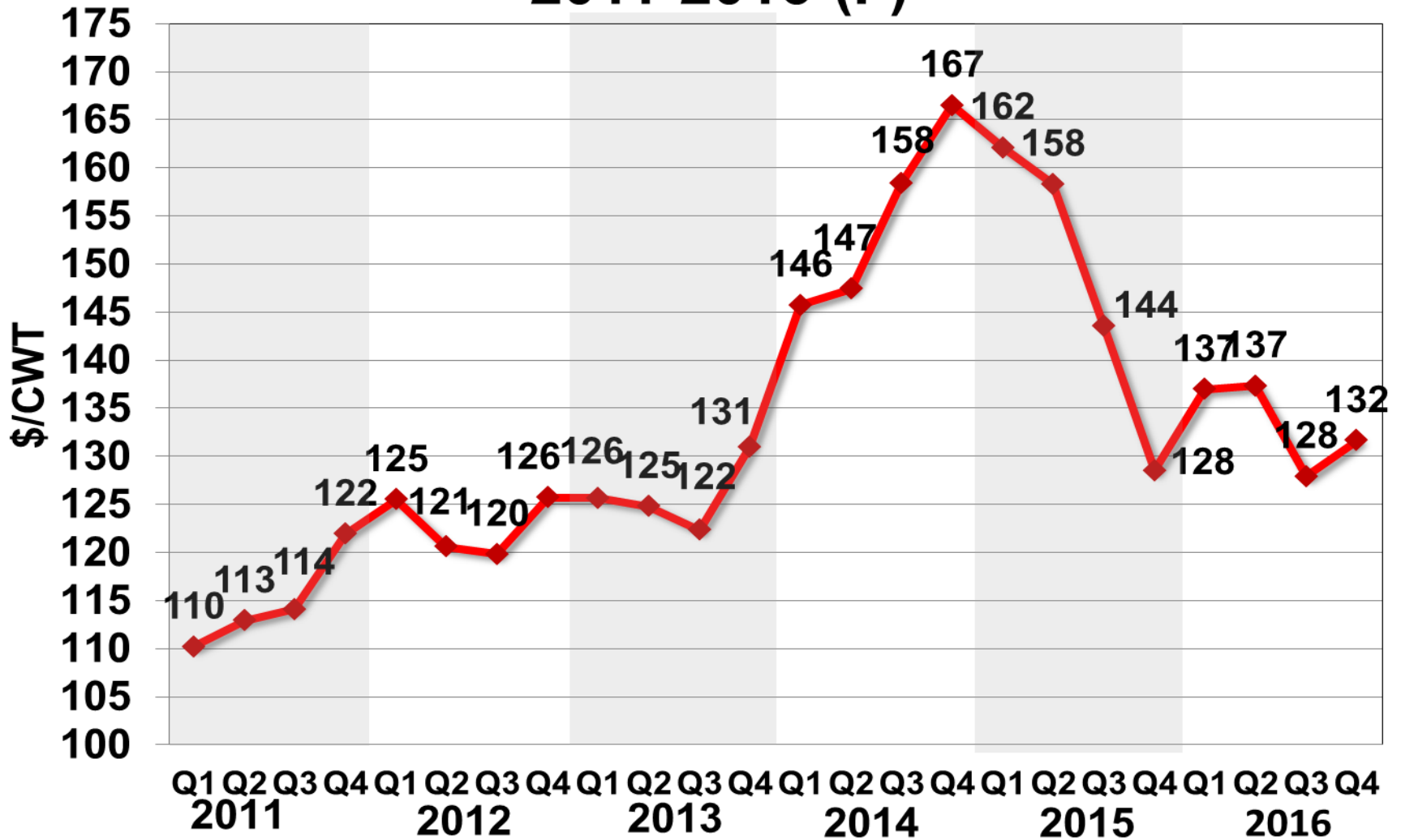
Steer and Heifer Packing Plant Utilization



Source: GIPSA

CattleFax Estimates/Forecast/Assumptions

Quarterly Fed Cattle Prices 2011-2016 (F)



Source: CattleFax

Market Volatility! Is it out of Control?



Open interest in the Ag Commodities has declined as commodity prices have peaked and trended lower.

Investment fund participation in commodity markets is essential in providing liquidity for hedgers to be able to layoff risk. BUT

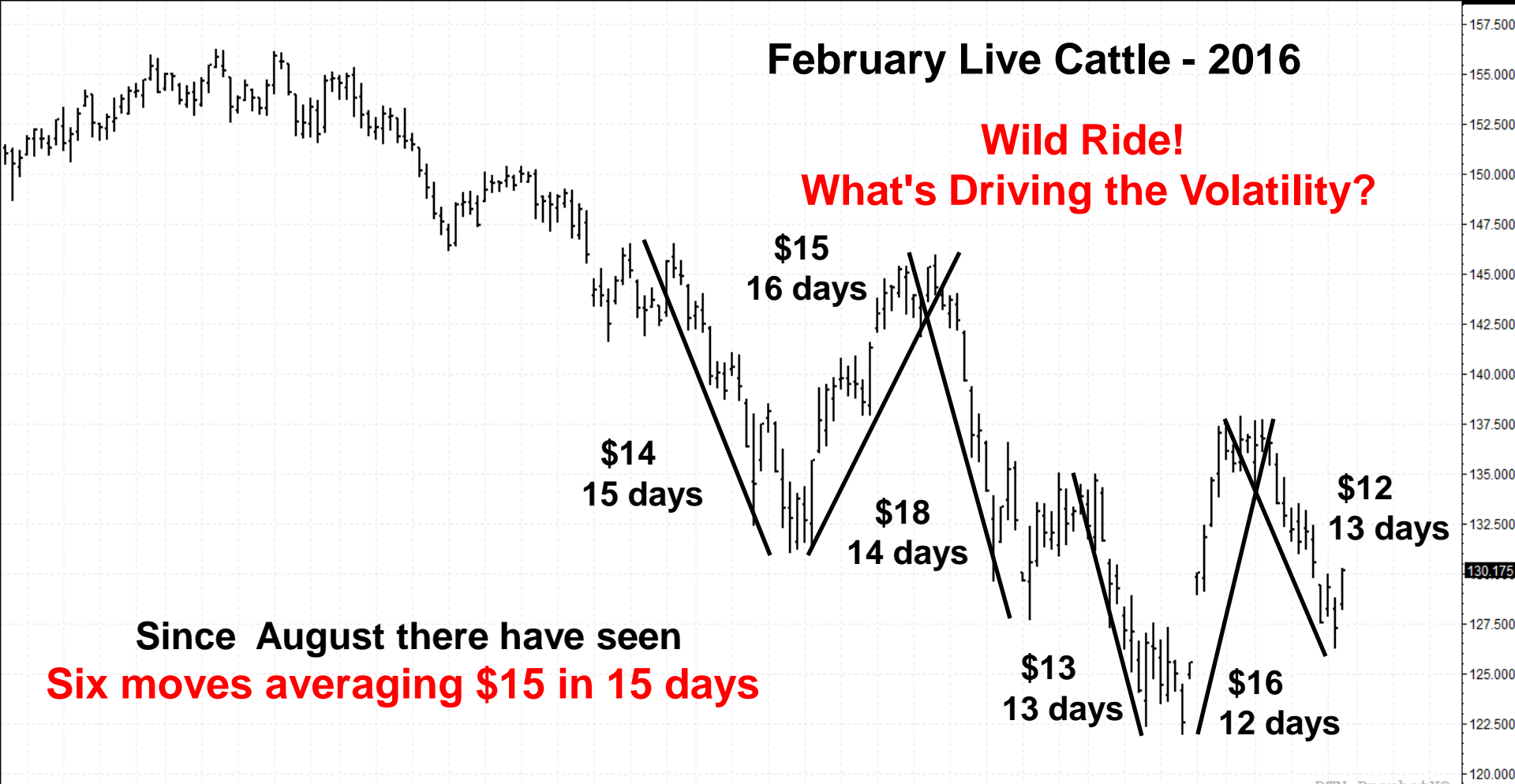
High frequency trading (HFT) is adding a great deal of volatility (noise) and limited liquidity to futures markets.

As regional cash markets shrink, the industry must decide if one regional cash market is adequate or are others worth saving!

With amount of capital required to operate in todays agriculture business, It is essential that the risk management tools work and allow producers to manage risk not add risk and that the playing field is level!

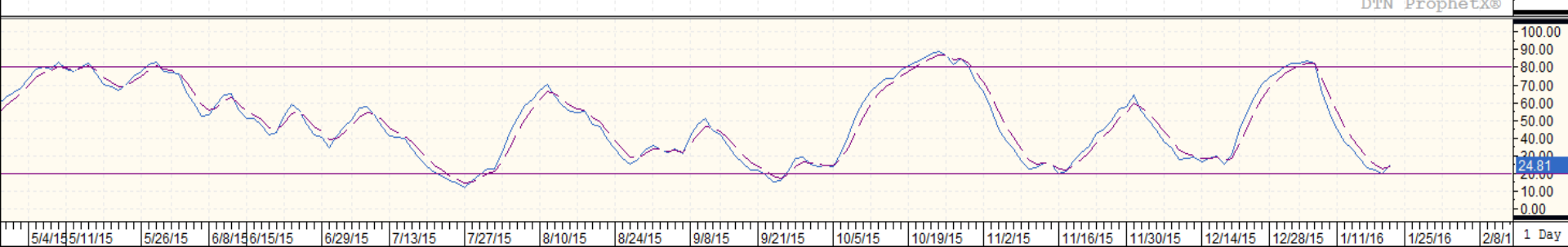
February Live Cattle - 2016

Wild Ride!
What's Driving the Volatility?

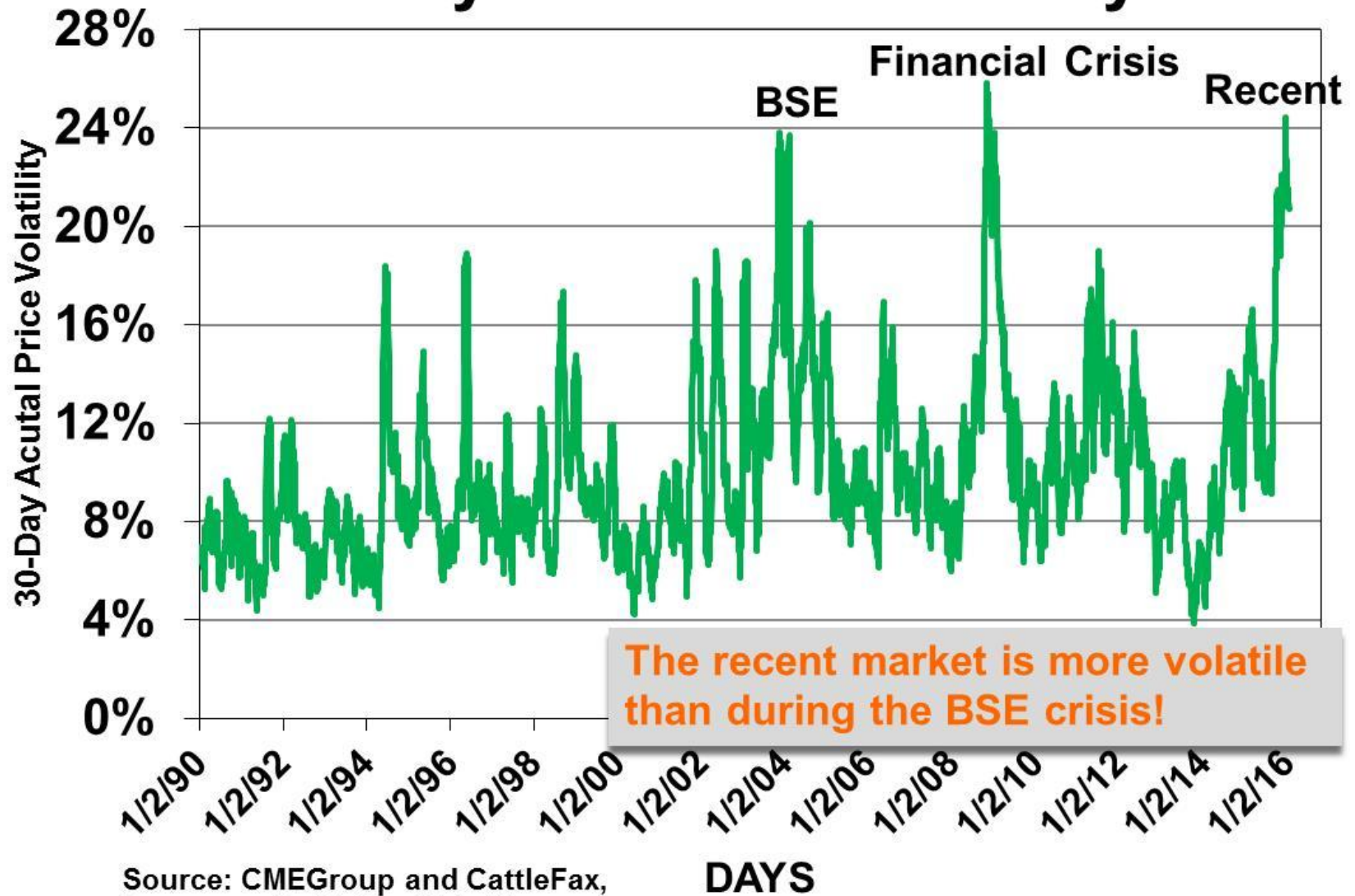


Since August there have seen
Six moves averaging \$15 in 15 days

DTN ProphetX®

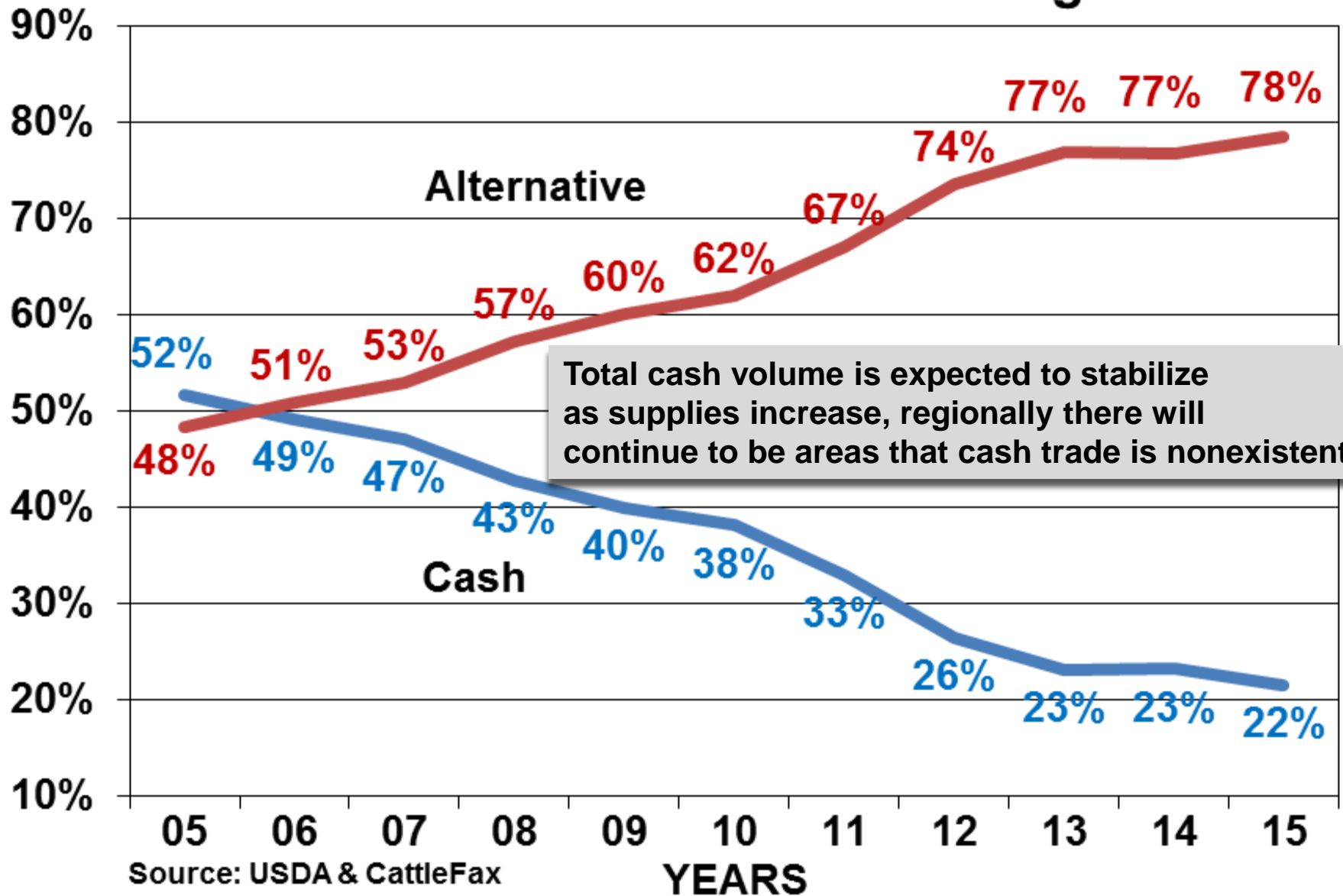


Daily LC Futures Volatility

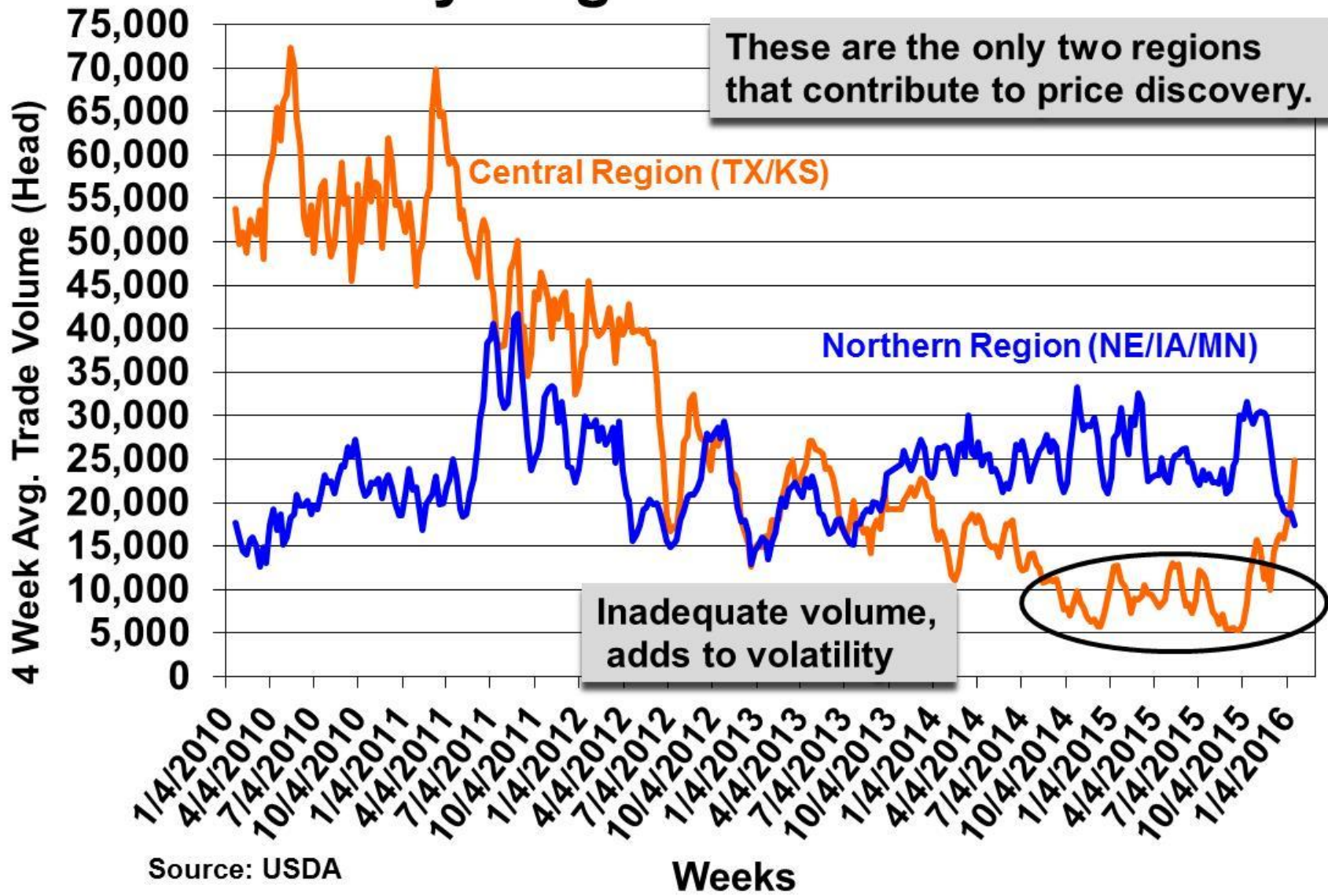


Source: CMEGroup and CattleFax,
Futures strip 30-Day Volatility

Cash vs. Alternative Marketings

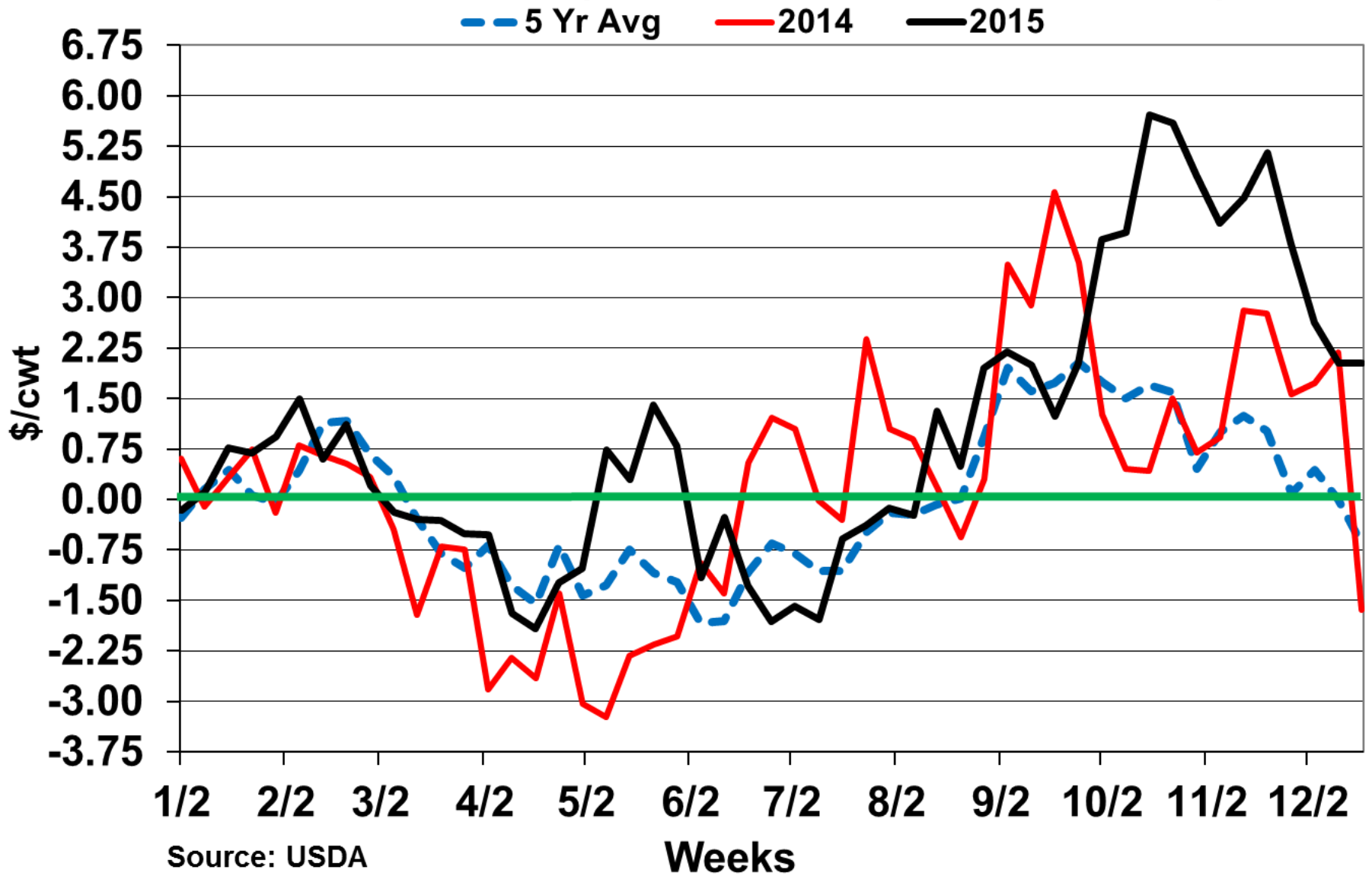


Weekly Negotiated Cash Trade



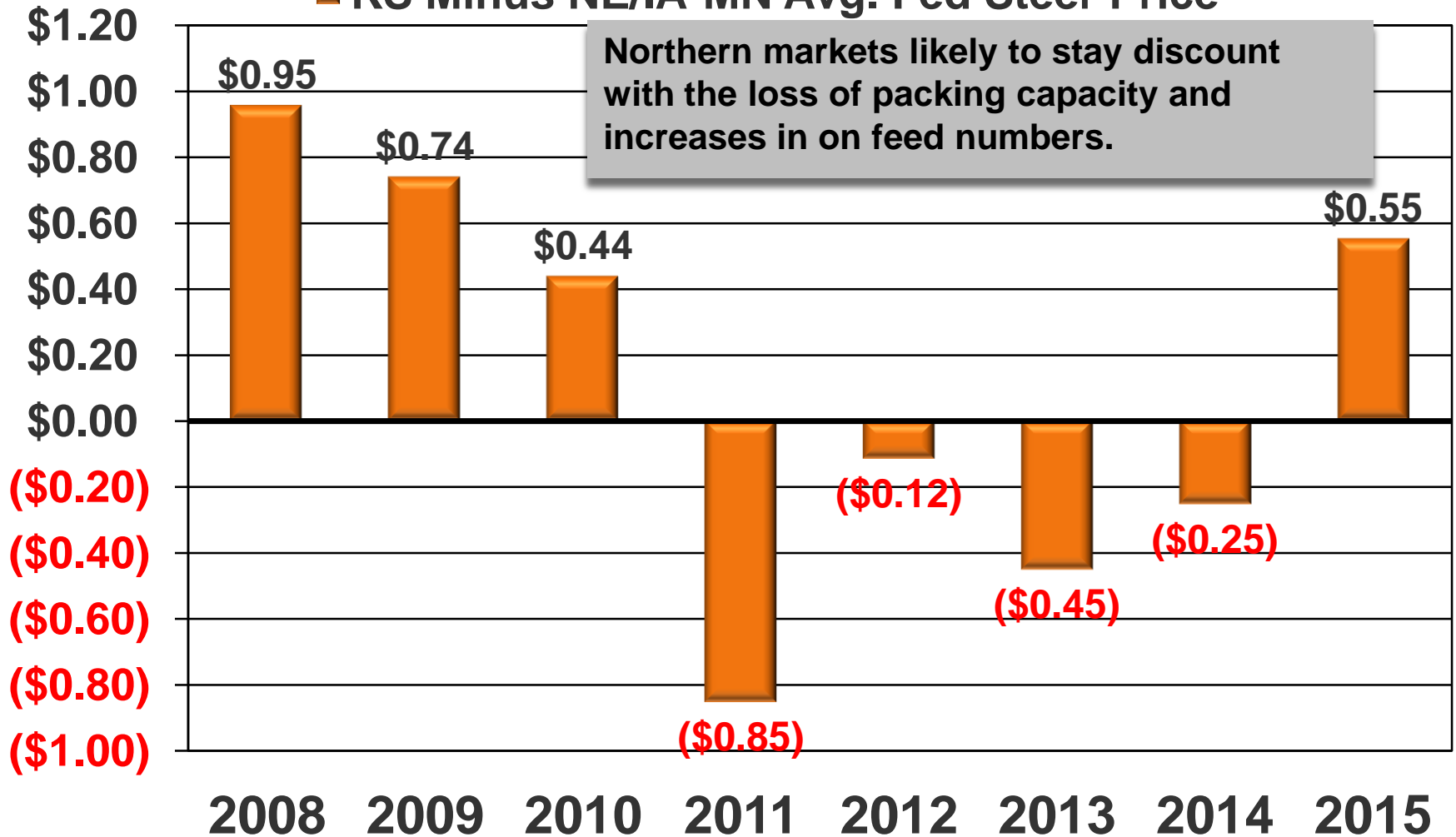
Source: USDA

Cash Basis (Kansas-Iowa/Minnesota)



Cash Basis- Annual Avg. Fed Steer Price

■ KS Minus NE/IA-MN Avg. Fed Steer Price

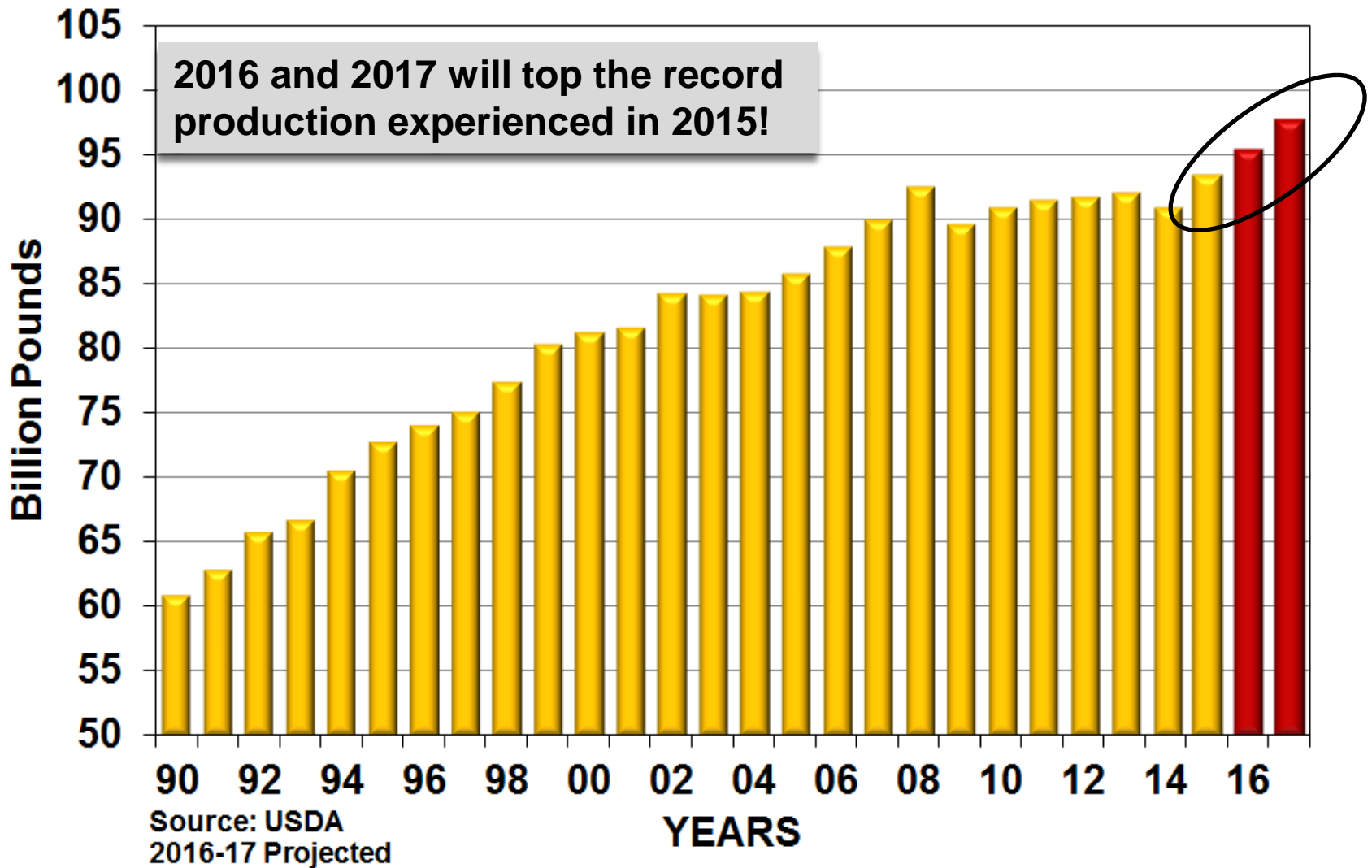


Source: USDA & CattleFax

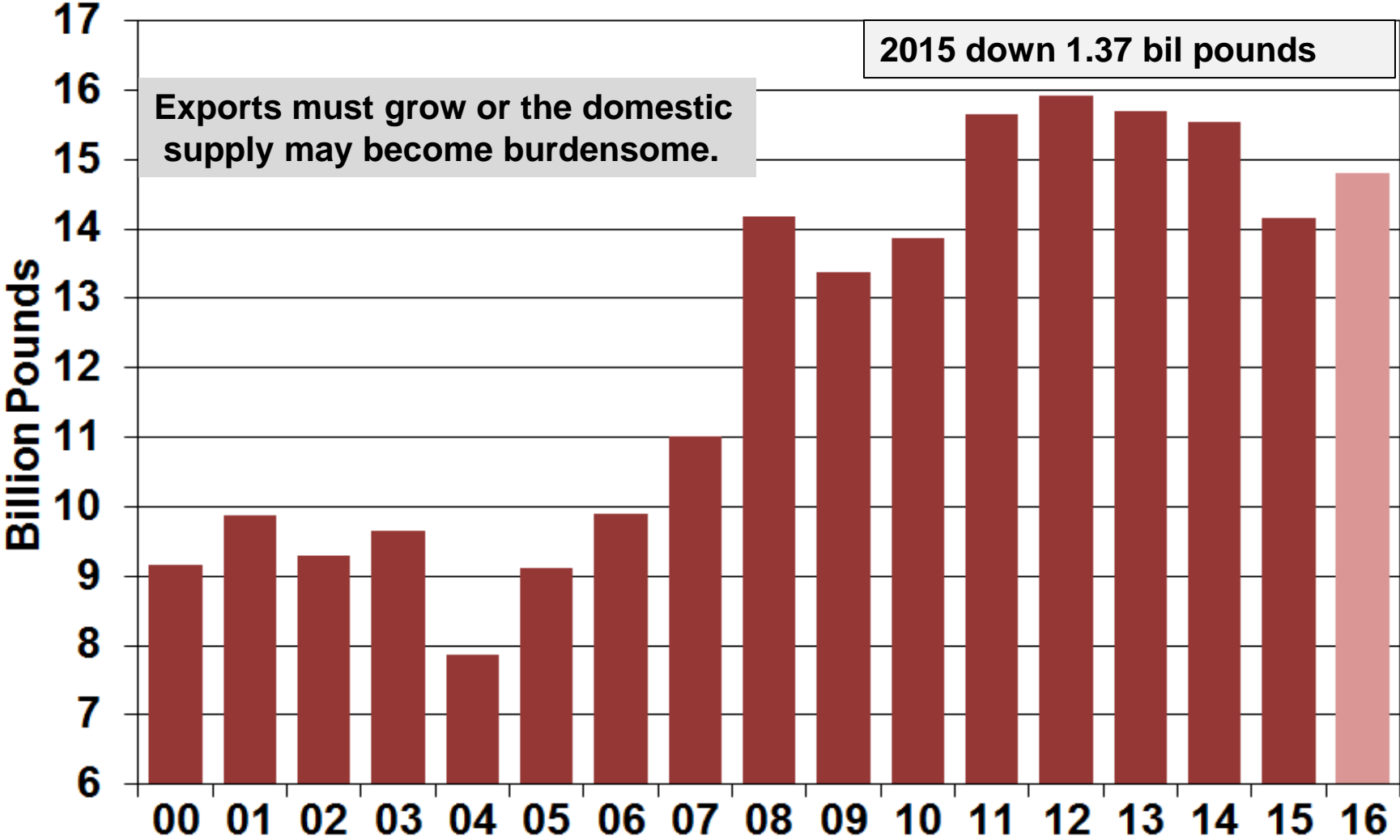


What's Ahead for Next Several Years!

U.S. Meat and Poultry Production

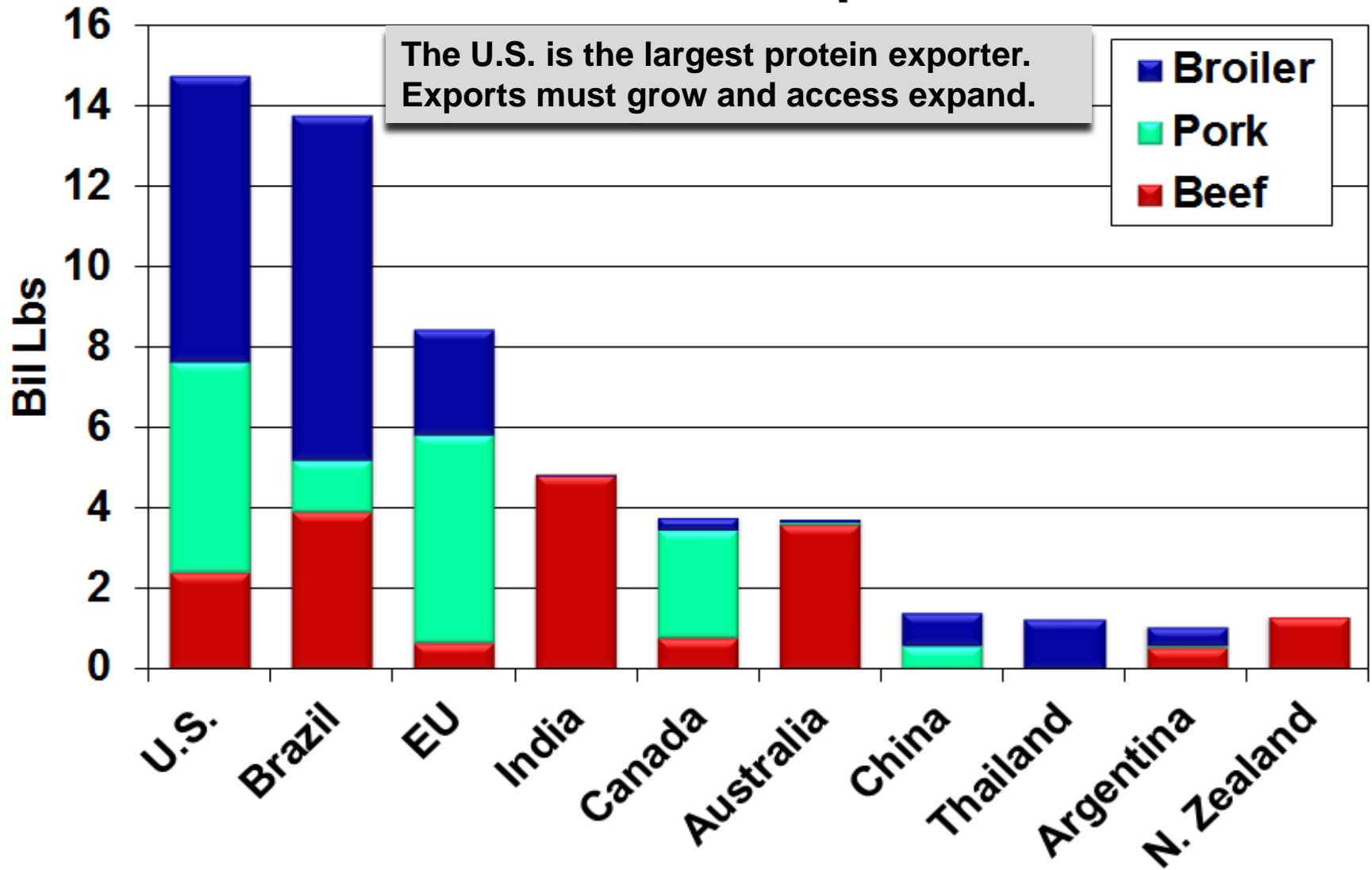


U.S. Meat & Poultry Exports



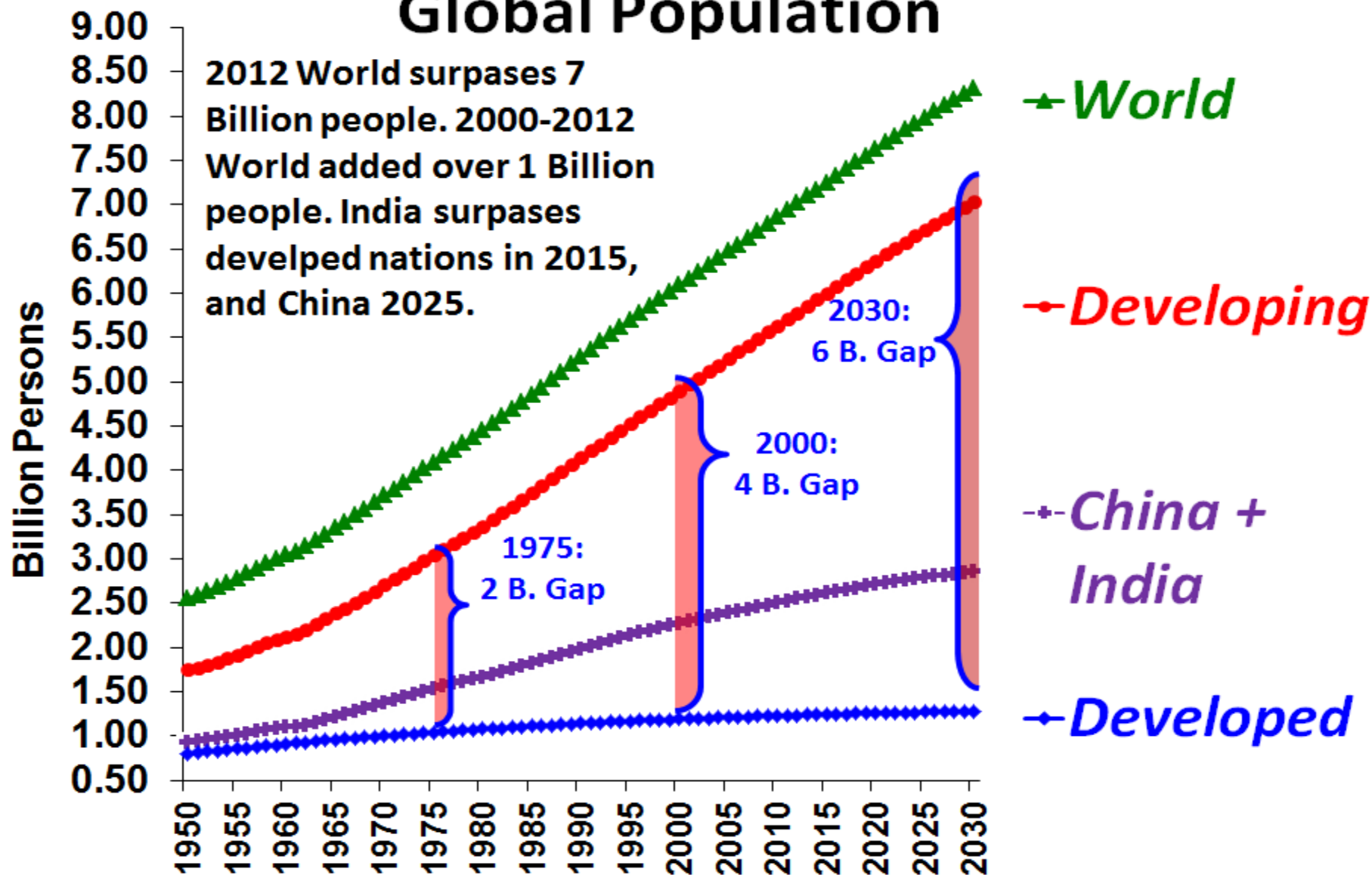
Source: USDA
2016 Forecast

Global Meat Exporters



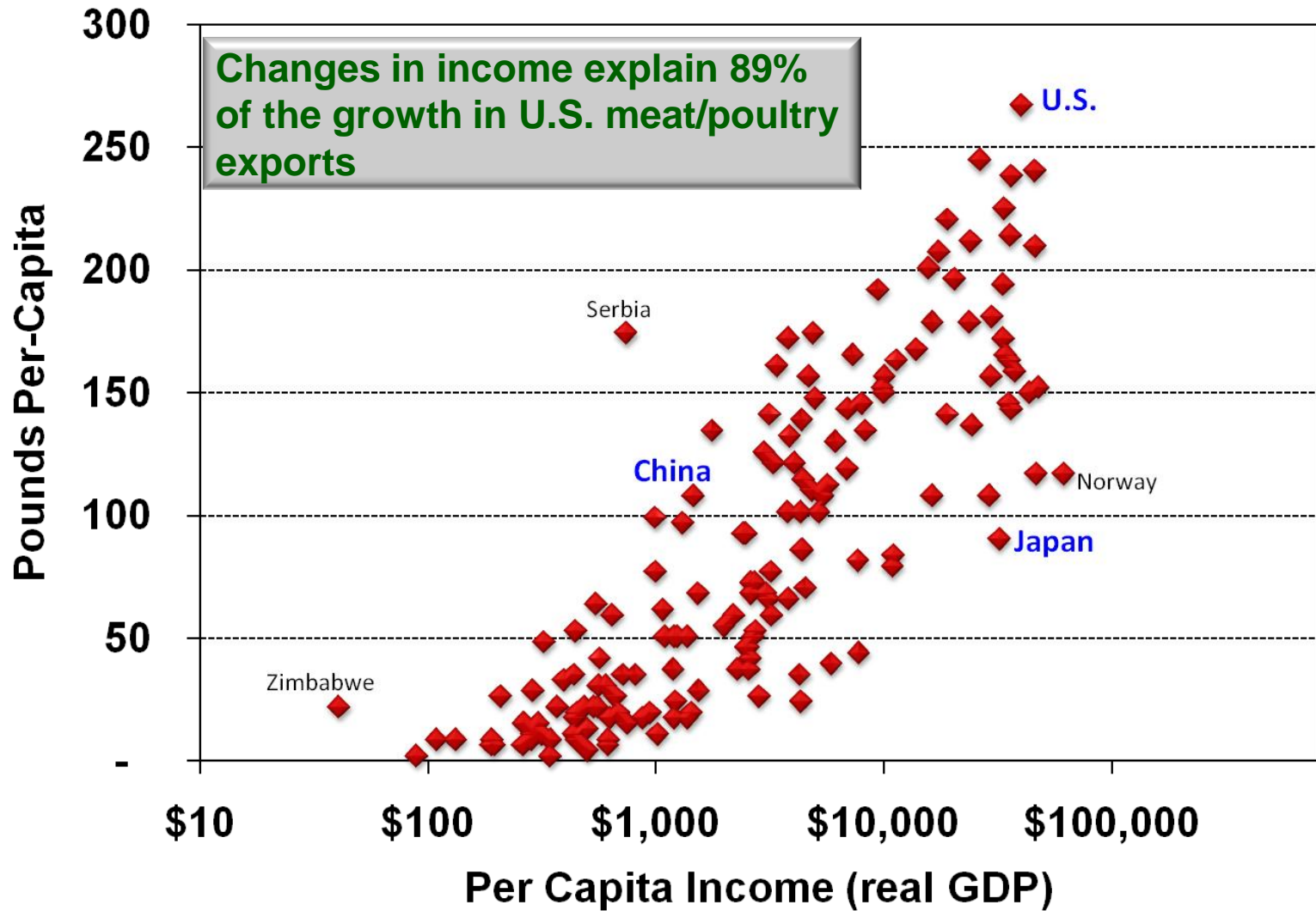
Source: USDA/FAS, 2016F, beef and pork in carcass-weight equivalents

Global Population



Source: Census IDB, CattleFax

Meat Consumption and Per-Capita Income



Source: FAO, USDA, 2003 data, includes beef, pork, and poultry

Outlook Summary



U.S. meat production will grow in 2016, beef up 3%, pork up 2%, poultry up 1.5%

Global demand is expected to begin to stabilize following a weak 2015.

Domestic demand is expected to be 3-5% lower.

The U.S. economy will continue to grow slowly and remain recession free.

Grain supply will remain ample and prices will be similar to those experienced in 2015, very slim margins for farming operations.

Large U.S. and global oil supplies and weak demand will keep a lid on gasoline and diesel prices in 2016.

Prices on all classes of cattle will work lower during the next 3-4 years.

Land values and lease rates will trend lower the next 2-3 as margins tighten further.



Jan

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Thank you