Beef Margin Watch: July

Both cattle prices and feed costs have weakened since the middle of July, although the cattle market remains largely rangebound while corn appears to be succumbing to more significant pressure. December corn futures are now down over 60 cents off their high as improved forecasts for the U.S. Corn Belt with moderating heat and steady crop condition ratings have led to fund liquidation. In addition, consensus is building that the August WASDE report will fail to reflect either a significant drop in planted acreage or the yield forecast to alter the balance sheet much. USDA released their monthly Cattle on Feed report that showed June placements at 1.756 million head, down 2.1% from last year and very close to pre-report estimates. The total number of cattle on feed as of July 1 at 11.485 million head was up 1.8% from last year and right at the average of trade estimates. June marketings of 1.945 million head were down 3.0% from 2018. USDA also released their semi-annual Cattle Inventory report, where NASS estimated the number of cattle and calves unchanged from a year ago. The number of beef cows was constant, while the dairy cow inventory dropped 1% from 2018. The first estimate of the 2019 calf crop showed that it was slightly smaller than last year, signaling that U.S. herd growth has effectively stopped. USDA reported total beef in Cold Storage on June 30 at 395.5 million pounds, down 12.1% from last year and 8.7% below the five-year average. The June inventory was also down 2.6% from May compared to an average decline of 1.3% over the past five years. Our clients have benefited from recent adjustments to add flexibility to feed hedges ahead of the correction in corn, and are now starting to increase delta on those positions to take advantage of lower prices.

USDA June Cattle on Feed Report Summary

Cattle on Feed Report	2016	2017	2018	2019	Actual	Avg Est	Low Est	High Est	Previous Month	Diff From Est
Placed On Feed in Jun (1,000 head)	1884	2119	1793	1756	97.94%	97.7%	93.2%	105.7%	85.1%	0.2
Fed Cattle Marketed in Jun (1,000 head)	1794	1951	2006	1945	96.96%	96.9%	95.8%	98.3%	94.0%	0.1
Other Disappearance in Jun (1,000 head)	74	70	58	66	113.79%	0.0%	0.0%	0.0%	91.7%	113.8
On Feed Jul 1 (1,000 head)	10799	11096	11282	11485	101.80%	101.8%	100.9%	103.2%	97.8%	-0.0

Cattle on Feed Inventory by State	Actual (1,000 head)	Previous Month (1,000 head)	Previous Year (1,000 head)	% of Previous Month	% of Previous Year
Arizona	17	24	22	71%	77%
California	61	72	64	85%	95%
Colorado	135	160	145	84%	93%
Idaho	42	37	38	114%	111%
Iowa	65	68	77	96%	84%
Kansas	430	450	405	96%	106%
Minnesota	16	16	14	100%	114%
Nebraska	415	460	415	90%	100%
Oklahoma	62	73	58	85%	107%
South Dakota	31	40	39	78%	79%
Texas	400	575	430	70%	93%
Washington	32	37	46	86%	70%
Other States	50	52	40	96%	125%
United States	1756	2064	1793	85%	98%

Cattle On Feed Breakdown by Weight	Actual	Previous Month	Previous Year	% Previous Month	% Previous Year
600 lbs	385	370	400	104%	96%
600-699 lbs	295	305	345	97%	86%
700-799 lbs	391	500	385	78%	102%
All Weight Class	1756	2064	1793	85%	98%