MARKET SNAPSHOT
CATTLE

March 31, 2020

Executive Summary
Drivers for the cattle industry include COVID-19 pandemic concerns, trade agreements and large domestic protein supplies.

- Trade agreements including USMCA, Japan and the phase one trade deal with China have been completed.
- Demand for animal protein throughout the next year will play a major role in prices given an above average supply of beef and pork.

12-Month Profitability Outlook
Northwest FCS’ 12-month outlook suggests variable profitability throughout the beef sector. Packing margins are record high on strong domestic demand. Cattle feeders continue to work through large inventories, specifically heavier feeder cattle. Feeders’ ability to protect pricing during this volatile period will determine their profitability, which appears to be break-even to a slight loss. The outlook for cow/calf producers is breakeven to slightly profitable depending primarily on the producer’s ability to price protect or market calves at or above their cost of production.

Pandemic Impact on Markets
The spread of COVID-19 has made a significant impact on commodity markets as new cases have been reported throughout the world, especially the U.S. Increased cases of infection of the coronavirus poses a serious threat to demand for protein markets, which are at record levels of supply for this time of year.

COVID-19 continues to drive unprecedented uncertainty in cattle markets. In the initial market response, feeder cattle and live cattle futures contracts plummeted 25%-30%.

Contracts reached lows the third week in March.

Outside of the futures market, cash cattle prices have been more resilient. Since the initial fall, futures have moved higher to align with cash cattle prices. This came as futures contracts traded at the maximum daily limit several days in March.

Feedlots marketing live cattle have the largest exposure to extreme price movements. Harvest can be delayed temporarily. However, cattle can grow too large to efficiently process at packing plants. Cow/calf producers have
more flexibility in their ability to market calves. March is when producers begin to contract their calves for fall delivery. Producers will likely delay contracting cattle and wait for more market stability and information.

**Trade**

The United States-Mexico-Canada Trade Agreement (USMCA) was signed into law on Jan. 29. The agreement, which includes provisions that expand access to the Canadian market for U.S. agricultural products, stabilizes a trading bloc of vital importance for U.S. agricultural producers. The U.S. and China signed a phase one trade agreement on Jan. 15. Within the agreement China agreed to increase purchases of U.S. goods and services by $200 billion over the next two years. This agreement includes a commitment by China to increase agricultural purchases by $32 billion over a two-year period. The increased purchases will bring China’s annual purchase of agricultural products to over $40 billion annually.

**African Swine Fever (ASF)** continues to impact hog populations throughout Asia and Eastern Europe. Since the virus was first detected in China in 2018, almost a quarter of the world’s hog population has perished. China has historically been a major producer and consumer of the world’s pork protein supply. It is suspected that China will be unable to return to their pre-ASF production levels until 2025; this will require one of the world’s largest economies to turn toward alternative proteins and import markets.

China has turned to Brazil and the European Union to fill their short-term protein demands as opposed to the U.S. because of ongoing trade discussions. It is likely China will continue to increase pork protein imports and strongly consider increasing broiler and beef imports until domestic pork production can be returned to pre-ASF levels.

**Slaughter Capacity**

Cattle slaughter increased 1%, with cow slaughter numbers up 5.6% year over year. Cattle slaughter continues to exceed the previous year’s production by 5%-10% weekly. The increased supply is due to more fed cattle being processed and fed cattle carcasses weighing in well above average. USDA data indicate that through the beginning of March, fed steer weights on average are up 32 pounds year over year and 26 pounds over the five-year average. This increase in supply reduced the price of marketable beef products; however demand appears strong, limiting the downside to prices.

The latest USDA Cattle on Feed Report shows February placements down 7.9% while cattle marketed were up 5.5%. The increase in cattle marketed has impacted the net feedlot placements through February and may tighten the fall fat cattle supply. The increase in cattle marketed may be attributed to the increased demand through retailers for home food products, which have increased an estimated 77% year over year as a result of COVID-19 panic buying. Increased retail demand has driven the price of the choice beef cutout to upwards of $243.03, 6.2% higher than this time last year. Cold beef storage is up 5% year over year, positioning suppliers well to keep pace with retail demand in the near term. While grocery retail demand has spiked in the last few weeks, the impact of the closure of food services including hotels, restaurants and institutions (HRI) is yet to be determined. HRI makes up 54% of food expenditures domestically, playing a key role in protein demand.
Northwest Situation
The first quarter of 2020 had improved weather conditions year over year reducing calving mortality rates and improving feedlot conditions throughout the Northwest. Producers will likely have increased calf numbers to market this summer and into the fall. Currently, due to COVID-19, depressed commodity markets have caused uncertainty for cattle prices.

Additional Information
Northwest FCS Business Management Center
www.northwestfcs.com/Resources/Industry-Insights

Business Insider
www.businessinsider.com

Capital Press (subscription is required)
www.capitalpress.com

CattleFax
www.cattlefax.com

CME Group
www.cmegroup.com

Drovers Cattle Network
https://www.drovers.com/

Livestock Marketing Information Center
http://lmic.info

National Weekly Cattle and Beef Summary

US Drought Portal
www.drought.gov

USDA Agricultural Marketing Service
www.ams.usda.gov

USDA Economic Research Service
www.ers.usda.gov

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