

# Beef Cattle Market Outlook and Strategies

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# Thoughts on Market

- Hard to justify summer slip in the market
- Market fundamentals
  - Flooding issues / slowing gains – overreaction, ASF, stable cow numbers, solid macroeconomy, trade issues, corn crop, non-meat competition
- I expect futures to have support here
  - Famous last words?

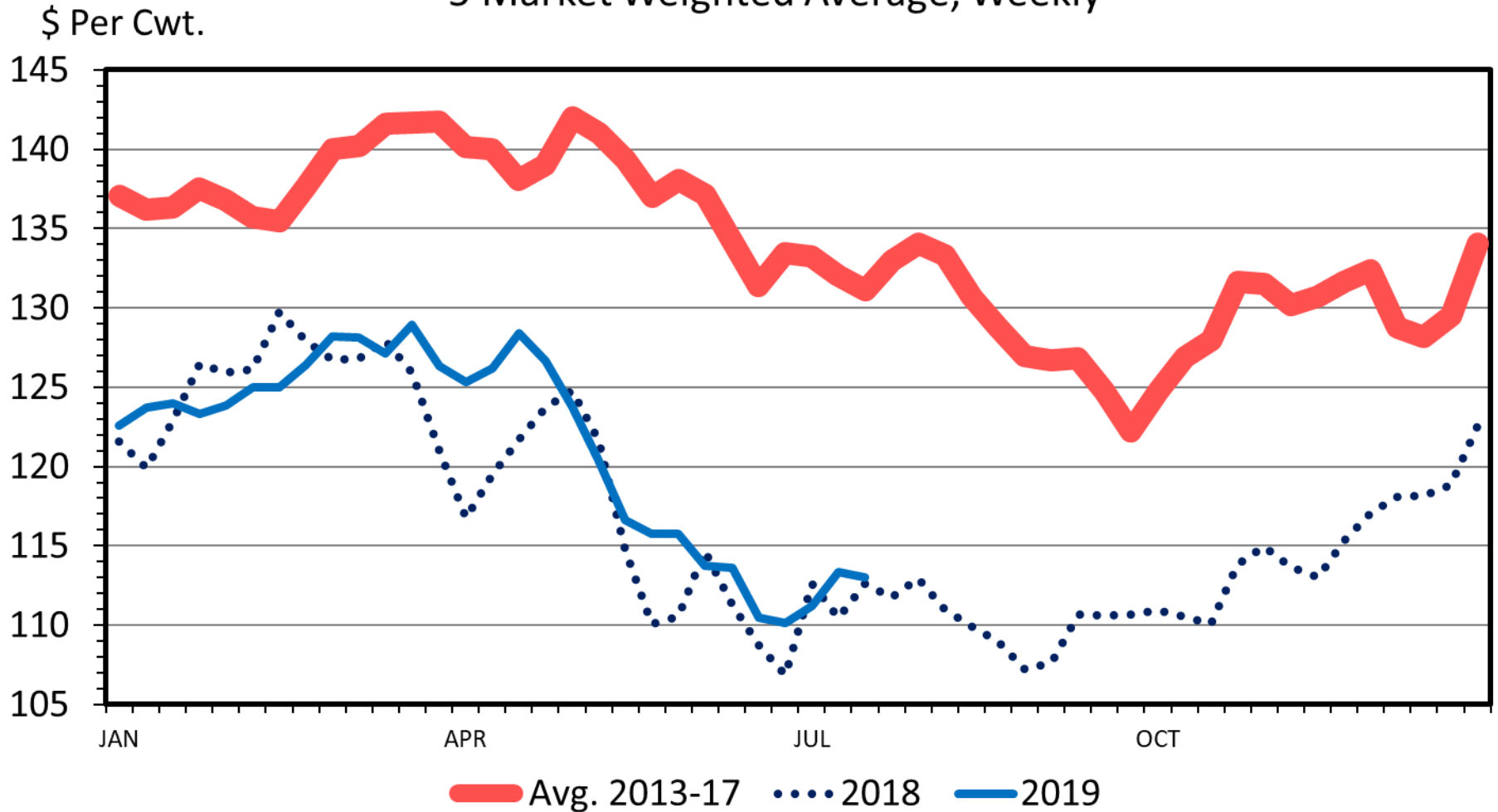


# Nearby CME® Feeder Cattle Futures



# SLAUGHTER STEER PRICES

## 5 Market Weighted Average, Weekly



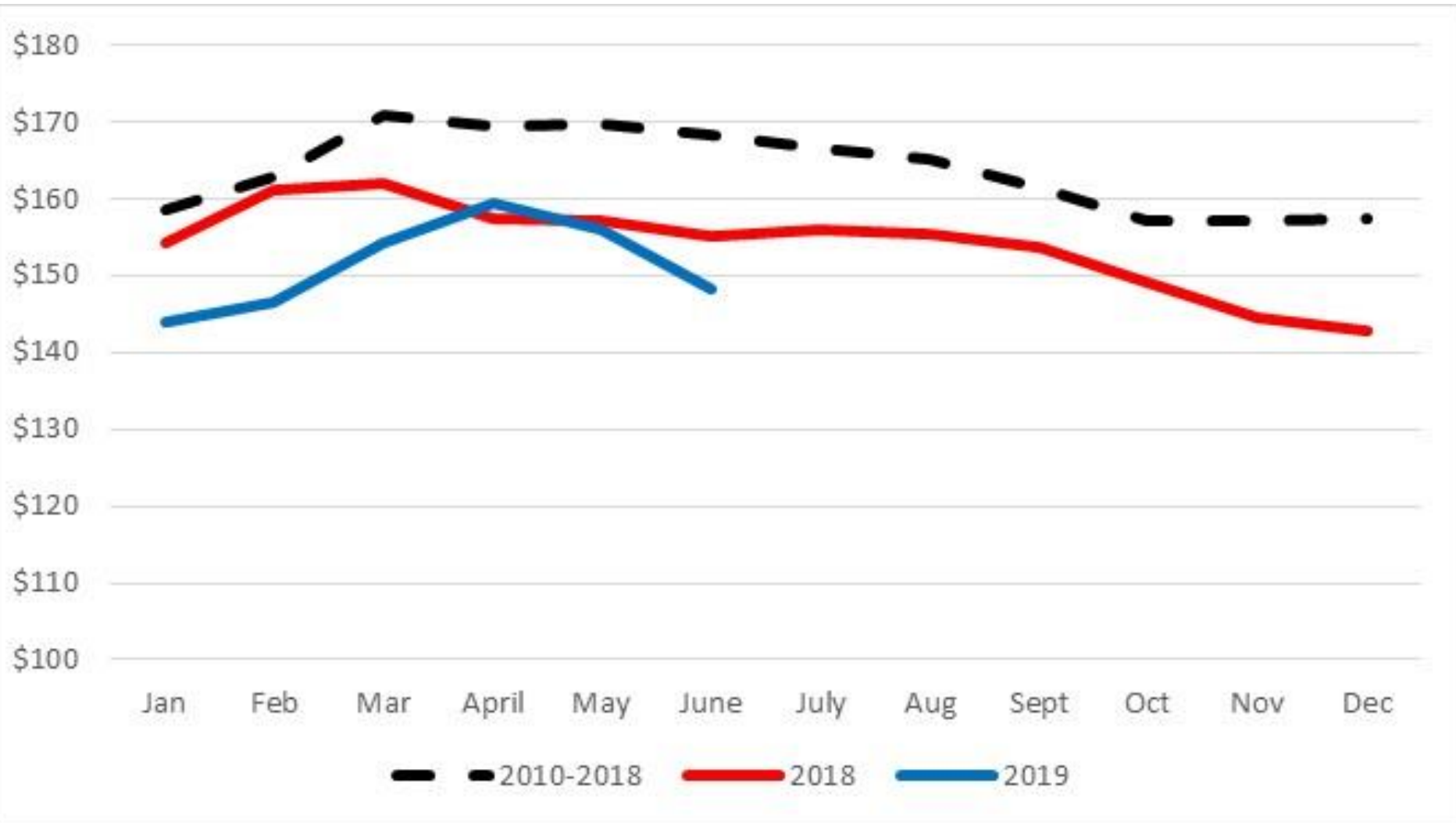
Data Source: USDA-AMS

Livestock Marketing Information Center

07/25/19

# KY Feeder Steers M/L #1-2

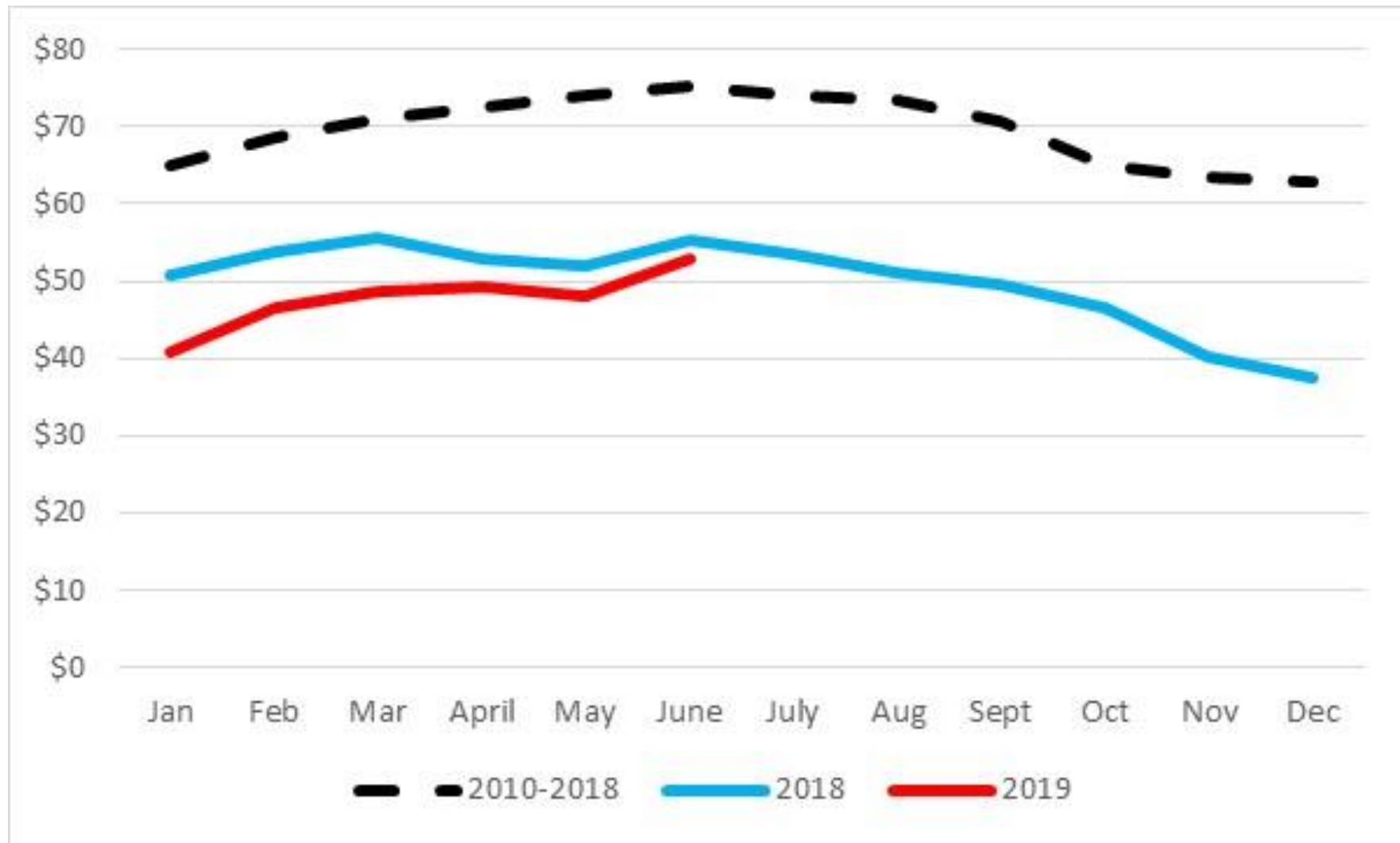
## 550# Steers (\$ per cwt)



Source: USDA-AMS, LMIC, and author calculations

# KY Cull Cow Prices

## Boning 80-85% (\$ per cwt)



Source: USDA-AMS, LMIC, and author calculations





# US Beef Exports to Selected Countries (2017 vs 2018)

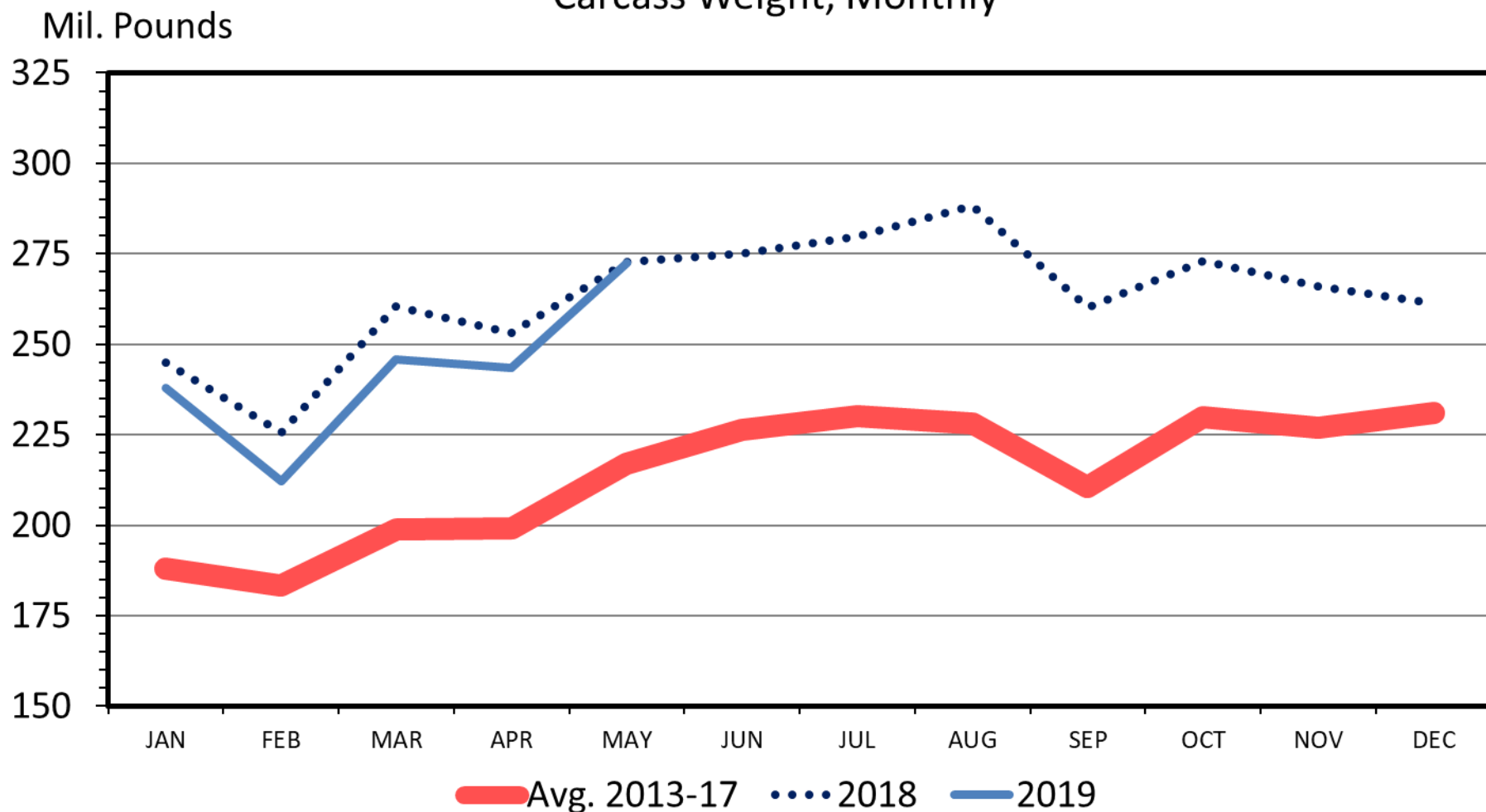
	<b>2017 (1,000 lbs)</b>	<b>2018 (1,000 lbs)</b>	<b>Change from 17' to 18'</b>	<b>% of US Beef Production</b>
Japan	826,004	880,665	+ 7%	3.3%
South Korea	472,729	638,186	+35%	2.4%
Mexico	419,349	448,796	+7%	1.7%
Hong Kong	335,705	307,270	-1%	1.1%
Canada	309,138	299,880	-3%	1.1%
Total Exports (includes others)	2,859,687	3,155,370	+10%	11.7%

Source: USDA-ERS, Livestock Marketing Information Center, and author calculations



# US BEEF AND VEAL EXPORTS

Carcass Weight, Monthly



Data Source: USDA-ERS & USDA-FAS

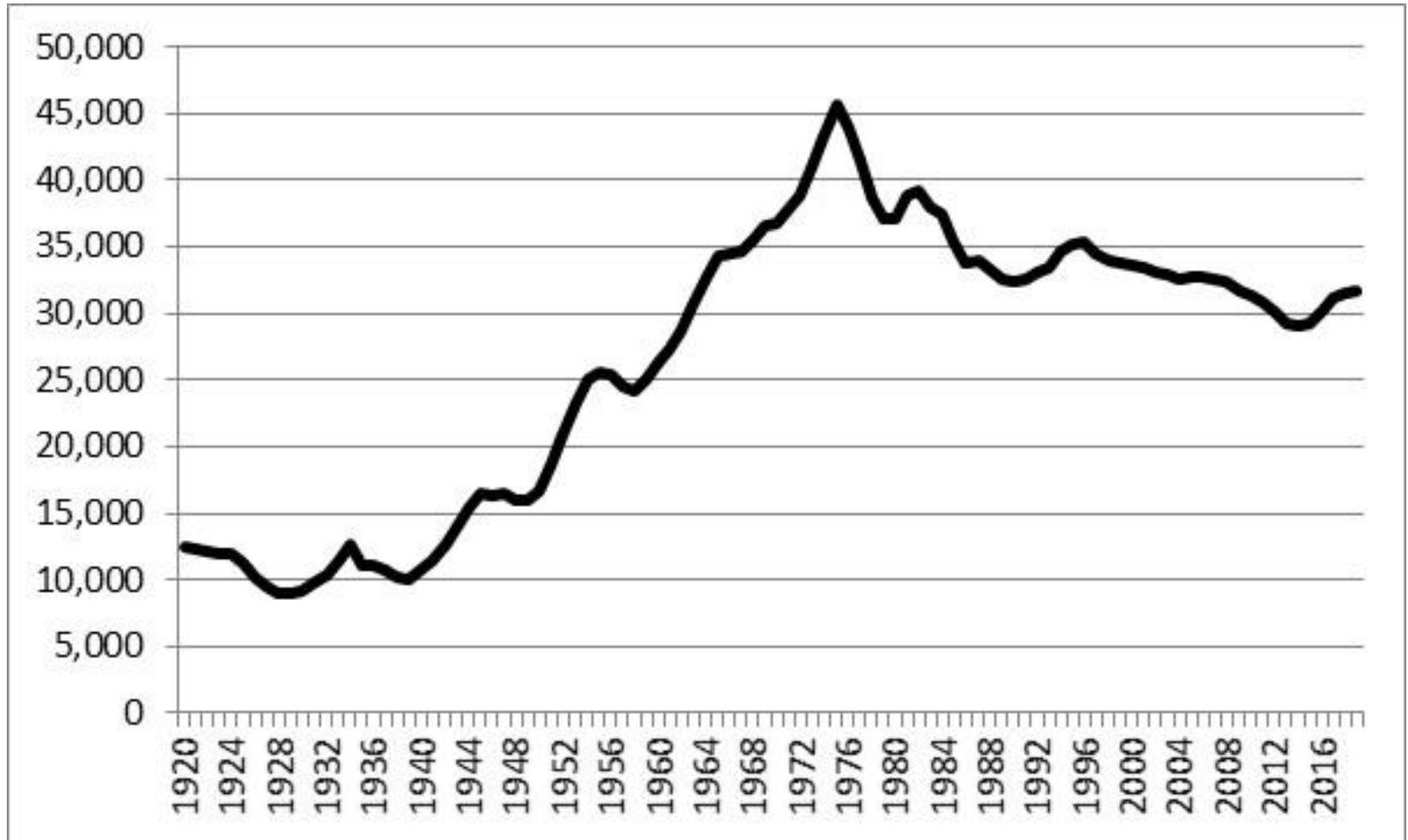
Livestock Marketing Information Center



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# US Beef Cow Inventory

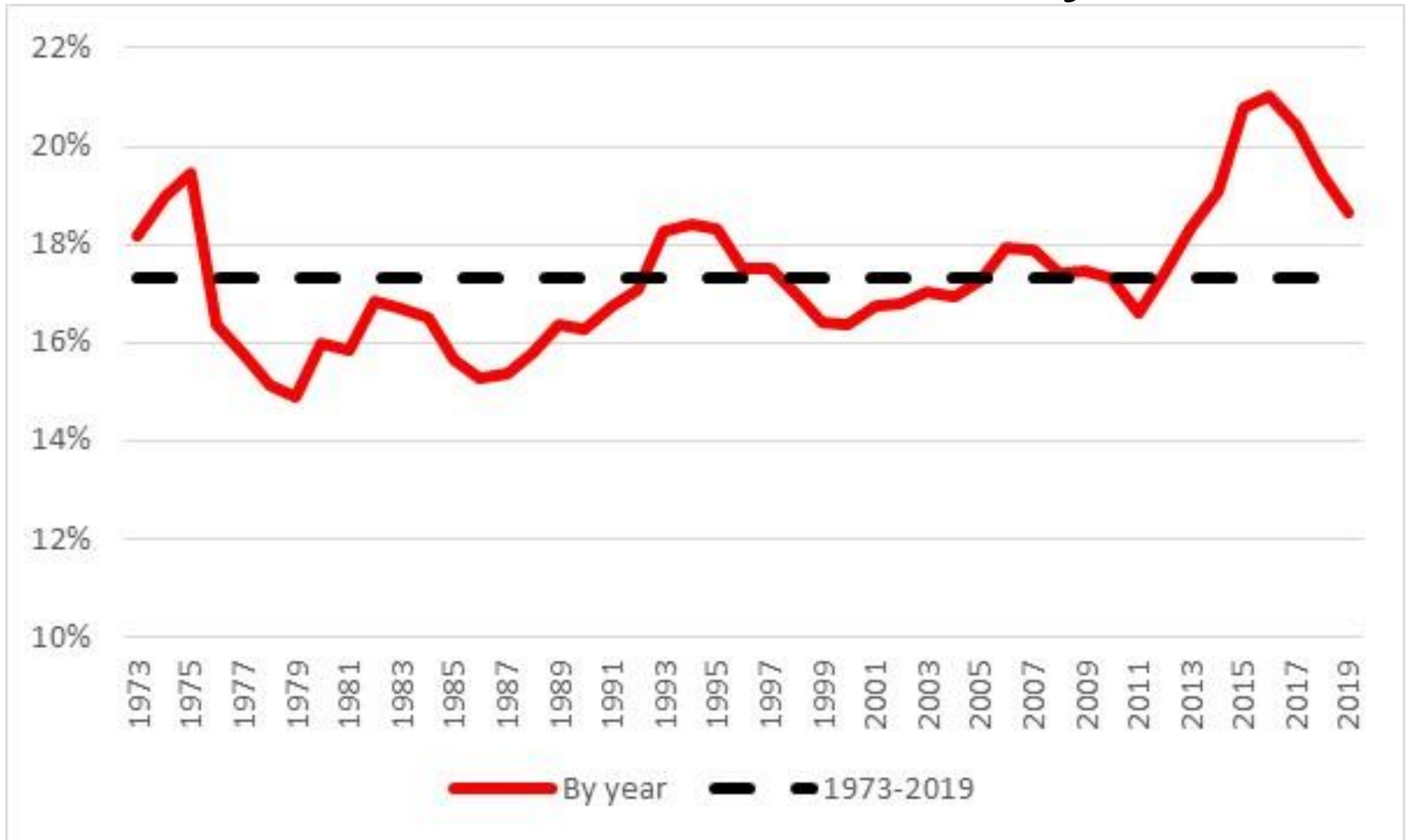
## 1920 to 2019



Data Source: USDA-NASS

Livestock Marketing Information Center

# Jan Heifer Retention as % of Beef Cow Inventory



# Kenny's Fall Planning Prices

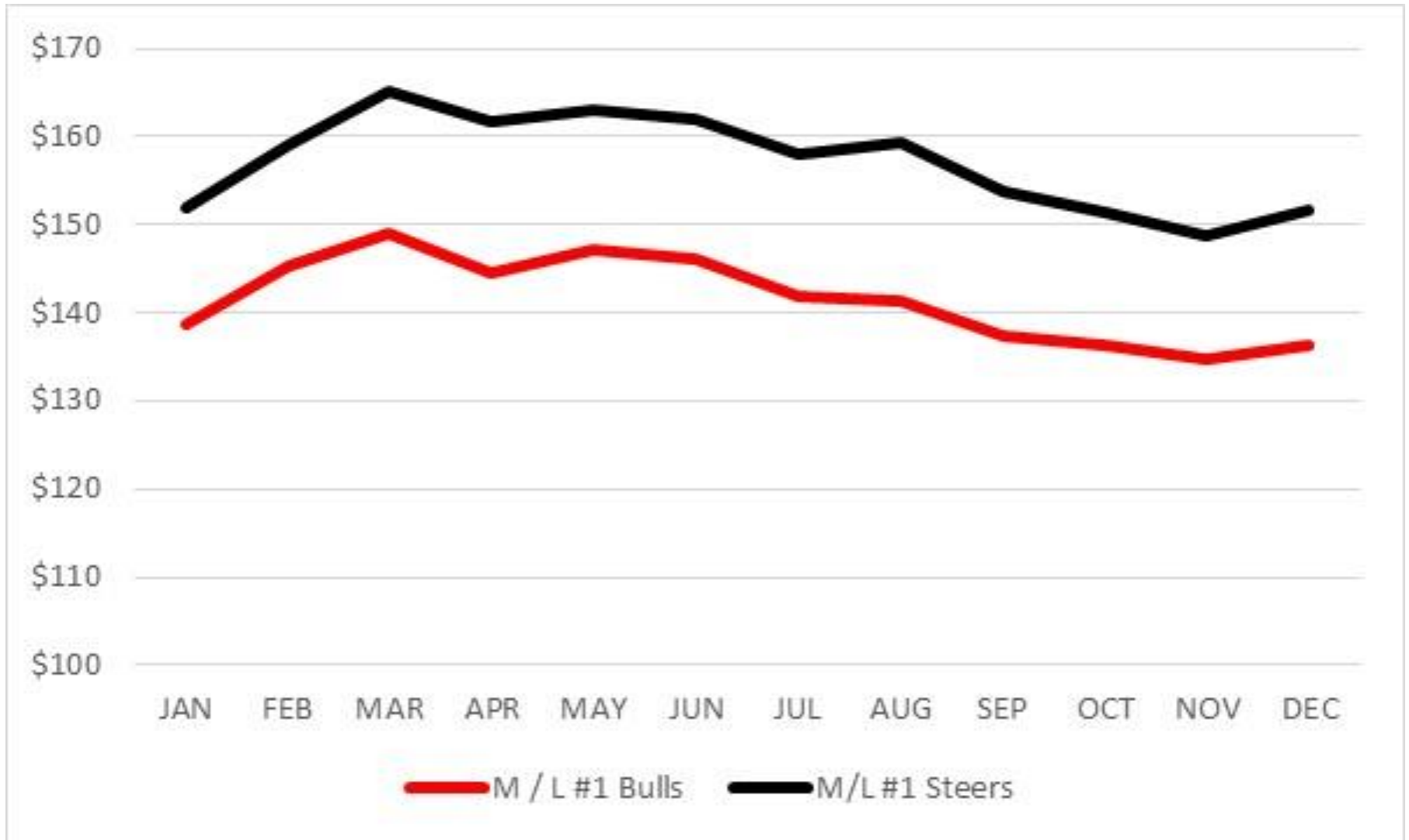
- Can't justify current calf prices with spring board around \$140
  - But, I do think futures are oversold
- I like 550 lb steers in upper \$130's to \$140 by fall, into the \$150's by summer
- 850 lb steer likely low-mid \$130's by fall

# Cow-calf Considerations





# Steers vs. Bulls at VA Auctions (2009 to 2018)



# Steers vs. Bulls

- 550# steers outsold 550# bulls by \$15.62 per cwt over last 10 years
- This is \$85.91 per head
- How many additional lbs would be needed to outweigh this?
  - At \$1 per lb, around 86 lbs
  - \$0.80 per lb, around 107 lbs
- Implants provide an option as well



# Don't be afraid to cull hard

- Consider two cows:
  - Cow 1 weans 600 lb calf each year
  - Cow 2 weans 400 lb calf each year
- Were both these cows making us money in 2014 and 2015?
- What about now?
- Our culling criteria should change with the market?

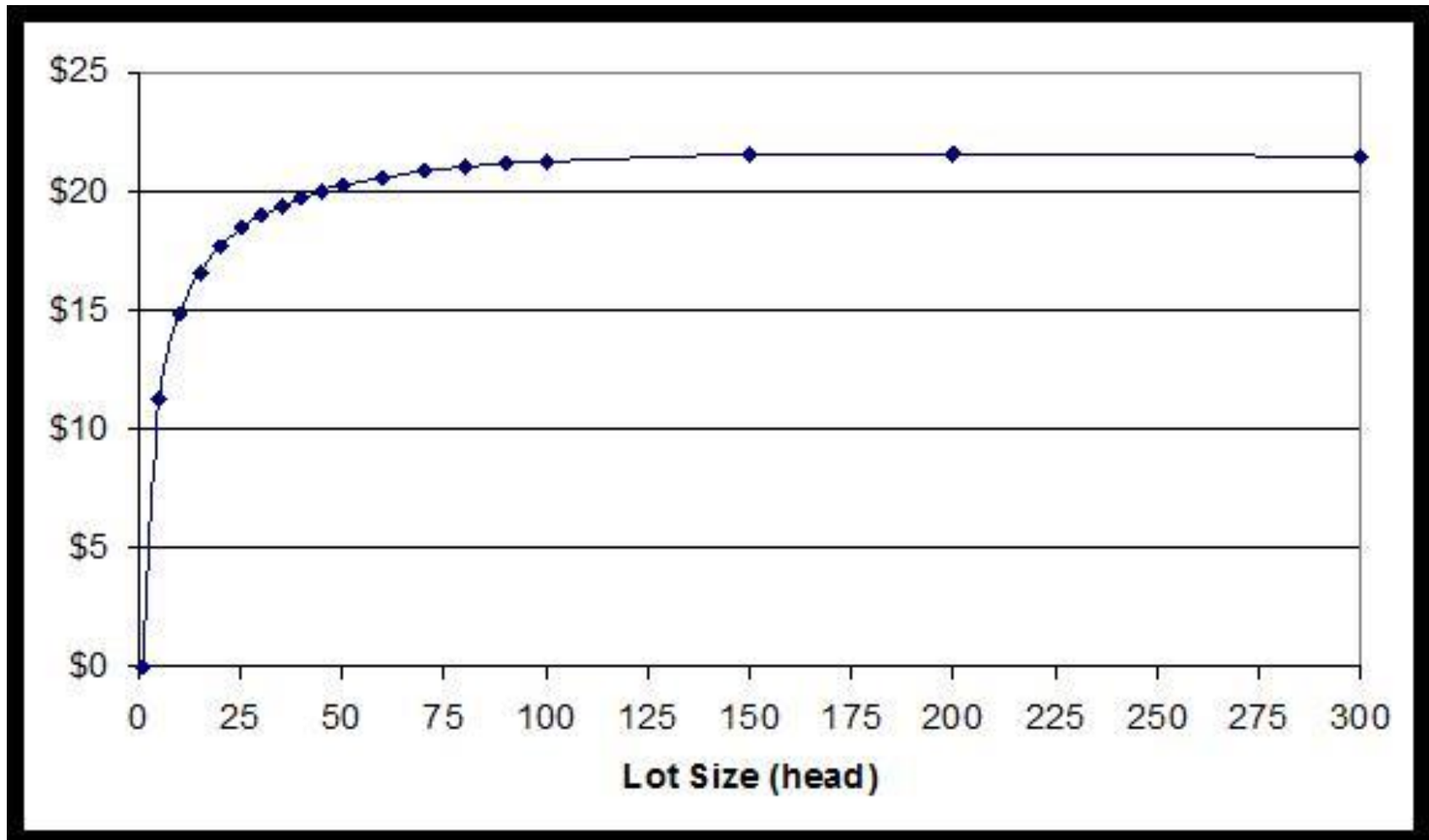


# What do late calving cows cost?

- Weaning weight = lbs = \$
  - Likely to calve late again
- Each cycle missed is 21 days and probably 40+ lbs
  - Likely worth \$30 to \$40 in revenue
- Yards like to keep weight range 50-75 lbs
  - More important on smaller groups
- Fewer late calving cows = smaller lots
  - Total impact likely \$150+ per calf (weight and lot size)

# Lot Size Impacts

(Halich and Burdine, 2015)



Data: Bluegrass Stockyards CPH Sales 2005-2012



Should we consider cow size  
in our culling criteria?



# What Costs Increase with Cow Size?

- Winter feed (hay)
- Pasture
- Vet / medicine
- Breeding
- Mineral
- Trucking
- Marketing
- Breeding stock depreciation



# Estimated Cost Differences by Cow Weight

	1,000 lb cow	1,200 lb cow	1,400 lb cow	1,600 lb cow
<b>Variable Costs</b>	\$339	\$386	\$431	\$478
<b>Total Costs</b>	\$507	\$564	\$621	\$679
<b>Marginal Increase</b>	-----	\$57	\$57	\$58

Note: For depreciation purposes, cows are valued initially at \$1,467, \$1,600, \$1,733 and \$1,867 respectively. Costs exclude overhead, interest on land, and labor.

# Value of Additional 50 Lbs of Weaning Weight

	Baseline: 550 lb calf Price			
Price Slide	\$1.20	\$1.40	\$1.60	\$1.80
\$10 per cwt	\$30	\$40	\$50	\$60
\$15 per cwt	\$15	\$25	\$35	\$45
\$20 per cwt	(\$0)	\$10	\$20	\$30
\$25 per cwt	(\$15)	(\$5)	\$5	\$15



# Feeder Cattle Frame Scores

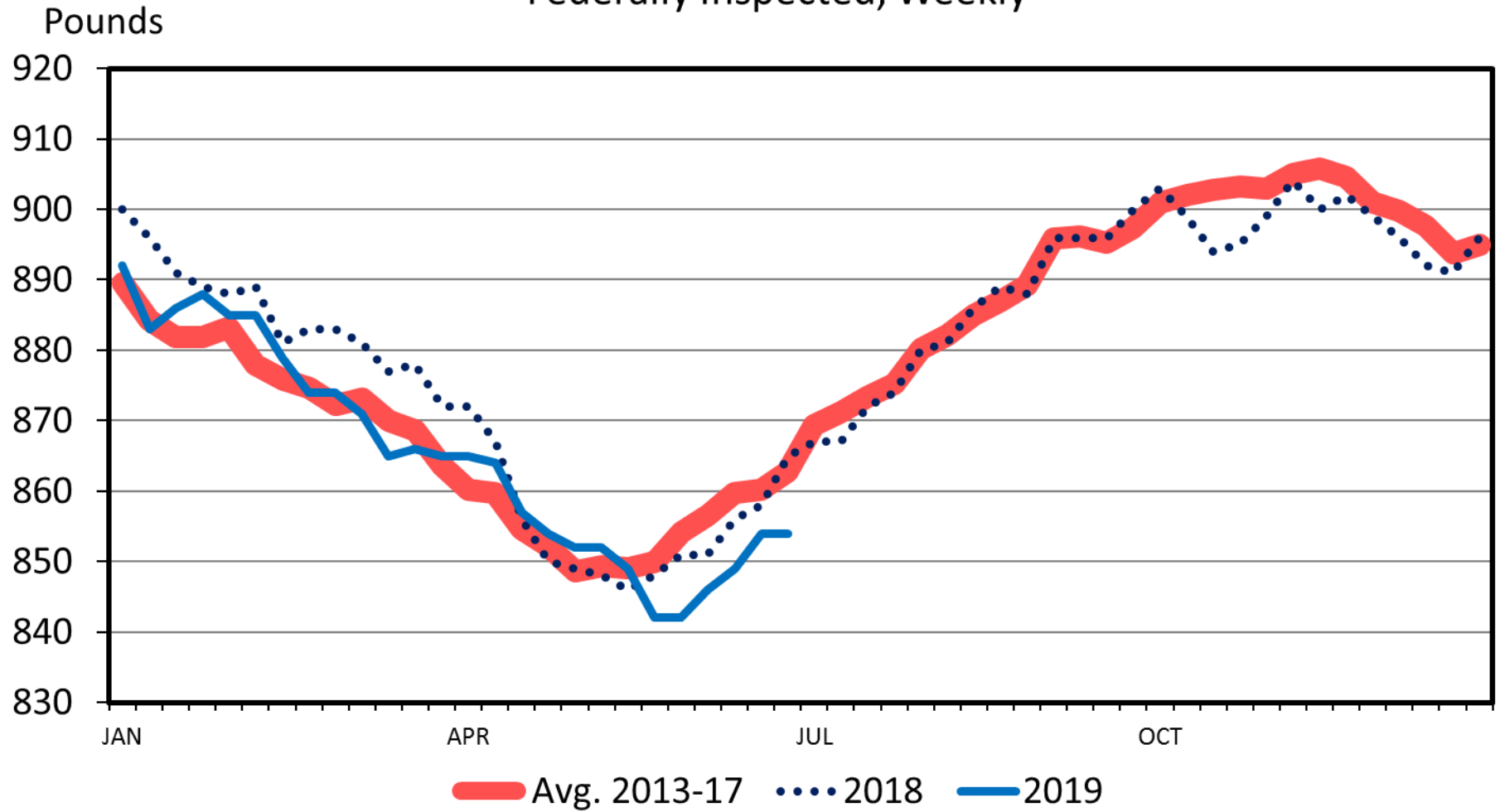
Weight range to reach 0.5" backfat

	<b>Large Frame</b>	<b>Medium Frame</b>	<b>Small Frame</b>
<b>Steers</b>	> 1,250 lbs	1,100 to 1,250 lbs	< 1,100 lbs
<b>Heifers</b>	> 1,150 lbd	1,000 to 1,150 lbs	< 1,000 lbs



# STEER DRESSED WEIGHT

Federally Inspected, Weekly



Data Source: USDA-AMS & USDA-NASS

Livestock Marketing Information Center

C-S-18  
02/08/19

# Stocker Considerations



# 200 Day Stocker Program (from spring)

- Place 450# steer in spring @ \$1.65\*
- 750# steer in fall @ \$1.40
  - \$8 under fall board
- 0.75 acre per head
- 1.5 lbs gain per day through season
- Vet / med: \$25
- Interest: 6.5%
- Deathloss: 2%

# 200 Day Stocker Budget

Sales	# units	unit	price per unit	total
Feeder	750	lbs	\$1.40	\$1,050.00
Expenses				
Stocker	450	lbs	\$1.65	\$742.50
Pasture Cost	0.75	acre	\$35.00	\$26.25
Pasture Rent	0.75	acre	\$40.00	\$30.00
Mineral	0.25	lbs / day	\$0.40	\$20.00
Vet / Med	1	head	\$25.00	\$25.00
Sale Expenses	1	head	\$40.00	\$40.00
Hauling	1	head	\$10.00	\$10.00
Other	1	head	\$10.00	\$10.00
Interest	6.5%	rate		\$30.05
Death loss	2.0%			\$15.15
Total Expenses				\$948.95
Return to L, K, and M				\$101.05



# Understand the Sensitivities...

- \$5 per cwt change in sale price - \$38
  - \$11 per cwt drop = breakeven!
  - Nearly 2:1 impact on target purchase price
- \$5 per cwt change in calf value - \$23
  - What percent of costs are incurred on day 1?
- 1% change deathloss - \$8
  - Remember this one is chunky!
- 1% change in interest rate - \$5





# Thoughts on Strategy

- Start by knowing cost and projecting sale price
- Have target purchase price and look to place based on that
  - Be opportunistic
- Cover downside, then worry about upside!
- Forward price if you like the basis
  - Then just worry about production risk
- Don't do anything you don't understand

# Contact Information

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