

# THE LONG RUN VIEW OF CATTLE MARKET FUNDAMENTALS AND OPPORTUNITIES

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Agricultural Production Trends & Changing Food Systems  
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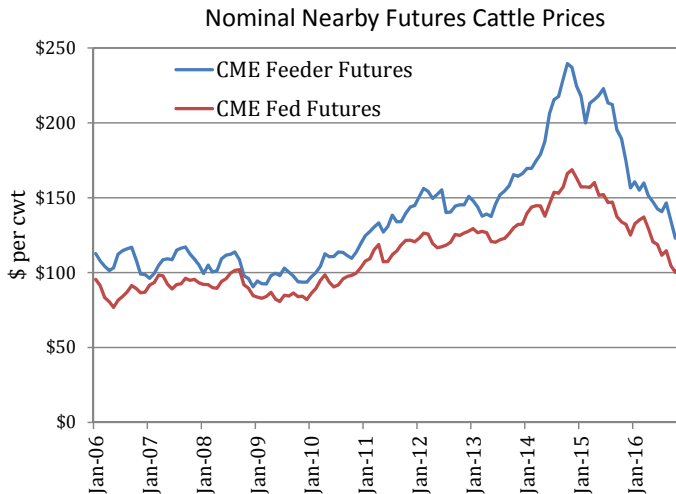
# OUTLINE

- SHORT RUN VIEW
- LONG RUN VIEW
- FUTURE CHALLENGES AND OPPORTUNITIES

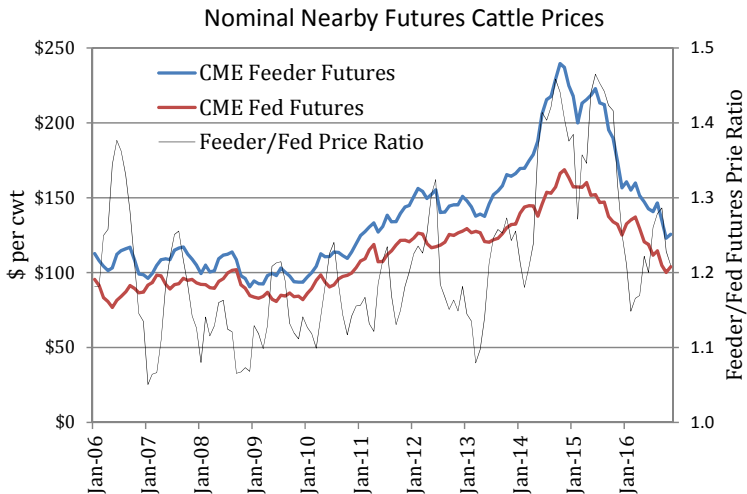
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# THE CATTLE MARKET ROLLER COASTER

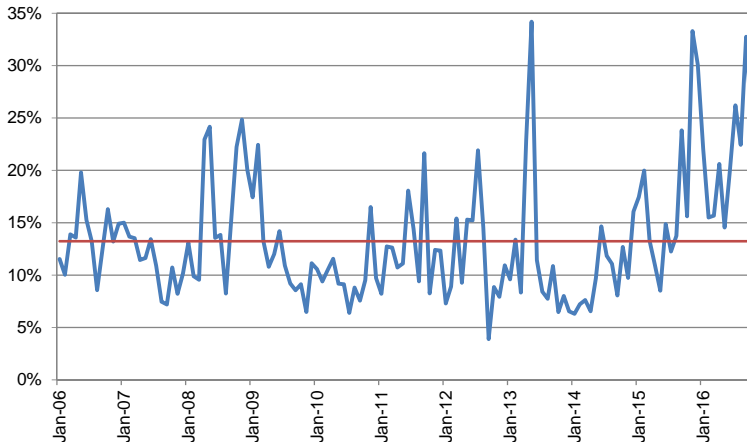


# THE CATTLE MARKET ROLLER COASTER



# VOLATILITY IS RISING

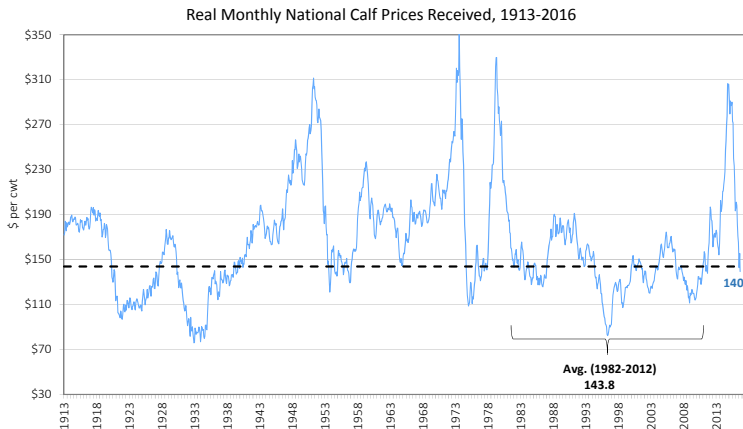
Monthly CME Feeder Cattle Historical Volatility, 2006-2016



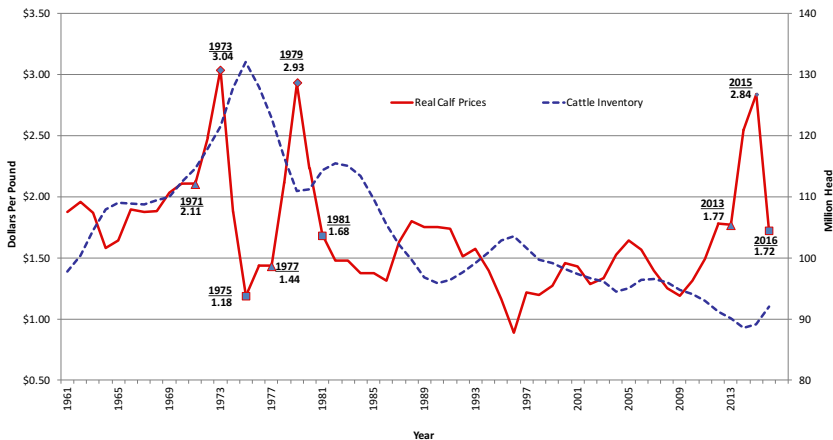
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# FOUR MAJOR PRICE SPIKES IN LAST 100 YEARS

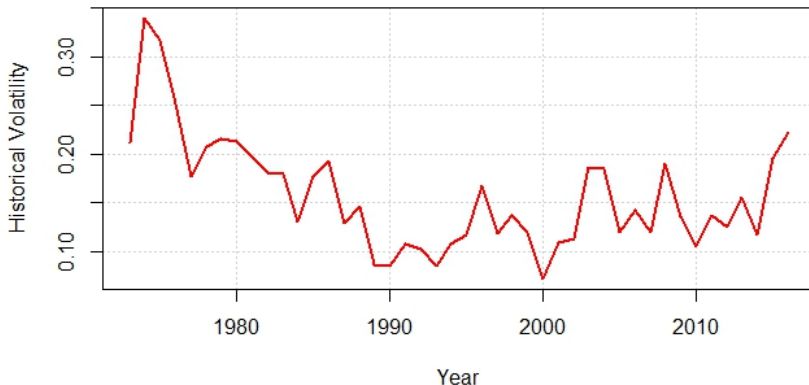


# THOSE RECENT SPIKES AND THE CATTLE CYCLE



# PRICE SPIKES ACCOMPANIED BY PRICE SPIKES IN '73, '79, AND '14

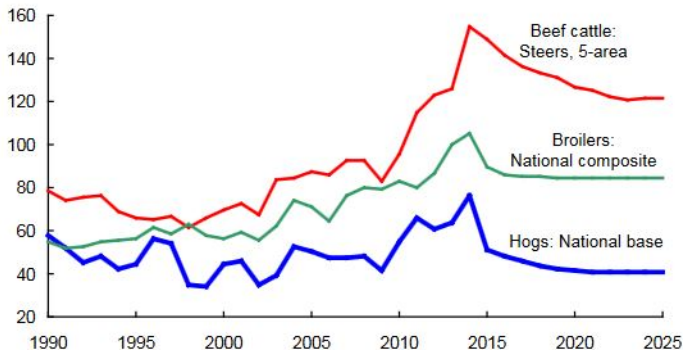
**Feeder Cattle Nearby CME Futures Contracts**



# BEEF CATTLE PRICE MOVEMENTS MORE DRAMATIC THAN OTHER LIVESTOCK

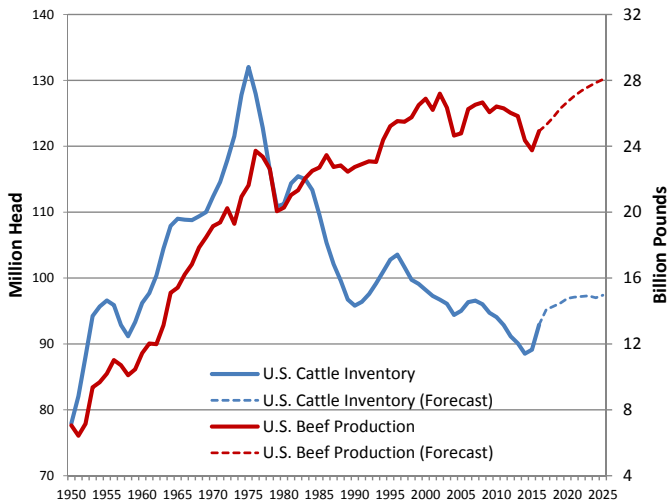
## Nominal U.S. livestock prices

Dollars per hundredweight



Source: USDA LR Projections

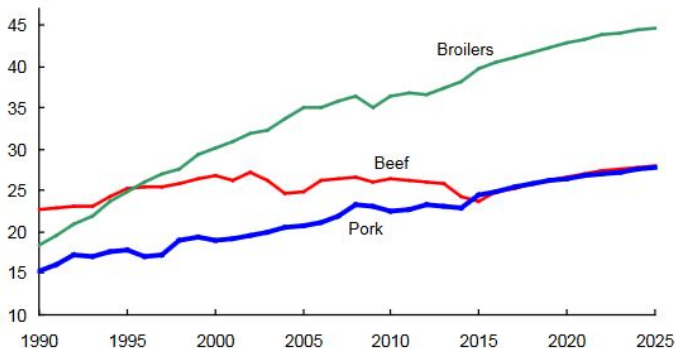
# FUTURE INVENTORY MOVEMENTS ARE UNCERTAIN



# STRONG GROWTH IN BROILER AND PORK PRODUCTION

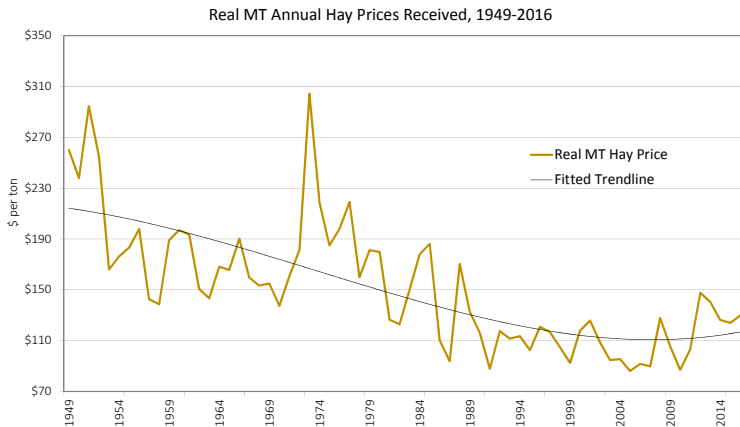
**U.S. red meat and poultry production**

Billion pounds

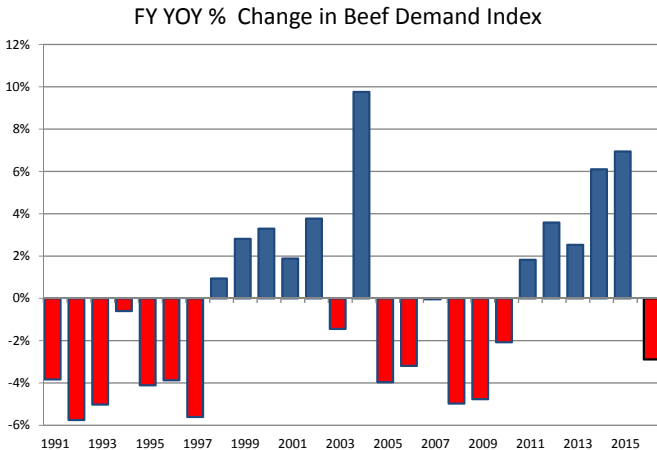


Source: USDA LR Projections

# FAIRLY STABLE TREND IN HAY PRICES



# AFTER A SOLID RUN, DOMESTIC DEMAND WEAKENS

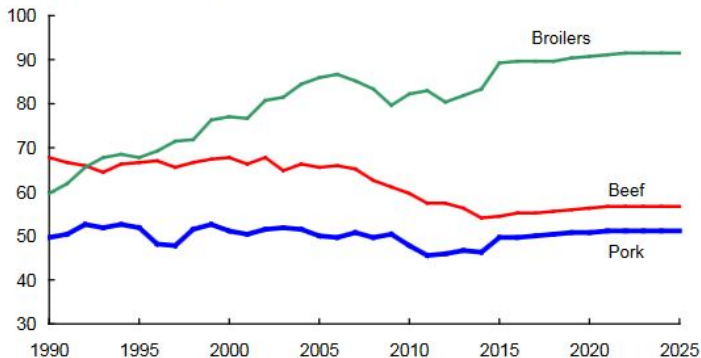


Source: Bureau of Labor Statistics, USDA-ERS, Compiled & Analysis by LMIC

# BEEF LOSING MARKET SHARE TO CHICKEN

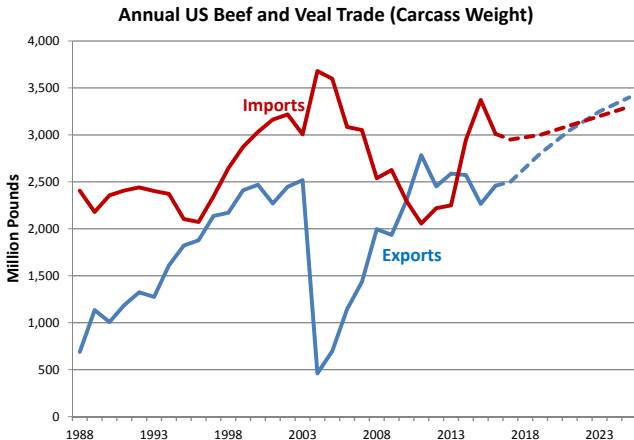
## U.S. per capita meat consumption

Pounds per capita, retail weight



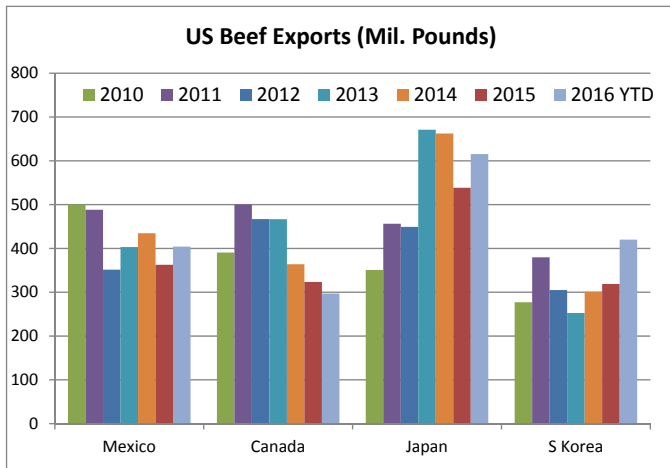
Source: USDA LR Projections

# CURRENT TRADE IMBALANCE EXPECTED TO CONVERGE



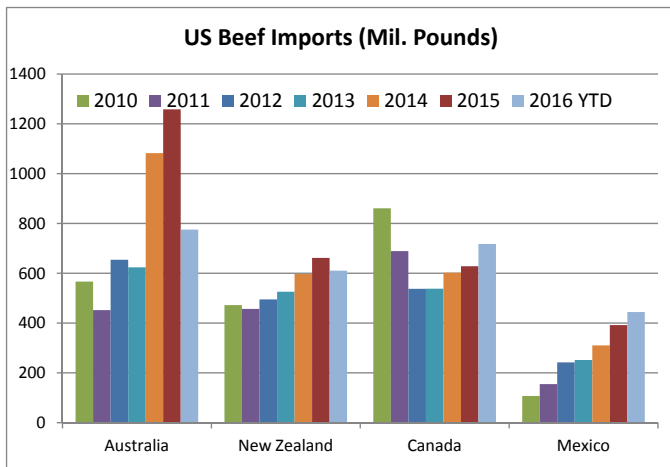
Source: USDA-FAS; Forecast by USDA Long Run Projection (2/16)

# EXPORT GROWTH WITH ASIAN PARTNERS



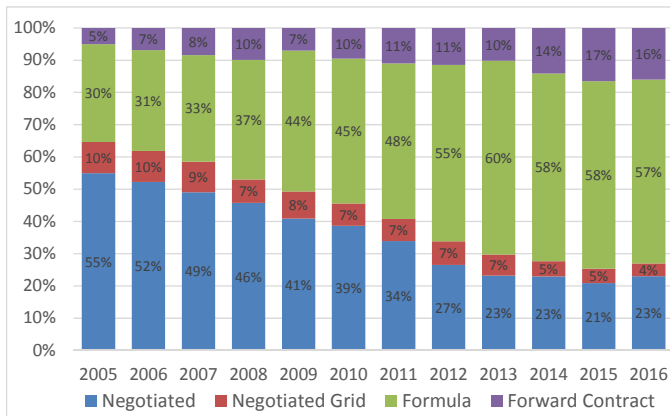
Source: USDA - FAS

# IMPORT GROWTH WITH CANADA/MEXICO



Source: USDA - FAS

# CASH TRANSACTIONS ARE SHRINKING IN PLACE OF FORMULA PRICING



Source: USDA - AMS

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# FUTURES PRICES

## (AS OF 10/8/2016 SETTLEMENT)

Commodity	Units	Nearby	Apr 16	Aug 16	Oct 17
Feeder Cattle	\$ per lb	1.20	1.16	1.16	1.13
	Volume	3,486	891	111	0
Live Cattle	\$ per lb	1.04	1.05	0.95	0.96
	Volume	24,318	10,233	1,633	323
Implied Calf Price	\$ per lb	1.45	1.41	1.41	1.38

## SO, WHAT IS GOING ON?

- Cattle prices slightly below long run average.
  - Cyclical response.
  - Feeder-to-Fed price ratio falls back to normal.
  - Substitute goods.
- Volatility is high in cattle markets.
  - Typically follows large price spikes.
- How long can we rely on domestic demand growth?
  - Future growth likely to come from international markets.
  - Trade balance expected to equalize in future years.

# FOR MORE DETAILS ON THESE ISSUES AND MORE...CHECK OUT AGECONMT

NEWS & POSTS

ALL CROPS LIVESTOCK POLICY BUSINESS & FINANCE

ALL *Handy* MARKET  
MEATS  
**BEEF, PORK, LAMB**  
*and* **POULTRY**  
**BORN, RAISED & SLAUGHTERED**  
**IN THE U.S.A.**

BY ANTON BEKKERMAN — NOVEMBER 2, 2016

### Brazil, COOL, and Feeder Cattle Prices

After my most recent post that attempts to illustrate a market-based explanation for the recent declines in feeder cattle prices, there...

OCTOBER 31, 2016

### Marketing Montana Beef to Montana Schools

OCTOBER 26, 2016

### The Real Culprit Behind the Rapid Decline in Feeder Cattle Prices

SEPTEMBER 19, 2016

### The Importance of Trade and the TPP in U.S. Beef Production

SEPTEMBER 2, 2016

### High frequency traders aren't the only player in the cattle market "meat casino"

**Thank you for your time.**

Questions, comments, feedback?

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