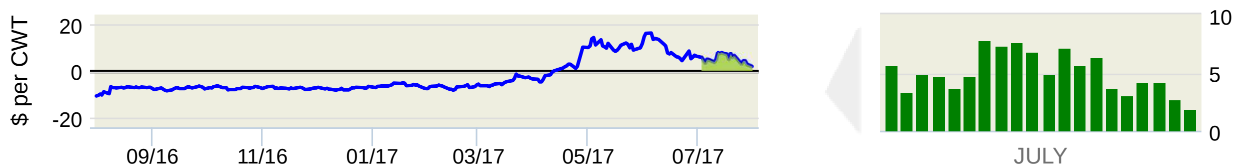
Beef Margin Watch: July

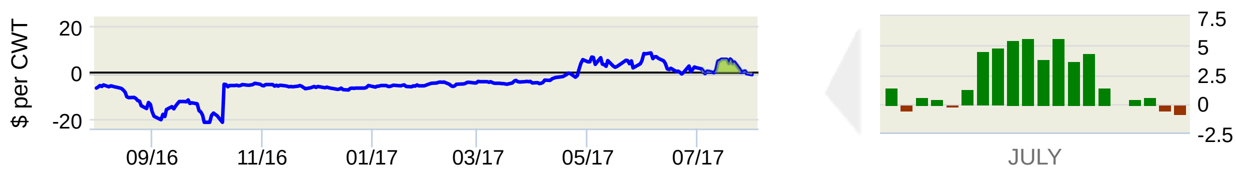
Beef margins deteriorated over the second half of July as weaker cattle prices more than offset a decline in corn feed costs. With the exception of the spot August marketing period, cattle finishing margins are now back below breakeven through the first half of 2018. Cattle prices have succumbed to pressure recently following the release of USDA's latest monthly Cattle on Feed report. June placements into feedlots totaled 1.77 million head, up 16% from last year and well above the 6% average increase expected by market analysts. Improved profitability this year has driven the higher placements, with January-June placements of 11.17 million head now up 1.1 million or 11% over 2016. That six-month period brought not only the largest placement total for that timeframe since 2003, it was also the best six consecutive months ever for closeouts, topping the previous high set in 2003. This follows ongoing increases in commercial cattle slaughter, as the June total of 2.858 million head was up 5.6% from 2016. Over the last three months, slaughter numbers increased by an average of nearly 6%, although beef production rose only 3.5% due to lighter marketing weights. Fortunately, the feed market has also been under recent pressure due to improving forecasts and stabilizing crop conditions. While corn rated in good-excellent condition dropped one point this week to 61%, soybean condition ratings actually improved two points to 59%. However, concern remains over crop conditions and yield potential, as USDA Drought Monitor reports show 15% of the corn planted area currently experiencing drought. The upcoming August crop report will be the first to incorporate field surveys by NASS in estimating yield, and expectations are for a decline from the May-July baseline projections given this season's weather. Our beef producer clients continue to focus on adjustments to existing positions, particularly adding delta to feed hedges following the recent break in price. Strengthening cattle hedges earlier this month has also proven beneficial, and producers are now looking to add flexibility back to those positions.

Live Cattle Marketing Periods:

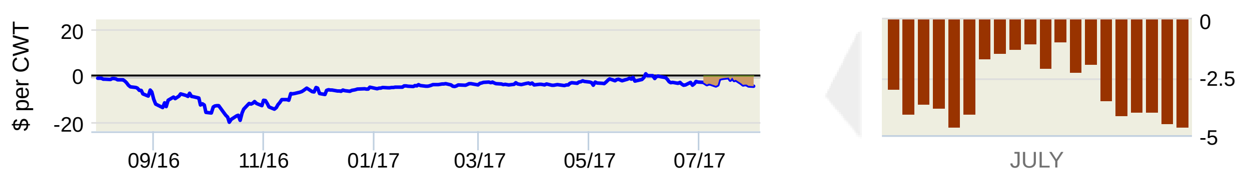
Aug '17 ☐ 2016 ☐ 2017 Aug 2017: HIGH **$16.06** LOW **($10.79)** LAST **$1.92** 10YR PERCENTILE **95.3%**



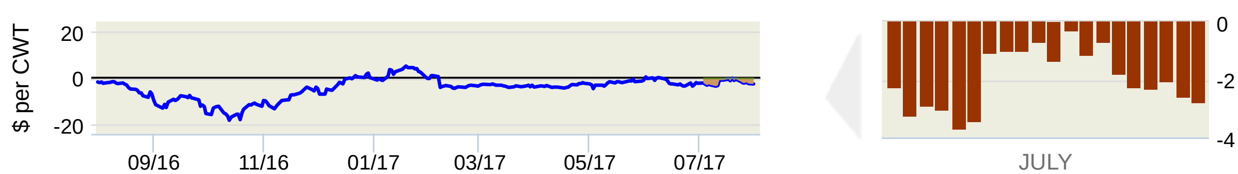
Oct '17 ☐ 2016 ☐ 2017 Oct 2017: HIGH **$8.37** LOW **($21.47)** LAST **($0.94)** 10YR PERCENTILE **74.5%**



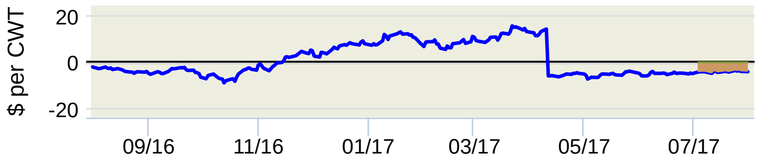
Dec '17 ☐ 2016 ☐ 2017 Dec 2017: HIGH **$0.67** LOW **($20.08)** LAST **($4.59)** 10YR PERCENTILE **29.9%**

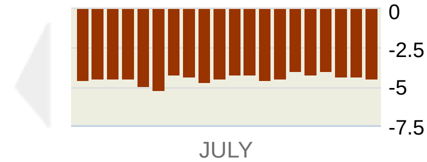


Feb '18 ☐ 2017 ☐ 2018 Feb 2018: HIGH **$5.05** LOW **($18.31)** LAST **($2.74)** 10YR PERCENTILE **43.6%**

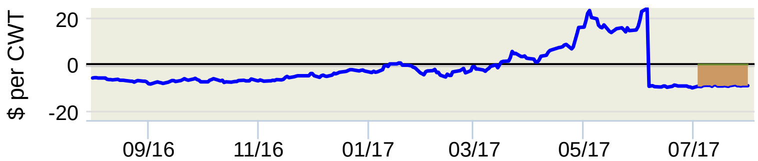


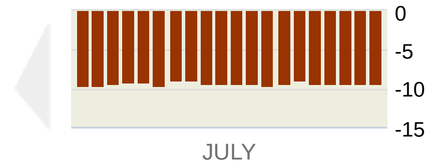
Apr '18 ☐ 2017 ☐ 2018 Apr 2018: HIGH **$15.25** LOW **($9.28)** LAST **($4.39)** 10YR PERCENTILE **25.4%**





Jun '18 ☐ 2017 ☐ 2018 Jun 2018: HIGH **$23.69** LOW **($10.24)** LAST **($9.26)** 10YR PERCENTILE **21.9%**





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.
