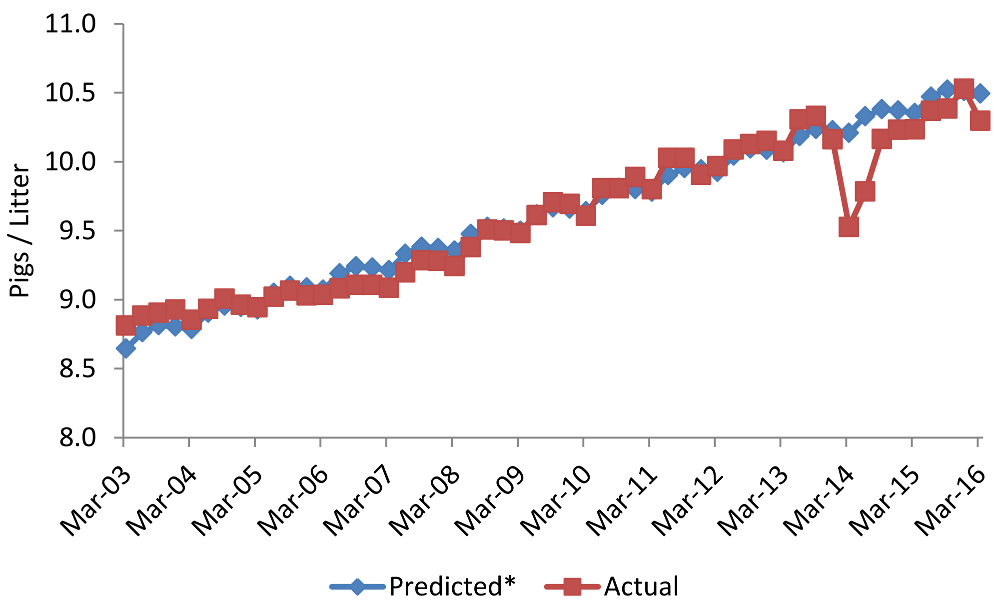
March 2016 – Livestock Market Update
Public Policy Department
Budget & Economic Analysis Team

Quarterly Hogs and Pigs Report

Last Friday, USDA released the Quarterly Hogs and Pigs report. Most of the key numbers in the report were in line with pre-report expectations, but there were a couple of notable discrepancies. The Dec.-Feb. pig crop was on the low side of expectations. Dec.-Feb. farrowings were actually higher than expected at 99.2 percent of the prior year. On the other hand, pigs-saved-per-litter was below expectations. On average, pre-report estimates of pigs-saved-per-litter for Dec.-Feb. called for that number to be up by almost two percent compared to the prior year. Actual pigs-saved-per-litter for Dec.-Feb. was up by only 0.6 percent to 10.29 pigs per litter.

The Dec.-Feb. timeframe typically represents a seasonally down time for pigs-saved-per-litter, but the seasonal dip in last week's report was a bit larger than would have been expected. Figure 1 shows quarterly pigs-saved-per-litter from the Quarterly Hogs and Pigs reports along with a predicted pigs-saved-per-litter series from an equation estimated using data from March 2003 through March 2013 (i.e., before the impact of PEDv on the data).



Data Source: USDA National Agricultural Statistics Service through Livestock Marketing Information Center

Figure 1. Quarterly Pigs Saved Per Litter: Actual vs. Predicted

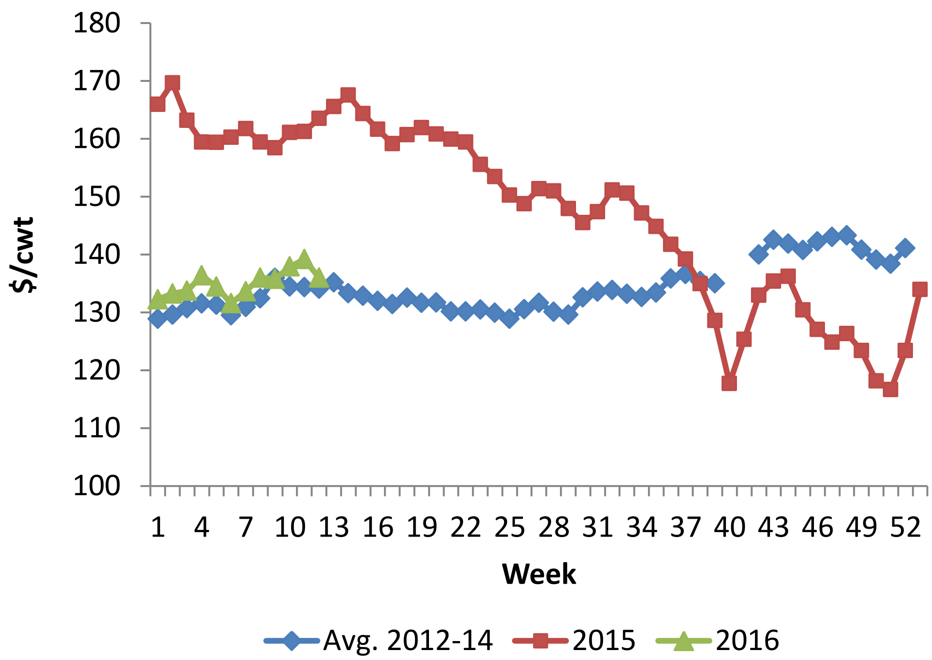
The interesting question now is whether this surprisingly modest year-over-year growth in pigs-saved-per-litter is a one-off phenomenon for the Dec.-Feb. period or if such modest growth will continue in the next couple of quarters. This is a serious question this year because of concerns that the industry could be facing capacity constraints in the fourth quarter of this year. Last week's report put March-May farrowing intentions at 99.5 percent of the prior year (2.839 million head). That was on the low side of expectations. Still, if pigs-saved-per-litter is up by more than about 1.1 percent (historically, a very achievable increase), the March-May pig crop will be record large for that quarter and will likely heighten concerns about available capacity near the end of the year.

Spring Cattle Prices

Live Cattle futures contracts had a pretty rough week last week. The nearby April contract has fallen by almost $7 since posting a four-month high of $141.90 on March 17. The June contract has lost over $5. The sharp declines in Live Cattle futures that began a week ago Friday mark what is looking like the end of a rally that went on more-or-less steadily beginning around mid-February. That rally left the April contract far short of the salad days of last summer when the contract was well above $150, but it did look quite a bit better than the depths of mid-December when the contract was below $125.

Of course, the April contract is interesting because we frequently have our spring high against that contract. As long as April is on the rally, there is hope that cash prices might still have some up-side left in them. After last week, it gets a lot harder to expect anything more out of this spring market.

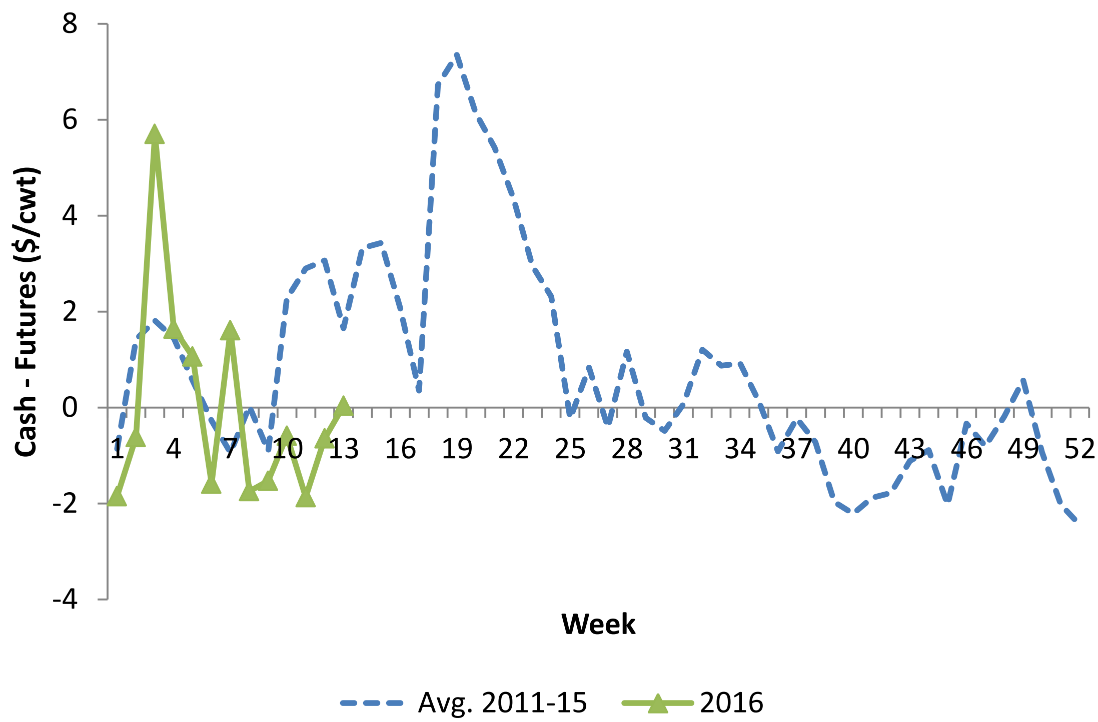
To be sure, the month-long run in cattle futures looked a bit less interesting from the cash market side of things. Here in Figure 2 is the weekly 5-Area weighted average steer price chart.



Data Source: USDA Agricultural Marketing Service through Livestock Marketing Information Center

Figure 2. Weekly 5-Area Weighted Average Fed Steer Price

While the April contract was running up from $129 to almost $142, the cash market was easing along from $131.56 for the week ending February 14 to $139.18 for the week ending March 20. The relatively sluggish performance of cash prices in comparison to futures prices have resulted in a pretty weak basis in recent weeks. Figure 3 shows basis calculated using Friday closing futures prices and the weekly 5-Area fed steer price.



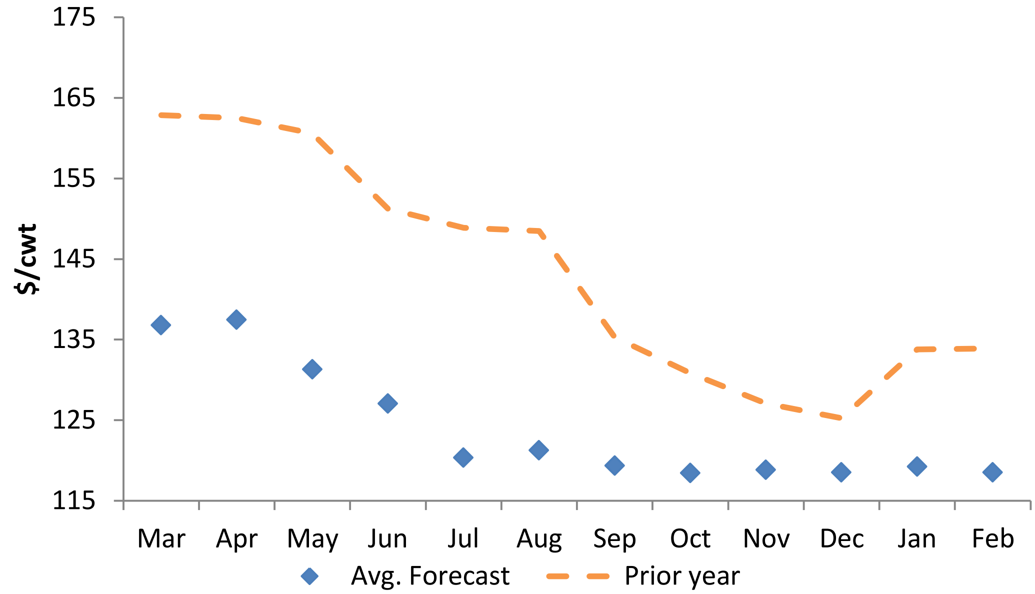
Notes: Basis calculated as the weekly average 5-Area weighted average fed steer price minus the Friday closing price on the nearby CME Live Cattle contract.
Data Source: USDA Agricultural Marketing Service and CME Group though Livestock Marketing Information Center

Figure 3. Weekly Fed Cattle Basis: 2016 ytd v. 2011-15 Average

In the last few weeks, cash fed cattle prices have run from about even to $2 under the April Live Cattle contract. Over the past five years, though, cash prices in March have averaged something closer to $2 over the April contract. Basis was particularly strong (i.e., cash prices high relative to futures) in 2014 and 2015 when the cash market was in the $140s to $150s at this time of year. In those red-hot markets, it took impressive bids to pry cattle out of strong hands. This year looks, from that perspective, like a return to normal—whatever that is.

The big question now is whether or not the correction in cattle futures signals that the spring high is in. I'm going to say yes (hoping that this clear prediction will ensure a new high next week). For the week ending March 20, the 5-Area fed steer price worked out to $139.18. Last week, that price fell to $136.12. About a month ago, I did a radio interview where I said I thought we had a real shot at $140 – $142 for the spring high this year. We haven't quite made it, and with the break in the market last week, I don't think we are going to.

Looking ahead, a typical seasonal market would suggest a summer low around the mid-$120s. Current futures for the July/August time frame project a market that is a bit worse than that—more like $120, period. More striking, though, is that right now the board isn't holding out much hope for a fall recovery. Price projections for the fall based on current futures prices adjusted for average basis show the market slipping below $120 this fall and holding there. Figure 4 shows futures-based price projections through February 2017.



Notes: Price projection based on March 28, 2016 Live Cattle futures prices adjusted for 2011-15 average basis.
Figure 4. Futures-Based Fed Cattle Price Projections

A quick break-even illustration might be useful here. Last week, 775 pound feeder steers at Oklahoma City averaged around $155. A 775 pound steer placed on feed at $155, gaining 3.5 pounds per day at a total cost of gain of 75 cents/pound, finishing at 1,350 pounds breaks even at $120.93 in the first week of September. That's pretty close to where the market is right now; today, it implies a basis that's a touch stronger than average, but certainly not out of the question. That 75 cent cost of gain (total – not just feed) is pretty optimistic right now, though. Also, the prices used in this example didn't really leave any room for freight on either end of the deal. The point is, it's tough—as it has mostly been for about a year and a half now— to pencil much return out of feeding given current price projections.

Contact: John Anderson, 202-406-3623, johna@fb.org

New EU Proposal on GIs Released

Last week, the European Commission released a series of its negotiating proposals for the Transatlantic Trade and Investment Partnership (TTIP) on a number of areas, including a concept paper and a "text outline" on protection of geographical indications (GIs) under the heading of the intellectual property and GIs.

The concept paper lays out the shortcomings of the U.S. trademark system in protecting GIs for agricultural products and foodstuffs, which the EU says is weaker than the one offered for wine and spirits. The paper lays out the EU and U.S. approaches to GI protection, including the EU's perceptions of the shortcomings of the U.S. system. Those shortcomings include the costs of registration under the U.S.'s trademark system, absence of enforcement by administrative action, existing trademarks on some products the EU considers to be GIs, and some GIs cannot be protected because the U.S. considers them to have achieved generic nature. The EU paper goes on to suggest how available legal instruments in existing U.S. law could be used to enhance the level of protection for GIs. Also included is an annex listing 201 food GIs that the EU wants to be included in TTIP.

The GI issue is most often associated with cheese, but the EU has protections in place for approximately 1,000 food-related geographical indications (GIs) alone, covering a wide variety of products. See the list here: http://ec.europa.eu/agriculture/quality/door/list.html. The EU's TTIP list highlights that variety. The list includes the following: 12 beers; 9 bread, pastry, cakes, confectionary, biscuits and other baker's wares; 78 cheeses; 1 essential oil; 4 fresh fish, molluscs and crustaceans and products derived therefrom; 4 fresh meats; 24 fruits, vegetables and cereals fresh or processed; 26 meat products (cooked, salted, smoked, etc.); 1 natural gums and resins; 34 oils and fats (butter, margarine, etc.); and 8 "other" products including spices.

Getting additional protection for GIs is a significant negotiating priority for the EU. At the heart of Europe's approach to GI protection is the idea of terroir—that there is an essential nexus between a product's characteristics and the place it was made. When others use place names in a generic way, they are, in the European view, unfairly usurping the value created in that name by generations of local producers.

For the bulk of GIs the name serves to protect specialty products that aren't produced elsewhere. The "rub" occurs when companies with rights to these GIs attempt to extend the protection to generic names like "parmesan," "gorgonzola," "asiago," and "feta"—often as individual words within the GI.

The EU has stated time and again that they do not intend to protect generic names, yet Munster, Beaufort, Roquefort, Feta, Asiago and Gorgonzola cheeses; Valencia oranges and Budějovické pivo (you know it as Budweiser) all made it on their list of 201 products. Given these common names, the likelihood of conflict is significant.

For example, more than 790,000 mt of feta was produced outside of Greece in 2014. That's more than 10 times the amount of feta produced in Greece. Similarly, 64 percent of all exported feta is non-Greek feta. The U.S. Dairy Export Council has estimated that in the United States alone the top cheeses that could be impacted represent at least 14 percent of U.S. cheese production, valued at $4.2 billion a year.

While there is a lot in the EU proposal that we won't like, it's the first attempt to lay out the differences between the two legal systems that I've seen. Their proposal at least gives us something substantive to react to.

Resources:

EU concept paper on Geographical Indications (GIs):
http://trade.ec.europa.eu/doclib/docs/2016/march/tradoc_154384.Paper%20Geographical%20Indications%20FINAL.pdf

EU proposal – text outline for GIs:
http://trade.ec.europa.eu/doclib/docs/2016/march/tradoc_154385.%20Paper%20-%20GIs%20skeleton%20FINAL.pdf

EU Annex I: list of foodstuffs:
http://trade.ec.europa.eu/doclib/docs/2016/march/tradoc_154386.GIPaperAnnex1%20FINAL_REV.pdf

CATO Institute Policy Analysis, Reign of *Terroir*: How to Resist Europe's Efforts to Control Common Food Names as Geographical Indications: http://www.cato.org/publications/policy-analysis/reign-terroir-how-resist-europes-efforts-control-common-food-names#full

Consortium for Common Food Names: www.commonfoodnames.com/

Contact: Veronica Nigh, 202-406-3622, veronican@fb.org