



## **Cattle futures hit all-time high, with more upside seen for 2012**

Bruce Blythe, Business Editor | Updated: October 3, 2011

Cattle futures in Chicago rose to an all-time high and hold potential to climb further in 2012 amid strong beef demand and shrinking animal inventories, analysts say.

Animal supplies "are tightening up quicker than expected," said Dennis Smith, an analyst with Archer Financial Services in Chicago. Additionally, beef demand has been stronger than expected, partly because of exports, he said. As the availability of young animals for fattening declines, cattle prices next year are poised to reach unprecedented levels above \$130 per hundred pounds, Smith said.

"Supplies are going to get tighter," Smith said in an Oct. 3 interview. "I look for continued strength in cattle market, pretty much based on tight supplies."

Smith is among observers who expect the cattle market to extend a two-year bull run into 2012, bolstering financial prospects for feedlot operators but likely signaling even higher supermarket prices for steaks and burgers. Rabobank International, in a report last week, predicted a "sharp shortfall" in slaughter-ready cattle by next spring that "should lead to another year of record-setting cattle and beef prices in the U.S."

Futures traded on CME Group in Chicago also convey ongoing strength, with the benchmark cattle contract rising 13 percent through the end of September from the close of last year, following a gain of 25 percent in 2010.

In trading Oct. 3, live cattle futures for delivery this month rose 95 cents to the equivalent of \$123.10 per hundredweight. That's the highest

settlement for a contract closest to expiration since cattle futures began trading in 1964. April futures settled at \$127.15.

Feedlot inventories, or the number of cattle being fattened for slaughter, totaled 10.72 million head as of Sept. 1, up 5.3 percent from the same date a year earlier, according to a [U.S. Department of Agriculture report](#).

But inventories have been inflated because severe drought in the Southern Plains prompted ranchers to sell young cattle to feedlots sooner than normal, and feedlot placements probably will decline in coming months, analysts say. In September, placements fell 0.8 percent compared with the same month in 2010, contrary to expectations for an increase.

Additionally, the drought led to more cows being sent to slaughter, liquidation of the breeding stock that will have longer-term implications, including a "potentially dramatic" decline in beef production in 2012, Rabobank said. By late 2012, U.S. beef production may fall about 7 percent below 2011 levels, Rabobank said.

Slaughter-ready steers may average \$116 per hundredweight in 2012, up from \$113 this year and \$96 last year, Rabobank estimated. Steers averaged about \$120 last week in major U.S. cattle markets, up 24 percent from the same week in 2010, according to USDA data.

Meanwhile, U.S. meat exports have boomed in part because of a weak dollar, with beef shipments through the first seven months of 2011 up 27 percent from the same period in 2010, according to USDA reports.

The export market strength helped cattle defy a broader commodities slump, as Europe's debt crisis and concern over global recession sent prices for corn, crude oil and other markets tumbling last month. While speculators sharply cut bullish positions in grains in recent weeks, they continue to heavily bet on higher prices in cattle and hogs.

As of Sept. 27, swap dealers and managed money, the two biggest categories of speculators tracked by market regulators, held about seven long futures contracts for every short contract, according to the Commodity Futures Trading Commission. Long positions are bets prices will rise.

Some see potential stumbling blocks for the cattle market, especially with U.S. unemployment above 9 percent and beef becoming increasingly

expensive. Based on some figures, consumers have already curbed beef purchases.

During the four weeks ended Aug. 21, U.S. supermarket beef sales fell 8.5 percent from the same period a year earlier, to 312.4 million pounds, according to FreshLook Marketing Group. But thanks to higher prices, beef sales in dollar terms rose 1.2 percent, to \$1.3 billion. The sales numbers do not include Wal-Mart Stores or warehouse chains such as Costco Wholesale Corp.

Growing concern over the global economy's path pervades all markets, and any wide-scale financial calamity is sure to pull in cattle along with everything else, said Phil Stanley, an independent cattle futures trader at CME Group in Chicago. Earlier Oct. 3, the Standard & Poor's 500 index fell to a low for the year.

"People are nervous," Stanley said from the CME trading floor Oct. 3. "Fear is driving these markets every day." As for cattle futures, "I can't believe we're going to sustain these prices" through October, Stanley said. "I'm bearish."

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