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Issues for Cattle and Beef Markets
-by-
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(Grand Junction, Colorado) We have been inundated with communications regarding CORVID-19 and there is no need to repeat that important information here. This is not to make light of the human condition. Or to detract from our self-government and our chosen associations' messaging. The purpose tasked here are to outline economic issues as to the event and its impact on cattle and beef markets. The current situation and potential future outcomes will be discussed based reasonably-known supply and less-known demand factors. The prospective macroeconomic issues that will impact our economy will also be discussed.

Protein markets had concerns prior to the human health event. First quarter beef production was going to be large with increased animal numbers and substantially increased carcass weights. The remainder of 2020 was forecast to be improved relative to 2019 and relative to the first quarter with some lessening of both. Pork market prospects were clearer. Pork production was forecast to be substantially higher all year. Producers appeared to have planned on the opportunity to export to foreign markets because of widespread African Swine Fever in world hog herds. Chicken production was likewise set for continued modest expansion. Finally, milk production was forecast to be higher and with that higher cheese, power, and butterfat stocks. Protein production within the U.S. was set to be abundant with beef being the only sector with potentially lighter supplies later in the year. This scenario required a strong domestic economy and strong trade opportunities to prevent a worsening agricultural economic environment.

The escalation of the worldwide health event from China, throughout Asia, into Europe, and now into the U.S. put any recent strength to the demand side at risk. Further, worldwide macroeconomic fundamentals have clearly been, for the past year, pointing to slower overall economic growth. Large developed economies were posting slower growth and the worldwide federal banking organizations were forecasting continued slow growth. Developing economies were also posting slower growth and forecasts were for continued slowly growth. Not problematic growth but certainly slower than recent. And the trade wars have not helped this prospect. The variety of new trade agreements are good, but the trade has not materialized or is just doing so now.

The current fed cattle, feeder cattle, and beef markets have this supply and demand picture as a backdrop, but to me, the market is currently pricing one thing: What is the risk of one, two, or more beefpacking plants closing?" The cause of the closure is irrelevant to the market – not to the people impacted. We know what this looks like in part due to the plant closure in the latter part of 2019. Then and now, beef cut prices have spiked higher. Supply chains are looking for product to secure supplies and refill flows emptied by stocking-up buying. Making this worse is that grocery supply chains have simply become very lean to remove costs associated with storage and pre-purchased product. The underlying fundamentals have not changed but the product placement and buffer stocks have. Fed cattle prices have spiked lower with the visible futures complex moving down sharply. Any industry participant owning cattle and have price risk exposure wanted that risk completely mitigated. This behavior is made worse by leverage. Cash selling was aggressive – tomorrow might be worse so take the bid today. Cattle market participants showed no doubt: get as much as possible sold. And the feeder cattle followed the fed cattle in this down move. Optimism is limited so feeder cattle prices are and will not be good. Supply and demand, and the aggressive adjustment of risk portfolios appears to explain a lot of what we are observing.

What about the longer-term? Some revision of expectations is needed. Markets, prices and opportunities for the remainder of the year will not be good as we thought at the beginning of the year. The supply situation is not changed, demand improvement from trade prospects are unlikely in the intermediate-term, and domestic demand will be impacted by lower overall income and increased economic uncertainty. Again, some revision of expectations is needed.

The macroeconomic picture is not as clear and the commodity market picture. However, like the commodity market picture, the shorter-term dynamics are reasonably straightforward. But where the U.S. and other important global economies are situated after this event is much less so. We will have a much better assessment one we see the course of the disease progression, can observe some of the extent of the resulting impact on human life and health, and observe the impacts and repercussions through the economy. Right now, the asset markets in our economy appear to be pricing worse-case-scenario and securing cash reserves. All asset markets are off sharply through the last portion of the quarter: stocks, bonds, metals, energies, almost everything and with varying degrees of double-digit declines. Energy products appear to have been hit the hardest. Again, what happening in our assets markets says that everyone is looking to hold cash.

The U.S. domestic economy is comprised of four things: consumer spending, business investment, government spending net of tax revenue, and exports net of imports. Business investment has been weak and is unlikely to grow, net exports have not grown and are unlikely to do so this year, government spending – stimulus package aside – has been politically unpalatable, so that leaves the consumer. Consumer spending has been the driving strength in the U.S. economy, for all practical purposes, since the Great Recession. That spending will do a reset this year and the extent will be driven by the how the health event plays out. We need to remember that every dollar spent by consumers is spent again by downstream consumers at least three and almost four times over. The growth in unemployment is unfolding and its impact on national income is yet to be determined. And again, we need some revision of our expectations for the U.S. and world economies.

Finally, it is important to not have cattle-market tunnel vision. The commodity complex and almost all asset markets have made substantial moves down. The U.S. and world economies are resetting to lower levels and more modest expectations. There are a lot of industries that have a long uncertain year ahead of them. What's happening to cattle is not unique and certainly not the worst.

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