

Beef Exports Must Remain Strong

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In a modern computerized world, reports released by the USDA should be in sync and numbers should verify each other but often there are differences even when they are released the same day. On Friday July 23, the USDA released the monthly Cattle on Feed Report, the semi yearly inventory report as well as the daily estimated slaughter. Three reports with different outlooks.

It must be noted that The Cattle on Feed Report and the semi yearly inventory report are estimates into the future and being estimates, the numbers can easily be revised especially as the guesses get closer to the actual time period. The daily estimated slaughter is fairly accurate. USDA inspectors are at plants and the daily slaughter estimates are checked with the various counters throughout the plants.

There seems to be a common industry belief that when the market tumbled in 2009 it caused fewer cattle to be around. The big question has to be; did the cow//calf operation cut back when prices for cattle and feeders tumbled and did feed lots back off placing cattle? Feeder cattle prices did fall about \$10.00/cwt to \$12.00/cwt from the July 2009 highs around \$104/cwt to \$92/cwt, but \$92/cwt for the cow/calf operation was still profitable. Prices came off of extreme highs in 2009. Prices did not tumble to record lows.

It also appears at least for the time being that feedlots took advantage of lower feeder prices and placed as many as possible. Why? Daily slaughter numbers currently show more cattle may have been placed and not less.

The daily slaughter figures show that feedlots are keeping current and placements may not have dropped off last year. Year to date the daily slaughter is up 1.2% from last year. There is the possibility that smaller feedlots quit feeding but with daily kills up 1.2% it also suggests that other feedlots absorbed the available feeders.

For now, look for traders to remain bear spread, selling the front months through October 2010 and buying December 2010 through the spring of 2011. Time will tell if there is an actual reduction.

The amount of cattle coming to market now or the future is having less an effect on price for feeders and cattle than should be credited. The dramatic change in exports in 2010 from 2009 is the primary reason cattle and beef prices came off the lows of last year. With exports up 26% from year ago levels the demand for US beef is the major price support and the likely reason they will remain strong if the US Dollar remains cheap compared to other currencies.

The US has gained market share from Canada, Brazil, Argentina and Australia. A reduction in the Canadian herd certainly helps as does Argentina keeping beef off the export market, but

the weak US Dollar has spurred exporters to buy more US beef from our major competition Brazil.

Chartists will be looking at levels near last May for overhead resistance and chart gaps for the 2011 Live Cattle contracts. If boxed beef remains near steady, traders that have been bear spreading may use technical indicators to take profits.

For almost three weeks boxed beef prices have traded in a relatively tight range around \$1.55 for Choice boxed beef. The Choice to Select spread has been in a range from \$8.00 to \$9.00 favoring Choice. It suggests that retailers and exporters have found a trading range that is workable. Depending on future economic developments in the US and worldwide, the prices currently paid for beef could remain fairly steady. If this is the case and cattle numbers remain near or at current levels, the cattle contracts for 2011 are most likely overpriced.

For many cattle producers that sell on the open market, it will be difficult giving up the exceptional feeding margins of the last 3 to 4 months. However, with feeder cattle in many areas priced several dollars above the corresponding futures contracts, and even if live cattle futures remain at current levels, the margins will be greatly reduced. Looking for more than is currently available could prove to be costly expectations.

With the current economic environment throughout the world, it shouldn't be expected to see an increase in exports of beef. On the other hand, there is the strong possibility that pork and poultry could cut into beef exports.

Time will tell if cattle production is down but the bullish momentum of demand must remain at least at current levels to expect even current prices into the future.

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