

# Beef Margin Watch: January



Beef margins continued to strengthen as the new year began, as higher cattle prices more than offset a rise in feed costs. Margins are now positive through the June 2017 marketing period, and very strong against April spring marketings in particular. Cattle prices remain supported by strong beef demand, as the latest export data for November confirms higher trade. Beef shipments during the month were up 23% from last year, hitting a high not seen since July 2013, due primarily to exports to Japan, South Korea and Hong Kong. The November export data was also one of the factors that led the USDA to raise the forecast for 2016 and 2017 beef exports in the January WASDE report, from 2.484 and 2.63 billion pounds to 2.519 and 2.64 billion, respectively. The report also raised Q4 beef production, while lowering that of Q1 following recent updates to cattle inventory and marketings. Beef production in general for both 2016 and 2017 increased from December, due to a larger number of cattle on feed and heavier marketing weights. Meanwhile, corn prices are drawing support from heavy recent rainfall in key growing areas of Argentina that is compromising production potential, and the January WASDE report was likewise friendly. USDA lowered U.S. corn production by 78 million bushels due to slightly reduced yields, resulting in a drop of 48 million bushels in ending stocks. Despite the larger cattle and hog inventories, feed and residual demand was cut 50 million bushels from the December forecast as increased ethanol production will raise the supply of DDGS. In addition, China's recent move to significantly increase import tariffs on DDGS will likely end U.S. exports to that country. Beef producers continue to focus on making strategic adjustments to existing positions, such as strengthening cattle hedges and adding flexibility to corn hedges.

## Live Cattle Marketing Periods:

**Feb '17** 2016 2017 Feb 2017: HIGH **\$3.60** LOW (**\$23.41**) LAST **\$3.30** 10YR PERCENTILE **85.4%**



**Apr '17** 2016 2017 Apr 2017: HIGH **\$11.83** LOW (**\$15.26**) LAST **\$11.39** 10YR PERCENTILE **98.4%**



**Jun '17** 2016 2017 Jun 2017: HIGH **\$0.65** LOW (**\$15.72**) LAST (**\$0.24**) 10YR PERCENTILE **90.5%**



**Aug '17** 2016 2017 Aug 2017: HIGH (**\$2.49**) LOW (**\$19.19**) LAST (**\$5.60**) 10YR PERCENTILE **51.4%**



Oct '17 2016 2017 Oct 2017: HIGH (\$1.60) LOW (\$21.47) LAST (\$5.67) 10YR PERCENTILE 25.5%



Dec '17 2016 2017 Dec 2017: HIGH (\$1.19) LOW (\$20.08) LAST (\$4.84) 10YR PERCENTILE 27.6%



The Beef Margin calculation uses Feeder Cattle futures to price inbound animals and assumes each will consume 55 bushels of corn and cost approximately \$250 per head (for other feed and non-feed expenses) to gain 550 pounds and reach a market weight of 1,250 pounds.

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