Blach: '2018 Should be a Profitable Year'

CattleFax CEO Randy Blach shares positive outlook, but encourages risk management.

by **KINDRA GORDON,**
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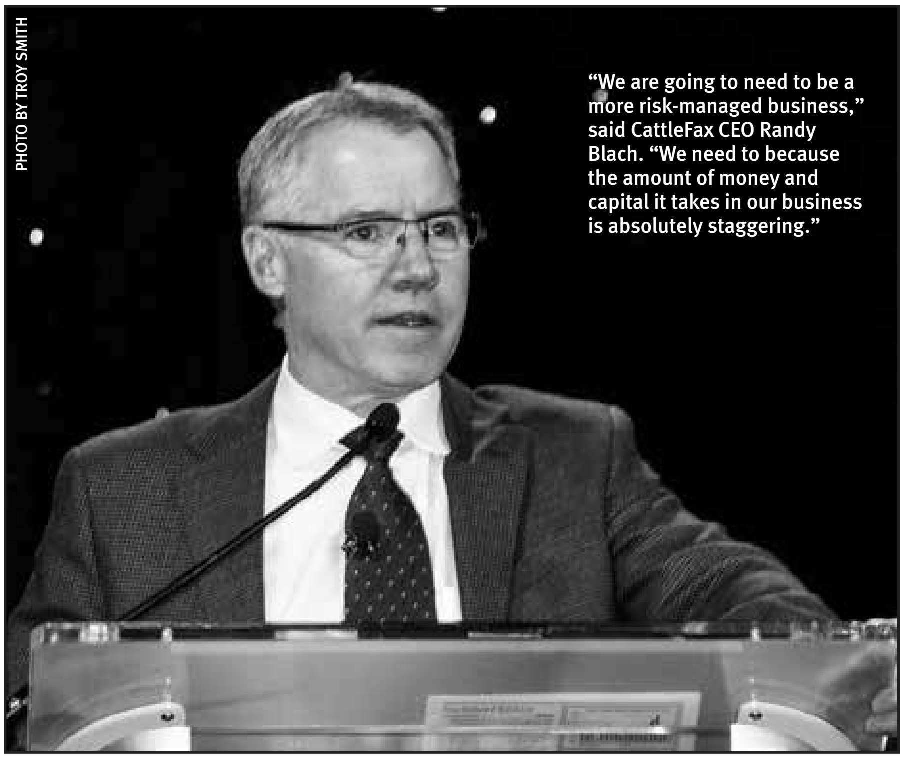
PHOTO BY TROY SMITH

"We are going to need to be a more risk-managed business," said CattleFax CEO Randy Blach. "We need to because the amount of money and capital it takes in our business is absolutely staggering."

CattleFax CEO Randy Blach provided a big-picture view of the cattle industry market outlook for those attending the 2018 Cattle Industry Convention & NCBA Trade Show in Phoenix, Ariz., Jan. 31-Feb. 2. Of the beef industry's current status, Blach reported, "2017 was the second best in history [for profitability]. Every sector made money through the chain. 2018 won't be as good, but it still should be a profitable year in total."

Cow-calf profits have averaged $165 per head from 1998 to 2018, Blach noted, sharing historical data. "If we can continue to grow demand domestically and globally, we'll be in good shape."

With that said, Blach encouraged producers to "remember where we came from." He pointed out that beef demand dropped 50% from 1980 to 1998. As a result of that declining consumer demand, cow-calf profitability during that two-decade period averaged $2.04 per head.

"Where would our industry be today had these issues [of declining demand] not been addressed?" he asked. Blach credited beef industry leadership with listening to consumers' requests for high-quality beef. As a result of delivering higher-quality product, he said, "We've seen demand pick up, and what we've experienced in the last 15-20 years is phenomenal."

What's coming?

Looking ahead to 2018, Blach said he and his CattleFax team are monitoring the record-large beef supplies in the United States — and the impact they could have in the marketplace. Blach shared that 2018 beef production will be the largest ever, and supplies will continue to build through 2020.

"When you add pork and poultry [supplies] to that, we'll have plenty of everything," he noted. Specifically, meat supplies are expected to top 102.2 billion pounds (lb.) in 2018. For comparison, supplies in 2016 were 96.4 billion lb.

Blach remains optimistic and said, "The global marketplace wants what we have. … Demand is going to have to be good because protein levels will continue to build." The current tax bill, as well as global growth in the GDP and global markets, should help fuel meat demand, said Blach. "These are promising because more jingle in people's pockets helps to pay for our product."

In addition to consumer demand, trade access will also be critical, Blach emphasized. "We do have to have a level playing field, and we do have to have access. … We have to see these export markets continue to grow. We will need to see record exports to keep supplies from overwhelming the market."

He also shared, "If we didn't trade, we would need to consume 40 more pounds of protein per person [in the United States]. That's why we need trade."

Manage risk

Going forward, Blach encouraged those in the industry to recognize the volatility in the market and seek risk-management strategies to combat it. He shared that the range in prices from high to low over the last three years was about $40 per hundredweight (cwt.), or $550 per head, with swings of $14 to $18 in two- to three-week periods not uncommon.

"We think this volatility is going to continue," he said. "These equity swings have been unprecedented and the reason risk-management activity has increased."

Blach added, "We are going to need to be a more risk-managed business. … We need to because the amount of money and capital it takes in our business is absolutely staggering."

On the horizon, Blach suggested issues the industry must continue to monitor that could affect the market include harvest capacity bottlenecks, increasing offerings of plant- and insect-based proteins, and livestock traceability. Of this last item, Blach noted, "Traceability will be important if we want to have access. Our industry needs to address this. We don't want to let it get away."

In closing, Blach reminded producers of this sentiment: The speed of change will never be slower than it is today. "That's spot on," he said, but added, "There will be opportunities galore as the market differentiates."

CattleFax, which marked its 50th anniversary in 2018, is currently collecting data for a cow-calf survey from producers across the country. Access the survey link at *http://bit.ly/2Ef2eYI.*

Editor's Note: *Kindra Gordon is a freelance writer and cattlewoman from Whitewood, S.D. This article was written as part of Angus Media's coverage of the 2018 Cattle Industry Convention in Phoenix, Ariz., Jan. 31-Feb. 2. See additional coverage in future issues of the* Angus Journal *and the* Angus Beef Bulletin *and online at* www.angus.org.

Economy, Energy & Grain

Growing economy provides opportunity for ag sector.

Story & photo by **KASEY BROWN,**
special projects editor

Due to more money coming back into the United States from large companies, the new tax reform is projected to provide an average $900 benefit to the middle class. This good news was shared by CattleFax analyst Mike Murphy at the CattleFax U.S. & Global Protein & Grain Outlook Seminar at the 2018 Cattle Industry Convention & NCBA Trade Show in Phoenix, Ariz.

Murphy shared that the U.S. economy is rebounding, with the unemployment projected to be historically low for 2018, between 4% and 4.5%, and the GDP is projected to grow between 2.5% and 4%. He attributed business investments and personal spending to cause about 85% of this GDP rate.

"We are on the right track with economic growth," Murphy said, though he questioned how the Federal Reserve will respond to the potential of greater inflation. He shared that interest rates will likely increase three or four times this year with the potential of increasing by a full point total. However, inflation does not have a negative effect on retail beef values.

Retail prices have stabilized from the 2014 peaks, and should keep steady dollars entering the beef industry.

The prices of oil are stabilizing,

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with a slight increase projected, Murphy observed. The Organization of Petroleum Exporting Countries (OPEC) cut production in the second half of 2017, and that played a part in the stabilization.

Seven countries produce about half of the world's oil, and the United States is one of them, he noted. U.S. crude oil production is nearly record high at 12% of the global production, and petroleum product exports are driving U.S. energy demand growth.

Retail gasoline prices are expected to trade from $2.48 to $3.27 per gallon and average $2.88, up from last year's average of $2.53, Murphy shared. Retail diesel is expected to trade from $2.60 to $3.48 per gallon and average $3.04, up from $2.64 last year.

The United States continues to be a smaller player in the global share of corn production, and Murphy projected that to continue for the next five to 10 years. The grain supply has stabilized in recent

"Expect spot corn futures prices between $3.25 to $3.95 per bushel as supplies remain adequate."

— Mike Murphy

years and he projected the stocks-to-use ratio at 17.1%, allowing it might end up closer to 15%-16%.

"However, with 8% more cattle on feed, we will likely see feed usage increase by about 100 million bushels," Murphy noted.

He did not predict that corn yields, acres or demand would change significantly in the 2018-2019 market year.

CattleFax's Mike Murphy warned that managed money trading funds have a large short position, meaning increased volatility and upside price risk if these positions are liquidated.

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Murphy warned that managed money trading funds have a large short position, meaning increased volatility and upside price risk if these positions are liquidated.

Hay stocks are the tightest they've been since 1976, and the 2017 acreage was also the smallest on record, Murphy reported. With more livestock to feed, he suggested expecting 2018 hay prices to increase by $10 to $15 per ton, which could of course be affected by weather-related price risk, as well.

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