



Issue Brief

What's Behind the Cattle Market Price Collapse?

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Introduction

Cattle prices plummeted from the beginning of August until early October, catching many market participants totally off-guard. In the months leading up to the abrupt downturn, the cattle industry was engaged fully in rebuilding the cattle herd, and those efforts had contributed to a shortage of beef – and higher prices. Hence, when live cattle prices plummeted in early August, many market participants were left wondering what had happened to prices – and also whether cattle prices would soon level off, fall further, or make a U-turn and head higher.

In our view, the cattle price collapse was a transitory event – one that will be reversed in coming months. It was the result of three factors. First, feedyards found themselves with an overabundance of unusually heavy fed cattle. Second, in response to increased supplies of pork and chicken, the disparities between beef prices and those of pork and chicken had widened to such an extent that consumers were impelled to curtail their purchases of beef products. Third, as cattle prices began to fall due to the imbalance between supply and demand, market psychology kicked-in and overreacted to the unexpected fall in beef prices, accelerating the decline. All three of these factors are temporary in nature and should dissipate in coming weeks, setting the stage for a price rally. In fact, this rally may have already begun, with most cattle futures contracts posting near limit up moves in the past several days.

Current Market Conditions and Outlook

- The live cattle (LC) and wholesale beef market prices have recently tumbled to their lowest levels since late 2013. This steep price decline reflected a backlog of unusually heavy fed cattle in feedyards plus a challenging demand environment.
- LC prices have been on a steady decline since the beginning of August 2015. The October LC futures contract (*Exhibit 1*) has dropped \$26 per hundredweight in the last 30 days to a low of \$121 on October 1, 2015. This represents the largest 30 day price decline since the discovery of mad-cow disease (i.e., bovine spongiform encephalopathy or BSE) in the U.S. in 2003.

Exhibit 1: October Live Cattle Futures



Source: CME Group