Market Potential

China, India key to cattle market prospects.

by Nicole Lane Erceg, Certified Angus Beef LLC

The one thing certain in commodity markets is ambiguity. Ag Resource Co. President Dan Basse, however, provided a bit of clarity and foresight at the *Certified Angus Beef*® (CAB®) brand's Feeding Quality Forum in late August in Sioux City, Iowa.

In a chaotic political climate that leaves much up in the air for trade policy, Basse offered comfort.

"We believe the markets are going to endure heightened financial risk and volatility, even our cattle markets," he said. "When you think about demand for agricultural products globally, the world economic situation looks relatively good."

The coming months hold concerns, though, because unlike the stock market, commodities have seen little or no upswing. Basse suggested what to monitor.

Eye on the horizon

There are two key ways he said agriculture could see a bull market again: a trade deal with China or a 20% value drop in the U.S. dollar. Neither look likely in the near future.

A longer-term opportunity, Basse noted, is Chinese and Indian demand for better food going into 2026, along with increased buying power. China alone is forecast to add more than 150 million households with annual incomes greater than $20,000.

"If you want to solve America's agricultural woes, you want to focus on both of those countries," he told the crowd. "Accordingly, Gregg Doud (chief agricultural negotiator for the U.S. Trade Representative Office) is looking at China and India being the two linchpins of U.S. agricultural policy going forward."

The challenges? India taxes nearly all imported commodities, and the Chinese aren't rushing to the negotiating table. Basse explained that the Trump administration has applied tariffs to ag commodities and other products (with more set to go soon) to pressure the Chinese to negotiate intellectual property disputes. The tactics have yet to cause much Chinese angst because the country holds 50% of the world's wheat stocks.

Another reason China feels little pressure to strike a deal has to do with U.S. farm debt, currently approaching the 1980s record. Net farm income has dropped 50% since 2012 and is projected to remain flat, so the Chinese know U.S. farmers need foreign customers. Basse said he worries about banks, particularly smaller institutions, running out of opportunity capital. In fact, combined with rising interest rates, bankers may soon charge more for loans already outstanding.

"What I call this is not so much debt going up, but an operational crisis," Basse said.

The most highly leveraged industries will be the most at risk should the "trade purgatory" continue, he warned. The silver lining for beef producers is they are less leveraged than poultry, cotton, dairy and pork producers.

When it comes to corn, Basse is no bear.

"There may be another dime or 15¢ down, but if I were you, I'd be thinking about taking coverage, probably into the first or second quarter of next year."

As the Southern Hemisphere's corn stocks decline, combined with the drought across Europe and the Black Sea, the United States is expected to be the residual supplier.

"I'm looking for U.S. corn exports this year to be record large, 2.6 billion bushels (200 million above USDA's estimate). U.S. cattlemen need to get ahead of this a little bit," Basse said, "not caught up in the tailwind when U.S. farmers get the harvest in and you're competing with the export demand."

Ag Resource Co. President Dan Basse says positive market outlooks depend upon Chinese demand. He does not see domestic growth increasing enough for market growth in 7 to 10 years.

Beef potential

Beef producers need their own export deal with China if they hope to take the market's bull by the horns.

"Beef demand has been good, export demand has been outstanding, but I really need the Trump administration to lock down this Chinese demand," Basse said. "If we don't have that Chinese demand, I can't really sustain the bull market in agriculture as we see it today."

He drove the point home: "It's so important that the Trump administration get a trade deal with China because, without it, I don't have growth for our balance sheets as USDA would forecast for another 7 to 10 years."

That's not to say domestic demand is poor.

"If you look at beef by itself, you can see we're at our best level this year in terms of per-capita consumption, going back to 2008," he said, noting expanding demand.

Record sales like those for the CAB brand during the last 11 consecutive years say domestic consumers want premium beef, but opportunities for extreme expansion lie beyond U.S. borders. In fiscal year 2017, the brand sold 1.14 billion pounds, with international markets representing more than 30% of year-over-year growth.

U.S. beef demand will remain strong to close out 2018, Basse said, modifying "how far the futures or cash markets drop." He sees cash cattle moving from $114 to $118 for a third-quarter high to a low of $102 to $104 in the fourth quarter.

"You all in the market need to be paying very close attention to these opportunities for hedging going forward," he said.

He predicted fed-cattle harvest to drop dramatically into October, driving the cash market to perhaps $120 per hundredweight by the first week of November. Packer margins as high as $360 per head earlier in 2018 drove at-capacity harvest much of the year, moving cattle through the system and creating record beef stocks through July's end. Even with world meat production at a record high, Basse sees U.S. cattle herd expansion continuing into 2019, although prices will peak early in the year.

For more information on the meeting proceedings, visit *www.feedingqualityforum.com*.

Editor's note: Nicole Lane Erceg is a producer communications specialist for Certified Angus Beef LLC.