Riding the Gap
Top Stories in 2015
By Wes Ishmael

Forecasting the ultimate drivers of cattle prices in the new year, let alone their specific effects, is as unknowable as looking in the rearview mirror is certain. However, you can make a strong case for these being part of the conversation this year, in no particular order.

Cattle Prices- The middle of December provided a likely glimpse of 2015. On one side of the fence are fundamentally scant cattle supplies. On the other is uncertain cattle and beef demand wrought by what appears to be the end of the perfect market storm that lifted cattle prices to such heady heights for so long.

All the way through November, for the most part, cash feeder and calf prices continued to gain more ground every week, running against seasonal norms. Cash fed cattle got all the way up to a record-high $174, although wholesale beef values were already fading.

Then Boom!

Feeder Cattle futures traded limit-down $3 for several consecutive days, not because there were suddenly lots more cattle or because feed was suddenly lots more expensive. Mostly it was packers gaining back some leverage after bleeding red ink for months as wholesale beef values languished and then retreated. Pressure on future break-evens for fed cattle left feedlots looking for relief on the price of feeder cattle.

"Cattle feeders have been able to dictate the market for some time now, but the past two weeks are an indication of their inability to maintain record price levels," said Andrew P. Griffith, agricultural economist at the University of Tennessee, in his Dec. 12 market comments. "Cattle feeders knew the market would break, but the timing of such a break was less certain. Cattle feeders were able to push fed cattle prices to higher levels and deeper into the fall season than many in the industry would have ever imagined. However, all the good times in 2014 have not erased the memories of a bleak and trying time in 2012 and 2013. Fed cattle prices are likely to continue their descent in coming weeks, but it should not be too difficult to find a bottom for the early spring market. On the other hand, finding the bottom of the late spring and summer market could result in trying times again as the cattle coming off feed will have a high break-even price."

Fundamentally, it seems like there's a fairly high floor beneath calf and feeder cattle prices because of supply. But that's relative to excess cattle feeding capacity. Is it possible that more capacity than thought has exited the business or transitioned pens to alternate uses? That's a key question going forward.

"It appears the industry may find it difficult to push feeder cattle prices back to record levels in the near term, but it also seems unlikely that feeder cattle futures will continue declining at such a rapid pace," Griffith explained. "Feeder cattle should find some support near $218 and $210, but the market will not know unless we get there."

Cowherd Expansion- "There is little doubt that beef cow herd expansion began in the U.S. in 2014," says Derrell Peel, Oklahoma State University Extension livestock marketing specialist in his mid-December marketing comments. "Beef cow slaughter is down over 18% and the nearly 8% year-to-date decrease in heifer slaughter is a strong indication of increased heifer retention. U.S. beef cow inventories will likely show a modest increase into 2015. However, cow and heifer numbers do not appear to be expanding in Canada and Mexico and North American beef cowherd inventories will remain tight for many months. Canada and Mexico have not yet started to feel the short-term cattle numbers squeeze that is associated with the early stages of herd expansion."

As well, there's no telling how much of the slaughter reduction in heifers and cows has to do with folks delaying marketing until 2015 for tax purposes.

Drought- Look at the U.S. Drought Monitor and you'll continue to see a picture that looks significantly more promising than last year and the year before. Through December 2, contiguous U.S. drought coverage decreased to 29.13%--the first time it was below 30% since December of 2011. Drought still covers significant portions of the Southern Plains and western U.S., though. As of the first part of December, 28% of the U.S. cattle inventory remained in areas affected by drought.

At the same time, the El Nino conditions folks were hoping for in the West and the Southern Plains grew less certain, as did its strength if it does come to pass.

Bottom line, while expansion may have begun as measured by total beef cow slaughter and the percentage of heifers in the fed cattle mix, that could quickly change if enough snow and rain don't fall in the right locations.

International Economics- From June to the middle of December, crude oil prices plunged more than $45 per barrel. Part of it was increased production and the refusal of OPEC nations to decrease production in an effort to prop up prices. More than anything, the price free-fall had to do with slow international economic growth.

Wally Tyner, Purdue University agricultural economist explained in December, that while the U.S. economy continues to strengthen, other world economies are trudging along or losing ground. Europe and Japan are growing at less than 1% per year, Tyner says, and China and India are growing more slowly than normal. Russia is in recession.

On one hand, falling oil prices help increase the Gross Domestic Product of the U.S. On the other, Tyner says crude oil prices have fallen to the point that the oil industry, including exploration companies, will be cutting their investment budgets for 2015, likely leading to some job losses in that industry. Still, he expects that refining will continue to be profitable.

If oil prices drop far enough for long enough, some fear it could begin toppling another house of cards tied to energy.

Beef Demand- Part of the perfect price storm cattle and beef enjoyed in 2014 had to do with the lack of price pressure exerted by pork and poultry. As pork production reeled from Porcine Epidemic Diarrhea virus (PEDv), pork prices remained elevated. In thr case of chickens, fertility problems limited expansion and kept prices higher than expected. Those problems are reportedly well in hand for both competing species.

Through the fall, domestic beef demand remained extraordinarily strong, even as retail prices continud to increase, though some attribute at least part of December's price decline to consumers running out of steam.

Likewise, international demand for U.S. beef continued to be amazingly robust, especially given the growing strength of the U.S. dollar.

From October to January of 2014, U.S. beef exports were 3% more than the previous year for volume and 15% more for value, according to the U.S. Meat Export Federation (USMEF). The value of exports per head of fed cattle slaughter in the U.S. was $287.32.

"Although global demand for beef and pork muscle cuts remains strong, the U.S. industry is facing some headwinds," explained Philip Seng, USMEF president and CEO in December. "Lower slaughter numbers have impacted available supply, and the U.S. dollar continues to strengthen relative to the currencies of a number of our key competitors and import customers. On the pork side, we continue to see large volumes of European product entering Asian markets at lower-than-normal prices. This is likely to continue until the EU's trade impasse with Russia is resolved."

Bitter Fruits of Regulation- Pick a subject and you can find misguided legislation and regulation that makes a free market economy less so than it would otherwise. For beef producers, two such examples spring to mind, one directly and one indirectly.

Directly, the World Trade Organization (WTO)—to which the U.S. is bound—continues to say that the nation's mandatory Country of Origin Labeling (COOL) law places the U.S. in violation of its WTO obligations. And, the U.S. continues to thumb its nose at that ruling, and at two of its most important trading partners—Canada and Mexico—who brought the COOL complaint to the WTO. It seems likely that these neighbors to the North and South will ultimately have no choice but to levy retaliatory trade actions against the U.S. which will have a negative impact on beef trade one way or the other.

Indirectly, the costs and problems with 'Obama Care' are coming home to roost. Especially if you're self-employed or employ others, you understand the significant leap in premiums for 2015, even as deductibles increase. Complain to your insurance broker and they say the insurance companies are still losing big because of the massive increase in claims from the previously uninsured. So, while nothing has been done to address the bottom line problem—the cost of health care—the cost of insuring against it continues to rise, damaging disposable incomes and economic growth overall.