Beef and Dairy Market Outlook

Kenny Burdine
UK Agricultural Economics

2017 Imports and Exports

Beef
• US exported 10.9% of production
• US imported 11.4% of production
  – Significant live cattle as well
Pork
• US exported 22.0% of production
• US imported 4.3% of production
Broilers
• US exported 16.3% of production

US Beef Exports to Selected Countries (2017)

<table>
<thead>
<tr>
<th>Country</th>
<th>Exports (1,000 lbs)</th>
<th>As % of US Beef Exports</th>
<th>As % of US Beef Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>826,004</td>
<td>28.9%</td>
<td>3.2%</td>
</tr>
<tr>
<td>South Korea</td>
<td>472,729</td>
<td>16.5%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Mexico</td>
<td>419,349</td>
<td>14.7%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>335,705</td>
<td>11.7%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Canada</td>
<td>309,138</td>
<td>10.8%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Total Exports (includes others)</td>
<td>2,859,687</td>
<td>10.92%</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: USDA-ERS, Livestock Marketing Information Center, and author calculations
US Pork Exports to Selected Countries (2017)

<table>
<thead>
<tr>
<th>Country</th>
<th>Exports (1,000 lbs)</th>
<th>As % of US Pork Exports</th>
<th>As % of US Pork Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>1,808,822</td>
<td>32.1%</td>
<td>7.07%</td>
</tr>
<tr>
<td>Japan</td>
<td>1,228,956</td>
<td>21.8%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Canada</td>
<td>530,751</td>
<td>9.4%</td>
<td>2.07%</td>
</tr>
<tr>
<td>South Korea</td>
<td>524,939</td>
<td>9.3%</td>
<td>2.05%</td>
</tr>
<tr>
<td>China (mainland)</td>
<td>380,414</td>
<td>6.8%</td>
<td>1.49%</td>
</tr>
<tr>
<td>Total Exports</td>
<td></td>
<td></td>
<td>22%</td>
</tr>
</tbody>
</table>

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

Slaughter Steer Prices
5 Market Weighted Average, Weekly

Source: USDA-AMS, Livestock Marketing Information Center

KY Auction Prices
550# Steers ($ per cwt)

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

KY Auction Prices
850# Steers ($ per cwt)

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

U.S. Drought Monitor
August 14, 2018

Source: USDA-AMS, Livestock Marketing Information Center

U.S. Drought Monitor
November 6, 2018

Source: USDA-AMS, Livestock Marketing Information Center
US Beef Cow Inventory
1920 to 2018

Jan Heifer Retention as % of Beef Cow Inventory

FI Cow Slaughter: 2018 vs 2017
(1,000 head)

ERS Meat Production Forecasts

Data Source: USDA-NASS
Livestock Marketing Information Center
Planning Prices: Beef Cattle

- Cow herd still growing, meat case full
- Fall 2019 CME© Feeder futures around $150
  - 550 lb steers in $160’s by spring – groups in $170’s
- I have to project lower prices fall over fall
  - 550 lb steers in upper $130’s
- Fed prices near 2018 – mid-upper $110’s

<table>
<thead>
<tr>
<th>Cow / Heifer</th>
<th>Average 550 lbs</th>
<th>$1.38 per</th>
<th>$756 per cow</th>
</tr>
</thead>
</table>

Discount for Open Cows: | $133 per cow |

Total Revenues per Cow: $643

The Importance of Efficiency

- Cost reduction – direct impact
  - $50 for $50
- $0.10 change in calf prices - $40 - $50 per cow per year
- 5% increase in weaning rate - $30 - $50 per cow per year
- 50 lbs in weaning weight - $30 - $50 per cow per year

Steers vs. Bulls at KY Auctions (2010 to 2017)

- 550# steers outsold 550# bulls by $11.30 per cwt over last 8 years
- This is $62.15 per head
- How many additional lbs would be needed to outweigh this?
  - At $1 per lb, around 62 lbs
  - $0.80 per lb, around 78 lbs
- Implants provide an option as well

Don’t be afraid to cull hard

- Consider two cows:
  - Cow 1 weans 550 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?
Lot Size Impacts (Halich and Burdine, 2015)

Data: Bluegrass Stockyards CPH Sales 2005-2012

Dairy Economics

Data Source: USDA-NASS
Livestock Marketing Information Center
10/22/18

US DAIRY INDUSTRY EXPORT VALUES
Annual

Data Source: USDA-FAS, Compiled & Analysis by LMIC
Livestock Marketing Information Center
03/05/18

CHEDDAR CHEESE PRICES
40 Pound Block, US, Weekly

Data Source: USDA-NASS
Livestock Marketing Information Center
03/05/18

TOTAL CHEESE IN COLD STORAGE
End of the Month

Data Source: USDA-NASS
Livestock Marketing Information Center
03/05/18
Planning Prices: Ohio Farm Level Milk

- Production growth slowing, with some demand optimism
- Ohio price averaged $16.18 through October, $17.50 in November
- Q1: $16-$18
- Q2: $16-18
- Q3: $17-$19
- Q4: $18-$20
What’s New in the Farm Bill?

• Dairy Margin Coverage
  – Works a lot like MPP-Dairy
• Coverage levels extended to $9.50
• Premiums reduced
  – Even below Bipartisan Act of 2018
• Rebating of premiums 2014-2017

DMC Premiums

<table>
<thead>
<tr>
<th>Coverage Level</th>
<th>Premium per CWT (First 5M lbs)</th>
<th>Premium per CWT (After 5M lbs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$4.00</td>
<td>Free</td>
<td>Free</td>
</tr>
<tr>
<td>$4.50</td>
<td>$0.0025</td>
<td>$0.0025</td>
</tr>
<tr>
<td>$5.00</td>
<td>$0.005</td>
<td>$0.005</td>
</tr>
<tr>
<td>$5.50</td>
<td>$0.03</td>
<td>$0.10</td>
</tr>
<tr>
<td>$6.00</td>
<td>$0.05</td>
<td>$0.31</td>
</tr>
<tr>
<td>$6.50</td>
<td>$0.07</td>
<td>$0.65</td>
</tr>
<tr>
<td>$7.00</td>
<td>$0.08</td>
<td>$1.107</td>
</tr>
<tr>
<td>$7.50</td>
<td>$0.09</td>
<td>$1.413</td>
</tr>
<tr>
<td>$8.00</td>
<td>$0.10</td>
<td>$1.813</td>
</tr>
<tr>
<td>$8.50</td>
<td>$0.105</td>
<td>Not offered</td>
</tr>
<tr>
<td>$9.00</td>
<td>$0.11</td>
<td>Not offered</td>
</tr>
<tr>
<td>$9.50</td>
<td>$0.15</td>
<td>Not offered</td>
</tr>
</tbody>
</table>

US All Milk vs MPP-Dairy Ration 2008-2018 ($ per cwt)

DMC Program Thoughts

• Coverage and premium are much more attractive now
  – Historically, this would have paid out
• More flexibility now, can be combined with LGM and / or Dairy RP
  – Consider DMC by itself
• DMC needs to be part of your risk management plan
  – Consider other options too

Contact Information

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