

COVID-19 Cattle Market Impacts

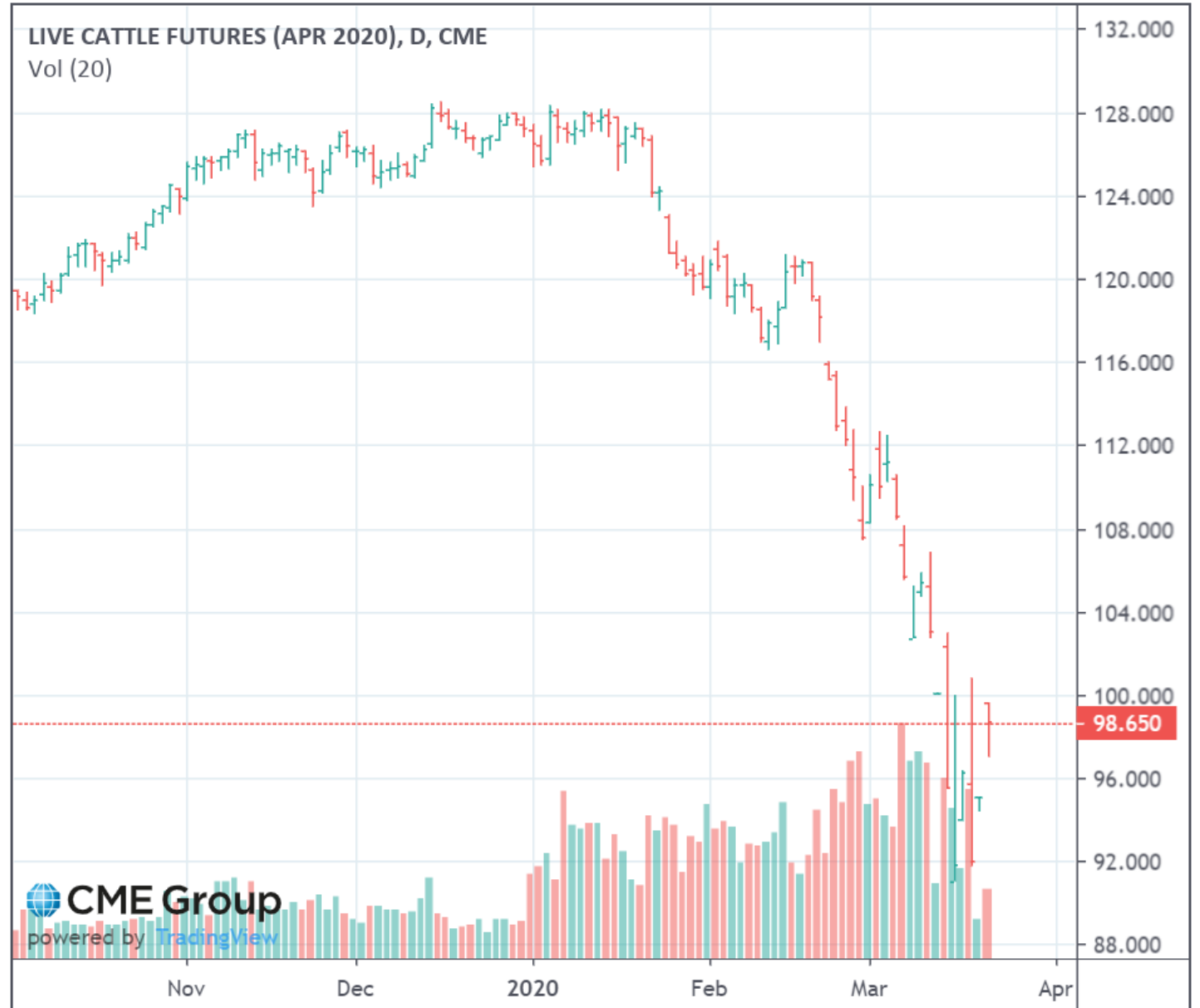
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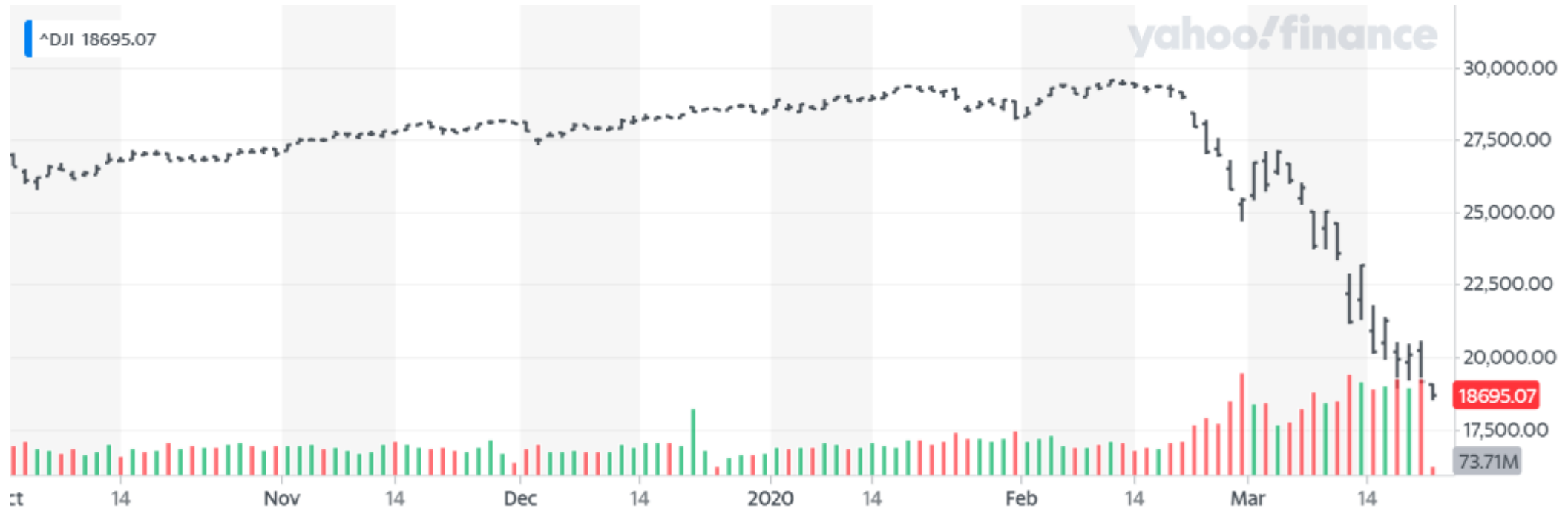
CME:LEJ2020, D 98.650 ▲ +3.550 (+3.73%) O:99.600 H:99.600 L:97.100 C:98.650

April LC Futures

April LC contract lost almost 25% of its value from mid-January through the third week of March, with most of that drop coming after mid-February.



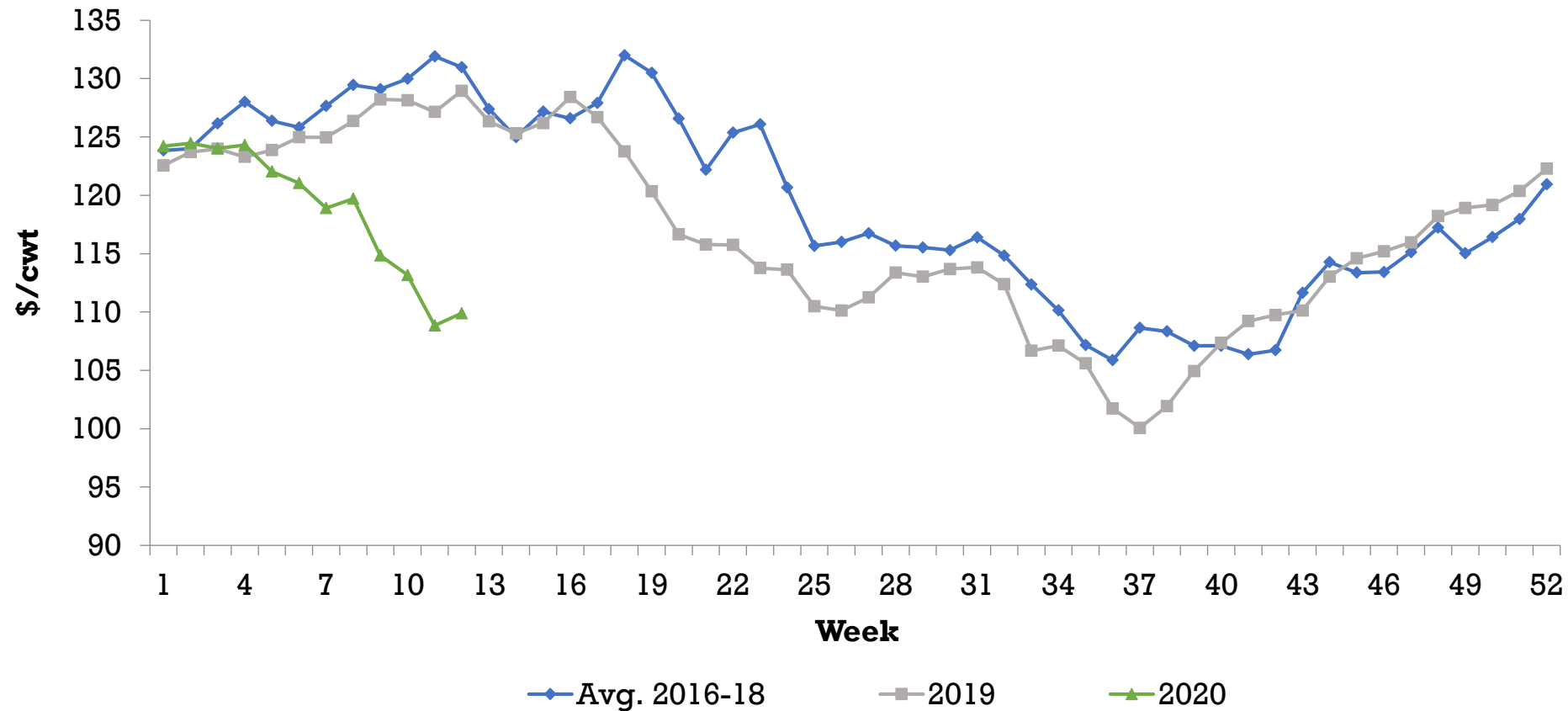
Financial System Losses



Losses in cattle futures have correlated strongly with losses in broader financial markets. Between February 14 and the end of last week, the Dow Jones Industrial Average (DJIA) lost over 1/3rd of its value.

Source: Yahoo Finance.

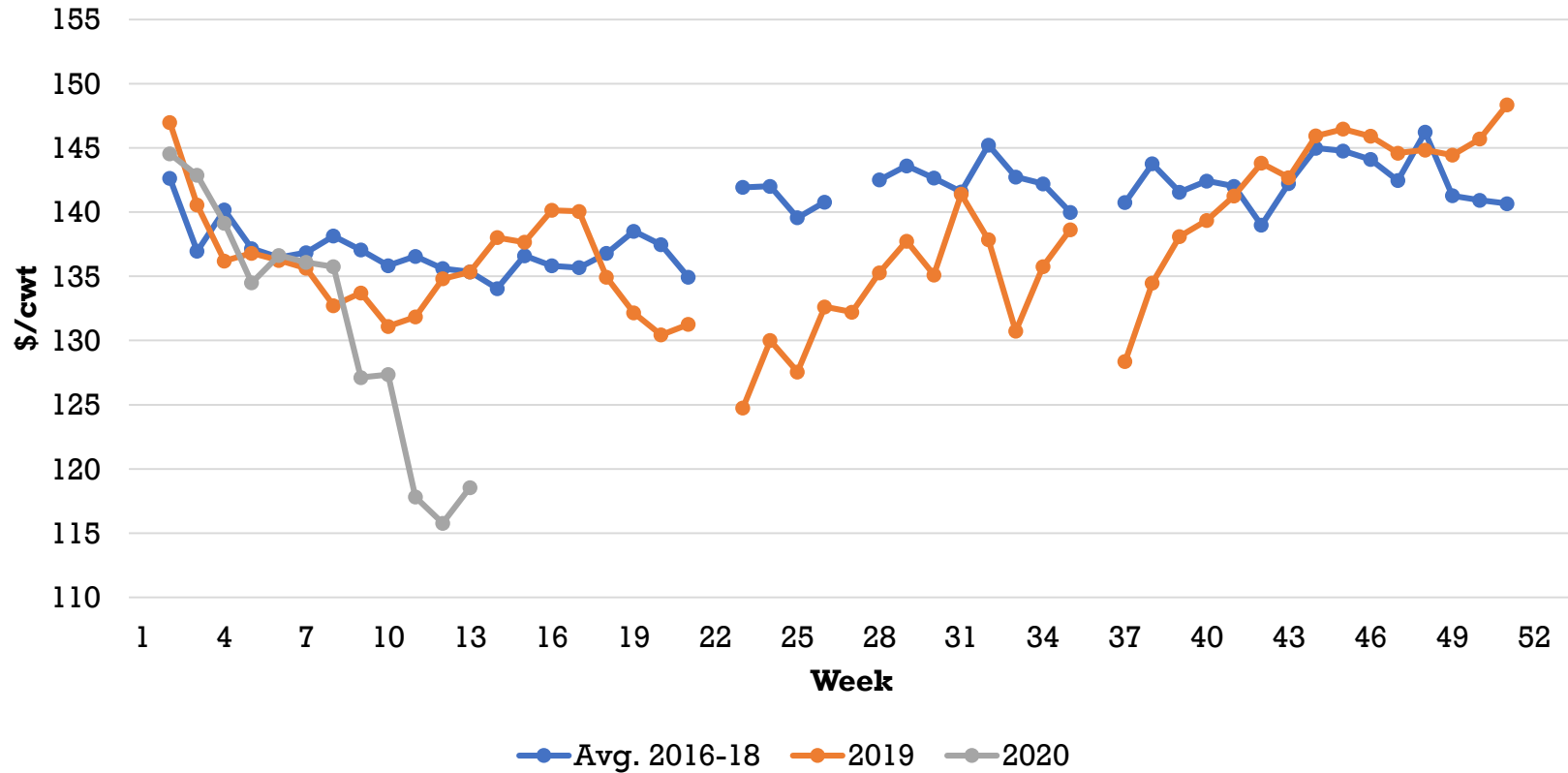
Fed Cattle Cash Market



5-Area weighted average negotiated live price.

Data Source: USDA AMS through Livestock Marketing Information Center.

Feeder Cattle

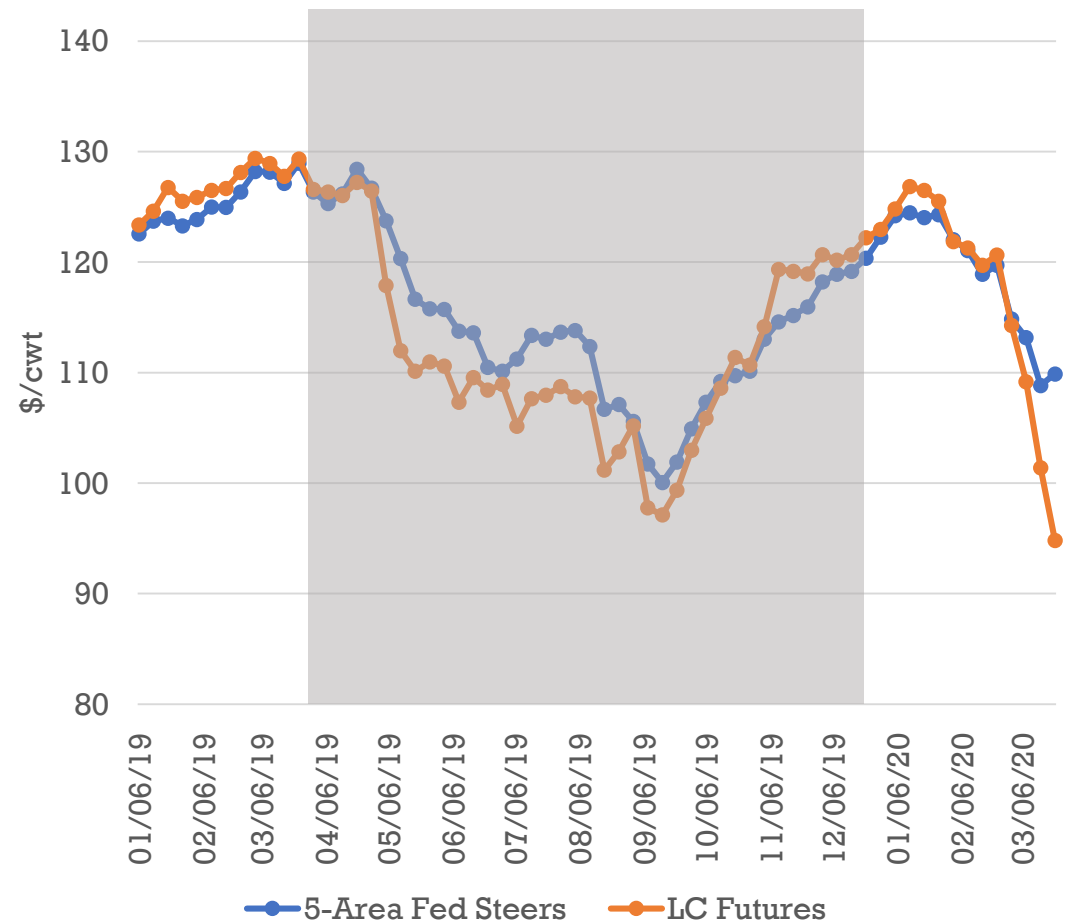


OKC 8-900 pound M&L #1 steers.

Data Source: USDA AMS through Livestock Marketing Information Center.

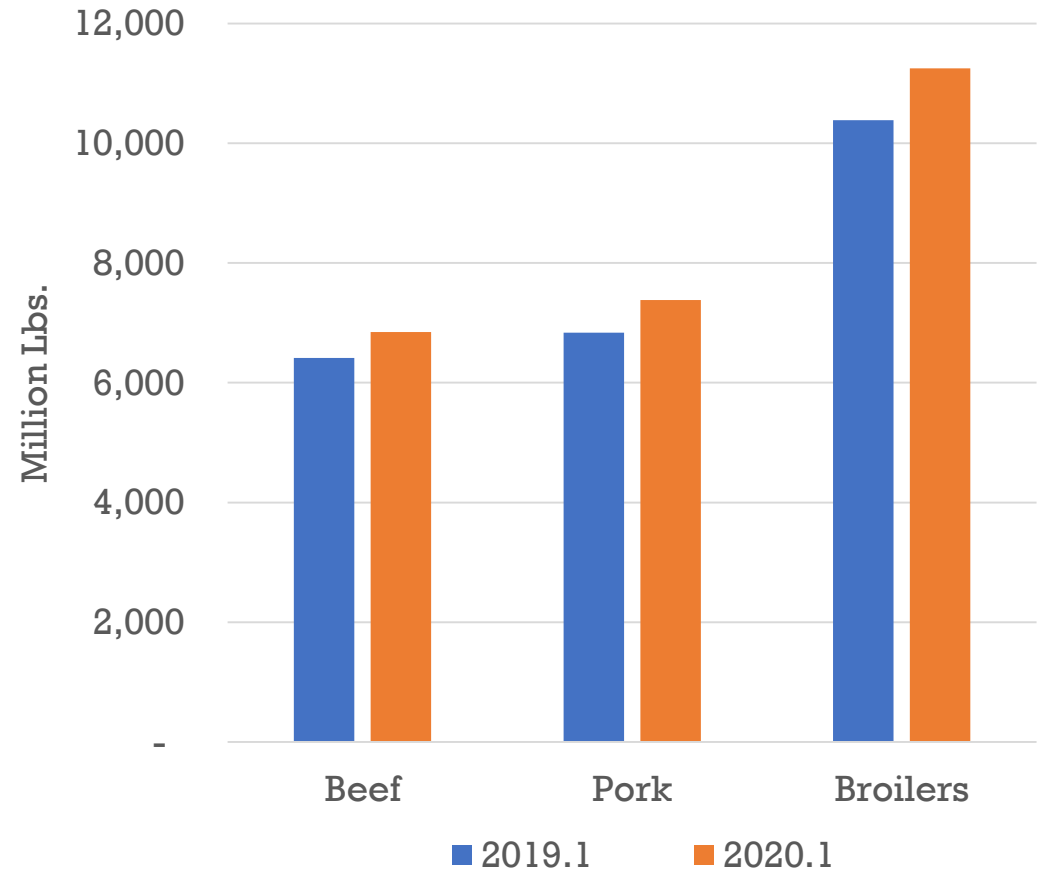
Fed Cattle Basis

- A big part of the drop in cattle futures has shown up in basis
 - Cash prices are relatively stronger than futures prices, resulting in a large, positive difference between cash and futures prices
 - Cash market is tracking closer to market fundamentals than futures market (which is mostly following equities)



Good News and Bad News

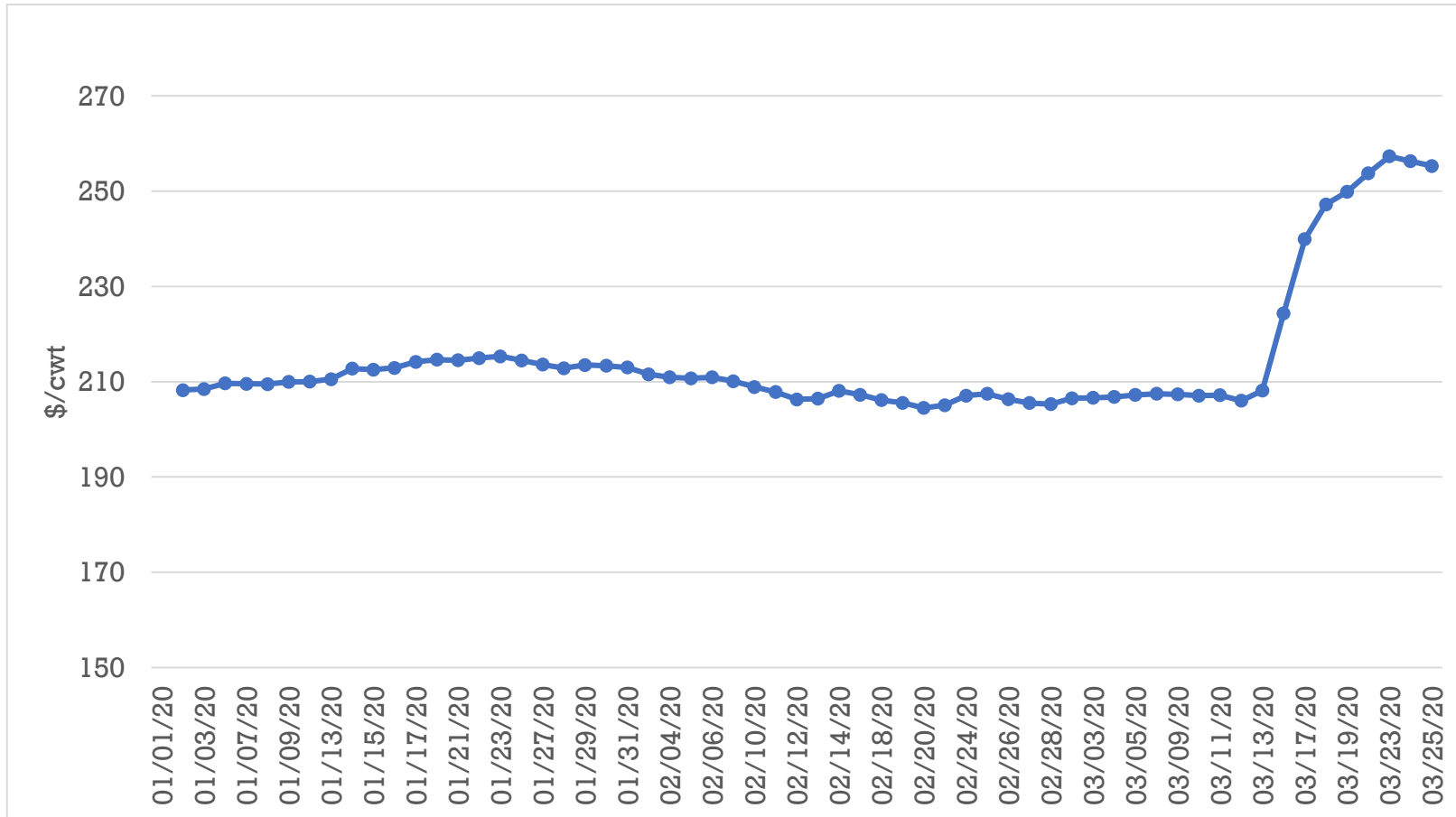
- **Good News**
 - Market fundamentals are almost certainly better than futures are pricing in now
- **Bad News**
 - Market fundamentals are worse than we thought they would be in Q1 even without COVID-19
 - **Production Change in Q1, Y/Y**
 - Beef: +6.7%
 - Pork: +7.9%
 - Broilers: +8.3%



Short-Term Considerations

- Market is being whipsawed right now
 - Massive uncertainty among consumers
 - Panic buying
 - Retailers and packers planning for supply-chain disruptions

Daily Choice Cutout Value



Data source: USDA Agricultural Marketing Service through Livestock Marketing Information Center.

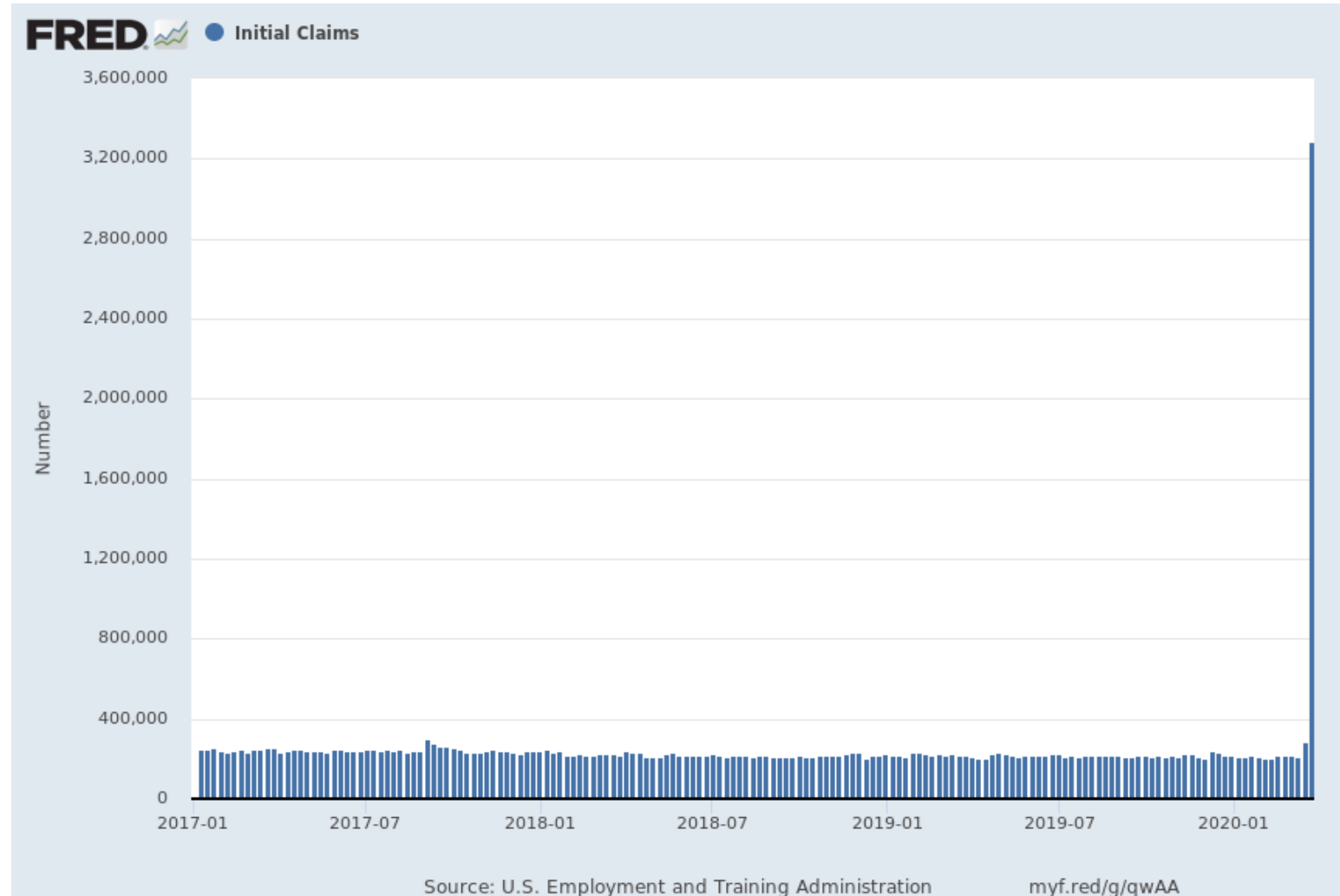
Longer-Term Considerations

- Demand: impact of COVID-19 is almost certainly negative
 - Panic-buying is not the same thing as an increase in demand
 - Essentially pulls demand from later periods ahead to today
 - Disruption of restaurant trade
 - Shift to more product at lower end of price scale
 - Wealth effect of market losses
 - Increase in savings due to perceived risk
- Supply: Second half of year looks much better
 - Expecting second-half 2020 beef production to be down a couple of percent, y/y (subject to change)

Initial jobless claims

COVID-19 unemployment spike is unprecedented in initial jobless claims data going back to the late-1960s.

This is the kind of thing that will contribute to negative downside impacts on beef/cattle markets.



Final Thoughts

- Uncertainty is extremely hard on markets.
- Moving forward, even if news looks bad, uncertainty will begin to resolve one way or another.
- If COVID-19 outbreak has abated in the next month or so, rebound in markets could be relatively quick, especially if support from the supply side of the market does materialize.

Thank You!

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