Mixed macroeconomic signals shake cattle markets

By Meatingplace Editors on 3/27/2018

(This article first appeared in the Cow/Calf Corner Newsletter and is republished with the author’s permission.)

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So far in 2018, beef production is higher year over year as expected, with increased cattle slaughter and carcass weights. Beef demand has continued strong carrying forward momentum from 2017.

Cattle prices, both feeder and fed, along with wholesale and retail beef prices have generally been higher year over year so far this year. Despite the challenges of growing cattle and beef supplies and seasonal pressure ahead in many markets, cattle market fundamentals are quite supportive and stable at this time.

However, cash cattle prices recently dropped sharply, led by weaker feeder and live futures. This reflects the biggest threat to cattle markets: an increasingly turbulent and murky macroeconomic environment.

By some measures, the U.S. economy is quite strong after many months of steady, if plodding, recovery and growth. U.S. unemployment has continued to decline and is projected to average under 4 percent in 2018. The Federal Reserve, eyeing potential inflationary pressures as growth continues, raised interest rates last week for the sixth time since 2015. The Federal Reserve is currently projecting the economy to grow at 2.7 percent in 2018.

Simultaneously, the black cloud of trade uncertainty, which has hung over markets for months has erupted into a storm in the past few days.

The U.S. announcement of tariffs on imported steel and aluminum roiled markets and has prompted much speculation about potential retaliation among trade partners. While recent administration announcements significantly weaken the metal tariffs with numerous exemptions, uncertainty remains high. Subsequent announcements of tariffs on U.S. products are beginning, particularly with China, and the extent of further trade war escalation remains unknown.

Likewise, the fate of NAFTA and other trade policy continues to add uncertainty to markets. The negative reaction in the stock market and futures markets last week is only the initial impact of a
wide range of potential ripple effects in the economy. These negative trade impacts could threaten economic growth going forward.

It’s as though the economy has one foot on the accelerator and another foot on the brakes, making it extremely difficult to figure out what happens next or, perhaps more importantly, what happens after that. Markets, in general, are increasingly scared and running for cover. The fear of the unknown may be the worst of it but the reality of the unknown could be far worse.

The result is an external environment for cattle markets that is especially difficult to sort out and anticipate.

Should cattle producers be running for cover as well? Probably not yet but I recommend figuring out where cover is and how you can get there at a moment’s notice.

Cattle producers need to closely monitor the broad range of macroeconomic and global conditions and be prepared to abruptly switch to a strongly defensive business strategy. Markets are increasingly volatile and it will be important to maintain as much short term flexibility as possible to deal with rapidly changing conditions. The uncertainty and volatility likely has not peaked yet but one hopes that it will be followed relatively soon by more clarity and stability. However, there is certainly no guarantee of that and producers must be prepared to hunker down and weather the storm.