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Monthly Cattle & Beef Newsletter

Written as of February 29, 2020

There will be a candle-light prayer vigil for the cattle market this Sunday afternoon. I tried to start writing this newsletter on Wednesday, but decided I'd give the market 2 more days to resurrect… Now, it's Friday and I'm looking for divine inspiration.

Last month, I mentioned that my greatest concern was not the fundamental facts, but the potential for the "herd mentality" to pursue…and it has. Two things remain the same: the coronavirus is the catalyst and human emotions are the cause. Global panic has spread like the coronavirus; country-to-country and human-to-human. The selling feeds itself, and the situation appears to be escalating. The media feeds the fear and headlines that state "It's not if, but when the coronavirus will infect the US" has filled people's minds with worry.

Cattle Overview

Unfortunately, there hasn't been enough fundamentally positive news in the marketplace to override global panic and the sell-off in the equity markets. The outbreak of the coronavirus and the rising risk of suppressed beef demand have caused a mass exodus of managed fund longs in the cattle market. Just 5 weeks ago, when April'20 Live Cattle futures were trading near $126/cwt, the funds were net long 90,253 contracts. They have since liquidated 76,245 contracts and as of February 25th, they're net-long 14,008 contracts (red line, fig. 1). Given the remainder of the week's action, I wouldn't be surprised to learn they assumed a net-short position.

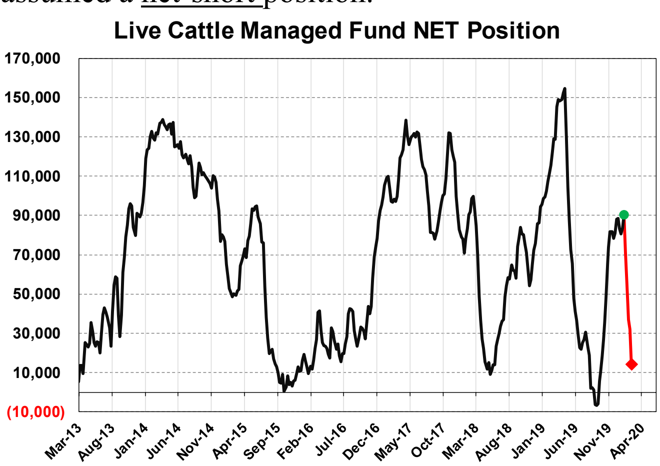

Figure 1- Data Source: CFTC

The "liquidation" mentality has become commonplace in commodity arena, and the flurry of selling has spread to the equity markets. Majority of the commodities such as row crop markets, energy markets, and livestock markets all marked their most recent 2020 highs in the first three weeks of January! The equity markets didn't puke lower until mid-February. So, while the S&P 500 Index and the Dow Jones Index are the mass representation of the fear felt around the US, commodities were the yellow flag warning that a decline was imminent. Of course, this is in hindsight.

The April '20 Live Cattle futures market has fallen $20/cwt since mid-January (not that I needed to tell you that). On Friday, it closed below the 2019 August lows left behind following the Tyson packing plant fire! The back-month futures contract's declines haven't been as extreme due to expectations of tighter cattle supplies and tepid optimism that the coronavirus mania may fade by then.

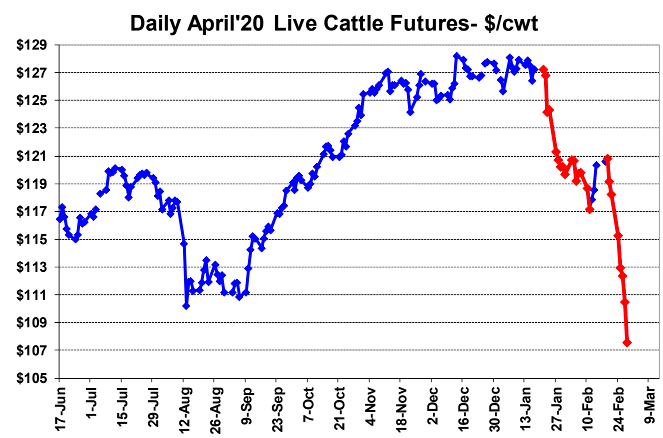

Figure 2- Data Source: CME

There is no doubt that uncertainty and panic is ruling the marketplace. However, keep in mind, that the current futures price reflects everything that there is to know in the marketplace. While this decline looks overdone and the market feels nauseatingly underpriced, the recent decline could be what's necessary to clear the incoming supply of beef and stimulate domestic and global demand amid world chaos.

Adding to the burden of the recent spiral lower, this year's beef supplies have been plentiful relative to the same time last year (fig. 3).

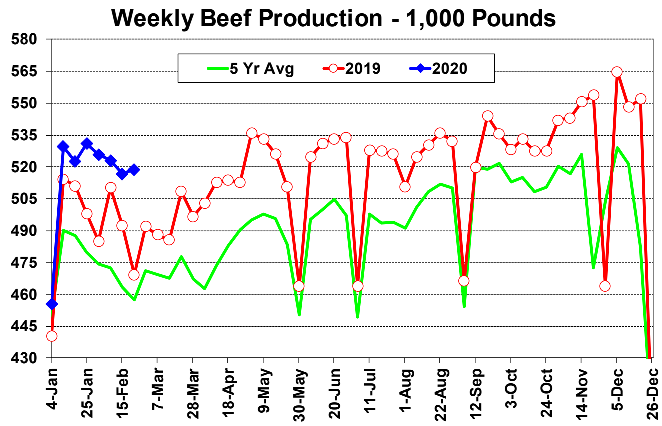

Figure 3 - Data Source: USDA AMS

This is largely due to a large supply of slaughter-ready cattle and heavier-than-normal steer carcass weights. A stark contrast to last year, this year's mild winter weather across cattle-feeding country has allowed for impressive weight gain in the feedyards (fig. 4).

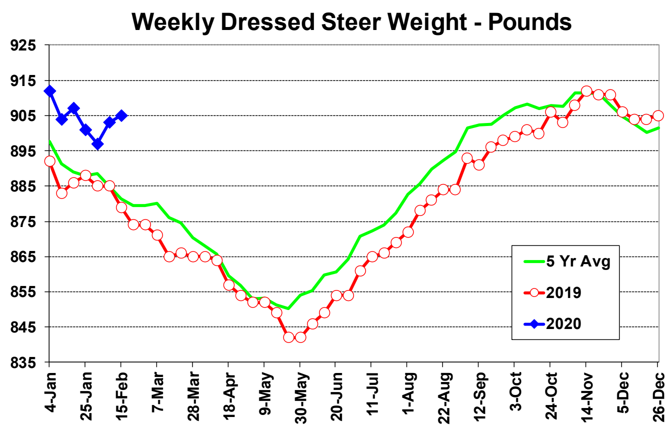

Figure 4- Data Source: USDA AMS

This fact (coupled with concerns that the virus will snuff global and domestic beef demand) created the proverbial perfect storm for a break in the futures.

According to the USDA, the US is projected to produce 101 billion pounds of protein (beef, pork, and poultry) this year (fig. 5). This is 3% above last year and 8.6% above the 5-year average! The US is projected to account for 17% of total global protein produced in 2020.

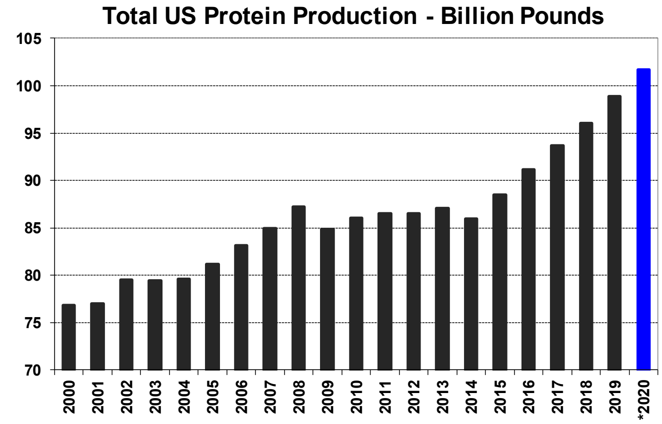

Figure 5- Data Source: USDA AMS

According to the USDA FAS, both global protein production and global consumption are expected to decline 2% in 2020. The projected 2% decline in global protein production is the result of African Swine Fever's (ASF) detrimental effects on the Chinese hog herd. Due to ASF in China, global pork production fell by at least 10% last year and it's projected to fall by another 8% this year. Even more shocking is that these are "conservative" estimates. This leaves us with some hope that the decline in protein supply will overshadow the negative demand impacts from the coronavirus.

Speaking of demand, the coronavirus epidemic has dramatically reduced restaurant foot traffic in China and Italy, and there is anxiety that a similar situation could develop in North America. Earlier this week, news broke that an individual in California contracted the coronavirus with no known origin, which means the virus could already be in America and spreading.

Domestically, end-users (such as restaurants and grocery stores) usually "book" (purchase) beef from packers' weeks-to-months ahead of the "grilling season." However, year-to-date forward contract beef sales are down 20% from the same time last year. Grilling season is around the corner and so is a big pile of beef that needs to be sold and consumed. The concern is that if exports start to lag because of suppressed global demand, it could spell trouble for beef prices. The good news is that, so far, weekly beef exports haven't shown any dramatic signs of a slowdown (fig. 6) and domestic beef demand appears to be intact.

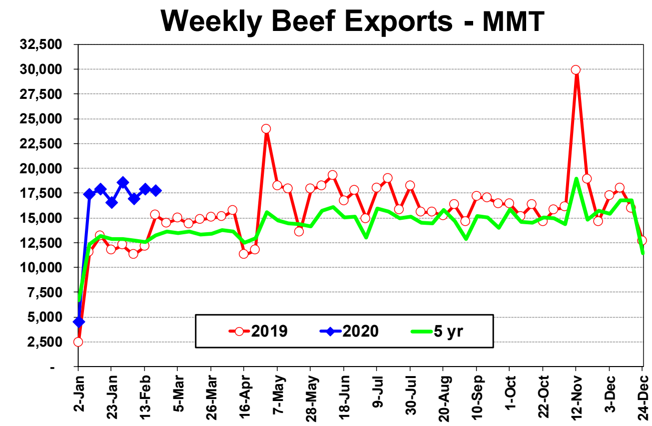

Figure 6 - Data Source: USDA FAS

Like I said last month, on the global front, demand for high-quality protein should be a major bright spot for the US beef market in 2020 (once the coronavirus hysteria cools-down).

Cattle Outlook

Despite what should seasonally be a positive timeframe for cash cattle prices, the cash market has fallen $10/cwt over the past 6 weeks (fig. 7).

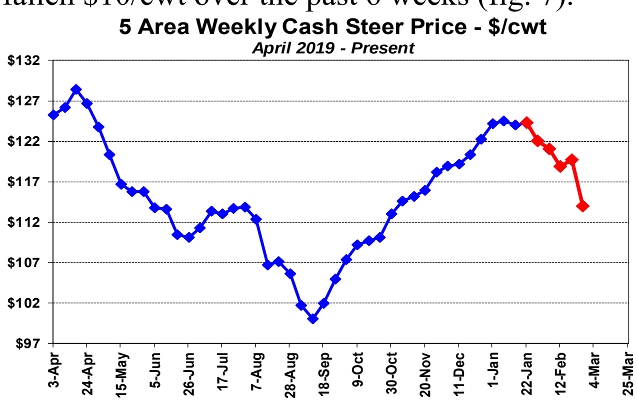

Figure 7 - Data Source: USDA AMS

There's little doubt that the coronavirus epidemic has fueled both hedging and speculative selling. Fear of the unknown is the market's greatest motivator. I've scoured history for comparable situations in the cattle market and the truth is there are none. How long the selling will persist is unquantifiable, and this fact is unbearable for everyone, including me.

I know this newsletter will drive you to drink (if you haven't already), and I know that things seem dire, but always remember that "this too shall pass." Cooler heads will eventually prevail, and the hysteria will run its course. One of the greatest God-given aspects of the human condition is that we learn. We can't predict or totally prevent an event like this from happening, however, we're able to learn from it and prepare for it better in the future. This even won't be for nothing. Anyways, I'll see you all the prayer vigil- bring your praying hands and I'll bring the beer.

This **Monthly Cattle, Grain, and Cotton Newsletter** is written by Kristin Marshall and reviewed by Daniel Bluntzer with New Frontier Capital Markets, LLC. New Frontier Capital Markets is a full-service agricultural-commodity brokerage specializing in risk management assessment, price analysis, and fundamental market research. **If you have any questions, please give me a call.**

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