2012 CattleFax Outlook

The business has changed; be prepared, say CattleFax analysts.

"It's a great time to be in ag, but you must adapt to a global market environment," CattleFax's Randy Blach told Cattle Industry Convention attendees Feb. 3 in Nashville, Tenn. The Annual CattleFax Outlook Seminar highlighted the market factors that are setting the stage for beef supply and demand and prices in 2012 and beyond.

Blach underscored how much the cattle business — and the global population — have been changing in the last few decades. Despite decreasing per capita beef consumption domestically, he noted that U.S. beef exports have been setting records for growth and helping fuel global beef demand and the current high market prices for beef cattle.

He pointed to the statistic that by the year 2050, the world's population will be 9 billion people, and asked, "Who's going to feed them?"

Referring to this population growth, Blach stated, "You see the opportunity. We're going to have to get better and have more productivity."

Blach stated, "This is not a short-term phenomenon. If you think it will be less of a global market in the future, you're sorely mistaken. It's a different business. It doesn't look anything like it did 10 years ago, and in five years it won't look anything like it does today."

Looking ahead, Blach made the following points that will be crucial to the U.S. beef industry:

- We have to continue to grow international markets for U.S. beef and have access.
- We have to get used to higher costs all the way through the system.
- We have to adjust to volatile markets.

"All markets are more global in nature," Blach said. "As trade grows, market participants around the globe will rely on futures and options markets to manage risk. We need viable risk-management tools."

He re-emphasized that it's not the same business it was 10 years ago, and pointed out that weekly price changes can be as much as $50 per head when the volatility in cattle and corn markets is combined. As well, he reported, it takes 60% more capital to operate in 2012 than in 2009.

"Things have changed greatly. You can't put all your eggs in the spot market due to volatility," he said to cattle producers and feeders. Already, he shared, 65% of beef is selling in different avenues than the spot market due to the volatility.

PHOTOS BY KASEY MILLER

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While managing volatility is a challenge, Blach said he anticipates the price outlook to be favorable for the beef industry. Feeder price projections for the year ahead are in the range of $157-$161 per hundredweight (cwt.). Fed cattle are anticipated to be $130-$134 per cwt.

Regarding the high market, Blach said, "Will a $200- to $400-per-head profit incentive be enough to start expansion? Is this economic signal going to be strong enough? Yes, we will grow this herd in the next several years. Don't second-guess the market."

But he also cautioned: "Don't get caught in the euphoria. These are dangerous times. These markets all have corrections, and this one is no different. Be mindful of the risks at hand."

"I encourage you to become more of a risk manager. Make that leap. We (CattleFax) can help. Manage for a margin; don't guess the markets," he concluded.

— by Kindra Gordon

How cattle numbers affect market outlook

Kevin Good is optimistic about cattle prices for 2012. The market analyst talked about cattle numbers, meat production and price-influencing trends during the CattleFax Outlook Seminar. Good predicted a transition to gradual expansion of the U.S. cow herd, bringing an end to the long-lasting liquidation phase.

The beef cow count continued its decline in 2011, dropping a million head. However, Good said liquidation is slowing and numbers should stabilize. This year, cow slaughter is expected to decline by 600,000 head. It should decline further in 2013. Heifer retention has modestly increased among Northern Plains producers, and Good said he expects a more generalized trend in 2012 and 2013.

"Cattle-on-feed numbers are up, driven by early placement of Southern Plains calves, but we foresee lower placements ahead," reported Good.

In 2012, CattleFax looks for steer and heifer slaughter to be down 1.5% (around 400,000 head) due to

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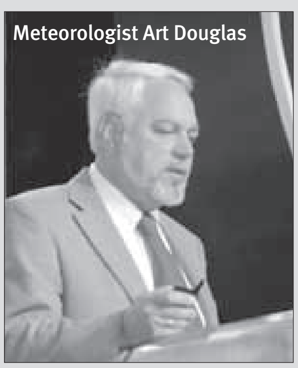
CattleFax meteorologist foresees return of El Niño

For many cattle producers who regularly attend the annual Cattle Industry Convention, the CattleFax Outlook Seminar is a must-see event. At this year's convention in Nashville, Tenn., CattleFax market analysts once again discussed factors affecting cattle and beef markets, including the weather. Veteran meteorologist Art Douglas offered a forecast based on the likely return of El Niño, which is characterized by unusually warm water temperatures in the equatorial Pacific.



Meteorologist Art Douglas

According to Douglas, world weather patterns seem to be shifting away from La Niña (below-normal Pacific temperatures), and the warming of waters off the coasts of Peru and Ecuador have been detected. Other signs associated with the arrival of El Niño include the return of moisture to parts of Texas and drier conditions in Australia. The National Oceanic and Atmospheric Administration (NOAA), the European Center Model and other agencies are predicting continued Pacific warming.

"Nearly all indicators make 2012 fit the historic model for El Niño start-up and we could see some impact on spring and summer weather conditions," said Douglas. "El Niño seldom cures drought in all of Texas, and southern areas may remain dry. I expect good or at least adequate moisture in most of the U.S., otherwise."

If El Niño strengthens, Douglas expects California to have a dry spring, but he expects cool and wet conditions in the Midwest. Weather patterns may mimic those seen in 2004 and 2009, with potential for delayed corn planting and some market anxiety. The summer could be cool and wet in much of the United States, except southern regions. Fall and winter may bring moisture across the South and Southwest, with drier conditions in the Pacific Northwest and Northern Plains.

— by Troy Smith

a smaller calf crop and the start of heifer retention. Beef production in 2011 was about even with the previous year, but 2012 production is projected to be down 1.5% due to reduced total cattle slaughter. Cattle are being fed to heavier weights, and Good said he expects 2012 carcass weights to increase by 11 pounds (lb.), on average. The increase is not expected to offset the effect of lower slaughter numbers.

According to Good, 550-lb. steer calf prices should average $175 per cwt. in 2012. That's 15%-18% higher than last year's average. Yearling (750-lb.) steers are expected to trade at $150, or 15% over the 2011 average. Fed-cattle prices should average $122. The price spread between Choice and Select carcasses is predicted to remain wider than during the last few years.

"High calf prices should more than offset higher input costs, so the outlook is very positive for cow-calf producers," said Good.

However, he said stocker operator margins may be squeezed by those high calf prices and increased pasture costs. He said he expects feedlot margins to be negative for the year, making risk management a necessity.

According to Good, smaller calf crops, reduced cow slaughter and increased heifer retention will result in significantly fewer cattle to place on feed and fewer fed cattle to process. This may force the beef industry to deal with the issues of excess feeding and packing capacity.

— by Troy Smith

Grain and energy outlook

As with the markets in almost every sector, there is continued volatility in the grain and energy markets, Mike Murphy of CattleFax told audience members at the CattleFax Outlook session. With higher demand for corn because of ethanol production, corn prices have skyrocketed, and supply levels can't seem to keep up, especially with low stocks-to-use levels.

The 2011-2012 corn carryover is expected to stay historically low, which means that a record corn crop in 2012 is needed. Murphy said that 2012-2013 stocks-to-use levels have the potential to climb above the historically low levels from the past 12 months, potentially rising to the 8%-11% range.

"For the first half of 2012, spot corn futures prices are expected to remain historically high amid low stocks-to-use levels," Murphy said, "meeting resistance from $6.50 to $6.75 a bushel and finding support from $5.50 to $5.75."

Soybeans and wheat commodities are intertwined, said Murphy, and there is a slight relief in price. Comfortable supplies have dropped price levels in both crops, driving more producers to switch to corn production. Murphy projected that in 2012, U.S. corn production would use 93.9 million acres, up from 91.9 in 2011; soybean production would drop from 75 to 74.5 million acres; and wheat would increase from 54.4 to 57.2 million acres.

"We will see more wheat being fed, which should stabilize the corn supply," Murphy predicted.

Corn used for ethanol production is supported by growing exports, though E15 hasn't hit the marketplace. Of the principal corn-exporting countries, the United States is projected to have 44% of the global exports of corn in the 2011-2012 marketing year. Historically, the United States is responsible for 52%-63%. Argentina follows in exports with 19%, Ukraine with 13%, Brazil with 9% and other countries at 15%. Argentina and Ukraine have both had record-large corn crops, which will support record-large global exports.

He said that global oil demand is expected to be at record levels in 2012, despite waning U.S. demand. However, fuel markets are more global, making the United States a smaller piece of the global economy. This means that our high fuel exports have offset declining domestic prices and will lead to seasonally high and rising gasoline prices.

Murphy asserted that ethanol is finding a home in global energy markets. Ethanol will use an estimated 5.2 billion bushels of

(Continued on page 80)

2012 CattleFax Outlook *(from page 79)*

U.S. corn in 2012, and almost 300 million bushels will be used in ethanol exports.

— by Kasey Miller

Outlook for global trade

Declining global beef supply and increasing global beef demand means that rising global prices will continue their upward trend, Brett Stewart told the CattleFax Outlook audience. U.S. beef exports were at a record high in 2011, at 2.83 billion lb., resulting in $4.7 billion, plus $694 million in variety meat exports and $1.5 billion in hides.

Markets have shown that diversifying with export markets adds $261 in value to the price of market heifers and steers, Stewart said. Many are cautious about how dependent the beef industry should be on export markets, but dependence has lessened on the domestic market, so Stewart said that the risk is worth it right now.

Currency is a major issue with export markets, especially with large fluctuations in the Euro. He mentioned that the U.S. dollar index is at 65%, and a good deal of it is weighted in the Euro currency.

Global beef prices will continue to rise, Stewart said. In 2011, they were 17% higher than 2010 and 57% higher than the 10-year average. Factoring into that increase is the fact that global beef production is shrinking, down 3.4 million tons, while demand is rising, with global population up 300 million. Stewart said that prices should be high and stable in 2012.

Brazil is increasing its cow herd, while the U.S. national herd is declining, Stewart said. Argentina and Australia are increasing, but have been pretty stable, by and large. Brazil's per capita income is rising, so Brazilians are eating more beef domestically, which puts pressure on their export numbers.

Exports to Asia have the most growth potential, Stewart said, because they have limited resources, rising incomes and are in a beef deficit. Brazil doesn't compete in Asia, instead targeting Russia, the European Union (EU) and the Middle East. With Brazil consuming more beef domestically, this allows for U.S. growth in Brazilian markets.

Other export markets have also grown, partly due to the United States' case of bovine spongiform encephalopathy (BSE) in 2003. In the early 2000s, the biggest U.S. markets were in Japan, Mexico, Canada and South Korea. Japan was substantially the largest importer, but after the BSE case, that market drastically declined.

"BSE helped develop other markets by necessity," Stewart says. Now that Japan is back on board, U.S. export markets are in even better shape.

Stewart concluded with several key points:

- Global supplies remain tight, so price inflation will increase and remain high in 2012.
- CatttleFax expects that Japan will relax beef access sometime in the second quarter, which will be worth $50 a head in added value to U.S. cattle.
- U.S. exports are expanding into lesser markets, which will add stability.
- Expect more growth into Brazilian markets (Russia, the EU and the Middle East) and continued growth in Asia.
- There will be strong export growth and slight import growth in 2012, exporting more than 300 billion lb. and importing just more than 2 billion lb.

— by Kasey Miller

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