# Cow Country Reporter

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## News from your CEO

Here we are in February waiting for sunshine and higher temperatures to make our forages "bust open". Grazing in March makes the outlook more profitable. The big news in the cattle business is the 2015 Cattle Inventory and the roller coaster Future's Market. Read about the U.S. Inventory in this newsletter by Darrell Peel. The Louisiana Cattle Inventory showed all cattle and calves unchanged at 790,000 head, beef cow numbers up 4%, beef replacement heifers down 13%, all cows and heifers that have calved up 3% and all heifers 500 lbs. and over down 8%, The first week in February over 80 loads of Louisiana cattle were sold on the Superior Video Sale. This sale had many PO and scratched lots, but our Louisiana cattle came through with flying colors. The mixed loads of steers and heifers (unweaned) 600-650 lbs. for June-August delivery sold from $225.00-$231.00 cwt. A good job by the reps and producers who work hard to showcase good Louisiana cattle. I wanted to highlight this event for two reasons. 1. to provide an insight to the future (summer markets) price potential and 2. to point out how important it is to be in contact with your marketing agent. It makes no difference how you market your cattle (auction market, order buyer, video) one needs to be in contact with your

agent. They are in the market everyday, so use their expertise to add value to your cattle. Remember, you don't need to sell load lots to be successful, but you do need to be "posted" on the market.

May we be blessed with green grass and sunshine as we look toward Spring.

*Dave Foster, CEO*

## Feeder Futures Focus on Fear

By Cassie Fish, CassandraFish.com;
Reprinted from: The Beef

Feeder cattle futures have become the poster child for the anxiety now plaguing the cattle market. This morning, they plunged over 300 lower, making new lows for the move and reaching the lowest level since last June. The worry of relatively high-priced breakevens on feedlot inventory coupled with the large sums of capital now required to run the cattle business seems to be manifesting in feeder cattle futures, where the technical picture is bleak, the liquidity poor and the outlook uncertain.

Live cattle futures can't ignore feeders, even though they'd like to, and each time feeders dump lower, fats slide. Only spot Feb LC remains tethered, albeit loosely, to the real world and gains in bull spreads, Feb now more than $5 over Apr, proof that some logic still prevails.

**Negotiated Trade Can't Be** Pushed Into Next Week

Packers must enter the negotiated market this week and replenish inventories from a limited pool of market-ready fat cattle. But like any astute trader, packers hope to use the lousy futures action to their advantage, even though the volatility of late could work against them at any moment, if futures were

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## Bigger beef cow herd; fastest growth in Southern Plains

By: Derrell S. Peel, Oklahoma State University Extension Livestock Marketing Specialist

The inventory of all cattle and calves was 89.8 million head on January 1, 2015, up 1.4 percent from one year ago but, except for last year, still the smallest total herd inventory since 1952. The 2014 calf crop was up 0.5 percent from 2013 at 33.9 million head. The 2014 calf crop percentage (calf crop as a percent of all cows) was 88.5 percent, the highest percentage since 2006. Total U.S. cattle on feed on January 1 were 13.1 million head, up one percent from last year. The estimated supply of feeder cattle outside feedlots was up 0.5 percent as a result of one percent increases in the inventory of steers, 500 pounds and over and calves, under 500 pounds; along with a slight decrease in the inventory of other heifers. Dairy cows and dairy replacement heifers were up one percent from one year ago.

The U.S. beef cow herd grew by 2.1 percent in 2014 to 29.7 million head according to the January, 2015 Cattle report. Though beef cow herd expansion was anticipated, this was a larger than expected increase. The largest increases were in Texas, at 107 percent of last year; and Oklahoma, up 6 percent from one year ago. These two states accounted for 62 percent of the total increase in the beef cow herd. Kansas and Missouri each accounted for about 10 percent of the cow herd increase meaning that those four states accounted for 82 percent of the total increase in beef cows. The increase in Texas beef cow inventory was higher than expected because, despite improved conditions, significant areas of drought remain in the state. There were some other surprising data in the report including the fact that California beef cow inventories were unchanged despite the severe drought in 2014, along with Oregon, which also experienced significant drought but had a 1.7 percent increase in the beef cow herd in the state. The lack of growth in the Northern Plains was also somewhat surprising with decreased beef cow herds in North and South Dakota and a Nebraska beef cow herd unchanged from one year ago.

The inventory of beef replacement heifers was up 4 percent year over year indicating that further expansion is planned on the part of cow-calf producers. January 1 beef replacement heifers, as a percent of the beef cow herd was a record 19.5 percent, indicating intensive heifer retention. Moreover, the calculated percent of heifers entering the herd in 2014 jumped 23 percent year over year; with those heifers entering the herd representing 96 percent of NASS reported heifers expected to calve in 2014. Oklahoma beef replacement heifers were up 80,000 head, a 25 percent year over year increase, and accounted for 35 percent of the total increase in replacement heifers. The beef replacement heifer increase of 8 percent in Texas and the 12 percent increase in South Dakota, were the second and third largest increases in absolute numbers and, when combined with Oklahoma, represent 75 percent of the total increase in beef replacement heifers. Kansas also had an 8 percent year over year increase in beef replacement heifers.

This report does not change market fundamentals much, if any, in 2015. The fact that there are more cows than expected does not change the timing of beef production in 2015. The marginal increase in estimated feeder provides little relief to tight feeder numbers and may be offset with even more heifer retention and the possibility of smaller feeder cattle imports from Mexico and Canada this year. The jump-start to herd expansion could shave a year off of the time needed for herd rebuilding, depending on herd expansion in 2015 and beyond. In any event, herd expansion is expected to continue until late in the decade baring setbacks from drought.

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to find footing. Futures are currently attempting yet another come-back from the brink at this writing and if Feb LC can trade above yesterday's high, cash could end up higher for the week. The tightness of supply "should" be enough to warrant higher prices, but the market psychology reflected in the futures market, for better or worse, can't be ignored.

### Boxes Stabilize; Exports Disappointing

Boxed beef values have stabilized for a moment and though beef exports aren't great so far in 2015, down 15% YTD according to *MP Agrilytics, certain sales segments aren't all that bad for some packers. There is likely a greater P&L variation from one packer to another currently than usual, making competition more uneven and the overall market more mottled to read.

### A Reaction to an Action?

Aside from the financial exposure in the cattle feeding industry contributing to an underlying sense of anxiousness, it's difficult to pin point data to support the monster discounts in cattle futures. Cattle do have a habit of coupling action and reaction (think 1973 Nixon price freeze/major top at new all-time highs 6 years later OR dairy buy-out/Chernobyl in the 1980s) Which has brought to mind in recent weeks, 2008, when monster premiums in live cattle futures existed for months, unsupported by fundamentals. Looking back,

## Beef export markets give strong push to U.S. beef producers' bottom line

By: Laura Mushrush, Assistant Editor, Drovers CattleNetwork

A steadily increasing world population and growing hunger for beef has set the U.S. beef industry at a key player in the world's meat export market.

During the, "Why are the Export Markets for Beef so Valuable?" breakout session at the 2015 Cattlemen's College during the Cattle Industry Convention in San Antonio, Texas, a panel of three export veterans discussed the impact of the global demand on the U.S. beef market.

According to U.S. Meat Export Federation (USMEF) Sr. VP of Export Services Paul Clayton, the U.S. has a play of $7 billion in international exports of meat and $5 billion in the meat byproduct market. When it's all said and done, this demand pressure is projected to bring $300 per head to a U.S. producer's bottom line, he says.

While traditional beef cuts are sought after, the byproduct market has been a key player in increasing carcass value.

"This is referred to as drop credit," Clayton says, which includes all parts of the animal that is not the meat carcass. This includes hides (the most valuable byproduct), organs, heads and tails, he says. Drop credit also covers rendered products such as blood meal, tallow and gel bone, along with pet food and pharmaceutical components. While prices change daily, Clayton says currently cattle hides account for 48 percent of the market; variety meats (tongues, liver), 33 percent; and rendered products, 19 percent.

Of the $5 billion in total byproduct sales, hides alone bring in $2.6 billion. The biggest markets are China, Hong Kong, South Korea, Taiwan, Italy, Vietnam, Mexico, Thailand, and Japan. Because environmental laws do not allow leather tanning in the U.S., often hides are shipped off to these countries to be processed before returning to the U.S., says Clayton.

Since 2011, drop credit value has increased from $0.27 to bringing home $21.86 in 2013.

Also in for the discussion was Certified Angus Beef's (CAB) Larry Corah – the branded beef program has a premium beef market presence in over 80 countries.

According to Corah, 80 to 82 percent of the global grain-fed beef is produced in the U.S., giving it a leg up on bringing the global market place the taste of grain finished beef.

A key difference in the domestic U.S. beef cut market compared to the majority of international markets in the consumption of ground beef products. While the U.S. consumes 58 to 60 percent of its beef cut market in ground beef, international markets tend to shy away from ground products, says Corah, noting out of the 882 million pounds of beef CAB sold last year globally, only 8 million pounds were ground. However, he projects a growing increase if the right education is provided on cooking methods with ground beef.

The last presenter on the panel was Jay Theiler of AgriBeef. The family operated company is unique in completing a full cycle of the cattle business in directly marketing from the cow calf sector to the consumer's plate with multiple branded beef programs. Since the business is located in Boise, Idaho, its shipment port out of Washington puts them at key location for business with Asia.

"OECD projects the middle class purchasing power to increase by $31 trillion by 2030 – and 80 percent of that is expected to be in Asia," says Theiler.

Theiler also remains optimistic about the possibilities of the Trans-Pacific Partnership if it is pushed through to an agreement of dropping export tariffs from 30 percent to 9 percent.

With the recent west coast port slow-downs, Theiler says exports for AgriBeef have taken a huge hit – with the company shipping product by air. According to Theiler, even if an agreement is met with port workers, it will take at least 45 days to get shipping back to normal. Theiler expressed how urgent it was to the U.S. export players as a whole for the issue to be resolved, encouraging the crowd to reach out to their legislative groups to get involved.

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we know those premiums were never realized by the cash market. It was only demand for futures contracts by outside money that took cattle futures ridiculously high. At the time analysts attempted to explain the premiums, just as many are trying to explain the huge discounts now.

Could the opposite side of that huge rally and top in July of 2008 be expressing itself now in 2015? Is this simply the "reaction" to that "action"? It is interesting to contemplate that cash trading as low as today's discounted futures prices is just as far-fetched as the sky high premiums of 2008. Hard to argue that there is a litany of bearish fundamental "expectations" reflected in sub-$140 summer fed cattle prices. We won't know until then if futures overshot the mark on the downside like they did on the upside in 2008.

## The Glass Half Empty

Source: The Beef

Regardless of futures' dramatic discount to cash and a myriad of positive fundamentals discussed here and elsewhere, cattle futures seem to be of one mind only. Though a top was made in November, the fear faucet wasn't turned on until December. Two months, a 14% correction later as thousands of contracts were liquidated, futures still can't mount a decent rally.

Back in the day of the pit, folks used to put in their orders. Deck holder's hands were stuffed as they sorted the deck, handing orders to the order fillers as the market moved. The market "went to the paper" in those days, chewing through price levels, occasionally hitting patches when orders were thin and prices surged or fell accordingly. There was a sense of fairness and order. Now we have the box. There is a reluctance to put in resting orders. Methodical price action has become the exception, not the rule. Volatility begets volatility. The more futures disconnect from the cash market, the louder the alarm bell rings.

There is a recurring concern the live cattle futures contract might be broken though no one has a clear idea on how to fix it, let alone if its fixable. The cattle Twitter chat uses the word "casino" to describe cattle futures trading on days like yesterday. These changes in market behavior have eroded confidence in the futures marketplace. Some might say these changes are part of our advancing society and nothing more and traders and the underlying beef and cattle markets simply must adapt. Others are seriously concerned.

In 2014, on the way up futures lagged behind the cash but the bull market in the real world prevailed. No premiums were priced in, no bullish exuberance, and no short-covering blow-off top ensued. It was almost as if the market was just holding its breath, waiting for a chance to go down. And now that the market has that bit in its mouth, it seems as if nothing will make it let go.

Cash Bids $160

Two major packers are bidding $160 and being passed. A few cattle traded that way. This news took Feb LC higher on the day and above yesterday's high. But to spark a real rally, Feb needs to take out Monday's high of $156 and never look back.

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