Cow Country Reporter

February 2016 Volume 8 Issue 2

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News from your CEO

We have an extra day this year (Leap Year) in February so what are you going to do with it? Weather continues to play a major role in the cattle market and will be a major factor throughout 2016. The Cattle Inventory was released on January 29, 2016 (see Dr. Derrell Peel's article in the newsletter) and Louisiana went in the opposite direction from the U.S. Inventory. All cattle and calves in Louisiana were down 1% as was the 2015 calf crop. Beef cows down 3%, replacement heifers up 14%. Some people will question the Louisiana report, but as I tell people "when the government (USDA,NASS) calls you for your cattle numbers give them your accurate count." Their report is only as good as the information they collect.

CPL is hosting an Information Meeting in St. Francisville at Sheriff Daniel's place on February 11 at 6:00 pm. Amite Stockyards in Amite, LA is putting together one for late February/early March. Now may be the time to hold such meetings, before the spring rush starts, to get a heads up on what is happening. Another big event that will take place in Louisiana is Superior Livestock Auction will hold its' April sale in Louisiana for the first time. This news is huge! This event speaks volumes for the quality of Louisiana cattle. Whether you use this video auction, your local sale barn or an order buyer to market your calves/ yearlings, for a major video auction to have a sale in Louisiana is great. Louisiana does have good cattle and we will get a chance to showcase them at the sale on April 22, 2016 at the Civic Center in Natchitoches, LA. I tip my hat to all the cattlemen in Louisiana for doing such a good job producing a quality product and all the marketing agents who sell these Louisiana cattle. Keep up the good work!

Dave Foster, CEO

Cattle Inventory: Telling the New Story and Retelling the Old One

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

The annual USDA Cattle report contains new numbers on cattle inventories and significant revisions to the 2015 numbers. It's important to consider the revisions when interpreting the new numbers. In general, the report confirms, as expected, that cattle inventories in the U.S. grew in 2015. However, the magnitude of the changes is somewhat different than expected in some cases and reflects the impacts of the revisions in last year's values. It's important to look back at how the 2014 story changes as a part of understanding the 2015 story.

The latest report pegs the January 1, 2016 all cattle and calves inventory at 92.0 million head, up 3.2 percent from one year ago. This increase was larger than expected but the 2015 total was revised down by roughly 650 thousand head implying that total herd growth in 2014 was 0.7 percent rather than the previously reported 1.4 percent year over year increase. The overall increase over the two year period is close to expectations but the report now says that more growth occurred in 2015 and less in 2014.

The beef cow herd was up 3.5 percent, adding just over one million head to the herd inventory as expected. However, the 2015 beef cow total was revised down nearly 400 thousand head, indicating that 2014 herd growth was only 0.7 percent rather than 2.1 percent as earlier reported. Thus, the herd growth in 2015 was equal to my expectations but the 2016 level of 30.33 million head is smaller than I anticipated.

Perhaps the biggest surprises were in the beef replacement heifer numbers. The 2016 level was up 3.3 percent,

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Cattle Inventory: telling the new story and retelling the old one

smaller than expected; but the 2015 number was revised up by roughly 300 thousand head indicating that the 2015 beef heifer total was up 9.6 percent over 2014, compared to the previously reported 4.1 percent year over year increase. As a result, the revised numbers have the 2015 beef replacement heifer total at 6.09 million head and the 2016 total at 6.29 million head. The 9.6 percent increase in beef replacement heifers from 2014 to 2015 is the largest year over year increase in replacement heifers since 1974. Beef replacement heifers are now reported at more than 20 percent of the beef cow herd for both 2015 and 2016; the highest levels since 1969.

The 2015 calf crop was estimated at 34.3 million head, up 2.3 percent from 2014. However, the 2014 calf crop was revised down from 33.9 million head to 33.5 million head. The 2016 dairy cow inventory was unchanged at 9.3 million head from the 2015 level (unrevised). Dairy replacement heifers were up 2.4 percent at 4.8 million head on top of a revised 2015 total revised up by about 100 thousand head.

The 2015 inventories of other heifers (over 500 pounds), steers (over 500 pounds) and calves (under 500 pounds) were all revised down. Other heifers changed from being down 0.2 percent to down 4.6 percent; steers were revised from being up 0.7 percent to being down 0.2 percent from 2014 levels. Calves were revised from being up 0.9 percent to being down 0.2 percent year over year from 2014. The result is that the 2015 estimate of feeder supplies outside of feedlots was down 1.9 percent in 2015 rather than being up 0.5 percent as previously reported. The 2016 report leads to an estimated January 1 feeder supply of 25.9 million head, up sharply by 5.3 percent from 2015 based on more other heifers, up 2.9 percent; more steers, 4.4 percent; and more calves, up 3.9 percent. Without the revisions to the 2015 numbers, the 2016 estimated feeder supply would be up 2.8 percent.

R-CALF USA Responds to Dubious TPP Testimony and NCBA Jabs

Billings, Mont. - During a formal hearing held recently by the U.S. International Trade Commission (ITC), representatives of the world's largest multinational meatpackers praised the proposed Trans-Pacific Partnership (TPP) free trade agreement. Hearing witnesses representing U.S. livestock and meat industries included R-CALF USA, National Cattlemen's Beef Association (NCBA), Cargill, Inc., U.S. Dairy Export Council, and U.S. Hide, Skin and Leather Association, an affiliate of the North American Meat Institute (NAMI, formally AMI).

R-CALF USA was the only livestock industry representative that opposed the TPP during the hearing.

"I don't represent the beef industry," said R-CALF USA CEO Bill Bullard adding, "I represent the cattle industry. Our members sell cattle to beef industry packers. The TPP will impact the cattle industry very differently than it impacts the beef industry."

Among the many pro-TPP claims made by the NCBA, which represents large multinational meatpackers as well as some producers, was that beef exports in 2014 accounted for nearly $350 per head in overall sales of fed cattle, with similar benefits expected from the proposed TPP.

But R-CALF USA explains in its post-hearing brief, that if the meatpackers' claim was true, then U.S. cattle feeders would have received an additional $8.3 billion in export-generated revenues from the sale of the 23.8 million fed cattle marketed in 2014. However, even the meatpackers testified that total beef export revenues in 2014 were only $7.1 billion.

"It is not possible; rather it is impossible, that exports had conferred more value on U.S. finished steers and heifers than the total value received for all exports during the 2014 record year for exports," wrote R-CALF USA.

Another NCBA claim was that TPP countries Australia, New Zealand, Canada and Mexico cannot compete with grain-fed U.S. beef because those countries primarily export beef from grass-fed cattle.

But R-CALF USA explains the TPP lasts for perpetuity and countries around the world are emulating the U.S. grain-fed industry, which is being made very easy because multinational meatpackers now have both feedlots and packing plants in two or more TPP countries.

The group's brief states that 40 percent of Australia's total beef supply and 80 percent of the beef sold in Australia's domestic market is now grain fed, that the Mexican government is now making investments to expand cattle feeding in its country, and Canada's feedlot inventory for the month of December has averaged about 1 million head during the past 5 years.

"The knowledge, technology, genetics and managerial skills that once made the United States the exclusive supplier of high-quality grain fed beef has now been transferred around the world," the group wrote.

A related NCBA claim was that the $1.2 billion deficit in the trade of cattle, beef, beef variety meats and processed beef in 2014 was not harmful because lean beef from TPP countries Australia and New Zealand are needed to mix with U.S. trimmings to make ever-popular ground beef.

R-CALF USA's brief asserts that the NCBA argument that imports compliment U.S. production rather than compete against it has contributed to the exodus of over half a million cattle producers since 1980.

The group's brief explains that meatpackers import large volumes of lean beef to depress the United States' cull cow and bull market. This, the group states, reduces a significant portion of U.S. farmer and rancher income because about 20 percent of their income is derived from the sale of cull cattle.

Yet another NCBA claim was a refutation of R-CALF USA's assertion that meatpackers will likely begin shipping cattle from Australia to be slaughtered in the U.S., where the resulting beef would be eligible for a "Product of the USA" label under the overly liberal rules-of-origin contained in the TPP.

That is "purely speculative," stated Kevin Kester, Policy Division Chair for the NCBA, who asserted it was "cost-prohibitive" to ship cattle across the Pacific Ocean, including from Hawaii.

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Cattle on Feed Report: Market has Overreacted to the Downside

Source: Stephen R. Koontz, Professor, Department of Agricultural Economics, Colorado State University

The USDA Cattle on Feed Report released last Friday contained some surprises and is notably lacking news that the price trend established through the last half of 2015 would be reversed. Cattle and calf prices may firm up some in early 2016 but it will be because the market has overreacted to the downside and not that there specific good news in the report. The fed cattle and beef markets have shown some improvement to that fact but calves have not.

The January 2016 report with information as of December 2015 states that the inventory of cattle on feed – at the end of December and the beginning on January – was 99.5% of the prior year. Placements were lighter than, 99.2% of, the prior year while marketings were heavier than, 101.1% of the prior year. However, these numbers are modestly bearish relative to pre-report expectations. Lighter placements and heavier marketings where not light enough and not heavy enough to change market fundamentals. The survey conducted by Urner Barry and discussed in the Daily Livestock Report suggests that placements held the biggest surprise. Of the 10 analysts surveyed, the average expected placements was 94.9% with a range of 91.1%-97.5%. Actual placements are well outside of that range to the upside. Marketings were more in line with expectations. The survey average was 101.9% with a range of 100.9%-103.4%. Actual marketings are just below the average. Finally, the cattle on feed inventory average was 98.8% with a range of 98.3%-100.5%. The actual is just above average.

The report is modestly bearish and no aspect of it suggests fundamentals that could change the downward direction of price. So, slight bad news and no specific good news for producers. The stronger placement numbers are not too surprising to me. Placements in that report have been year-over-year lighter since the August. With a bigger cowherd and higher calve numbers then placements are bound to tick up sometime over this fall and winter. The increase suggests possibly that the delayed marketings that many producers have talked about this fall in the face of the calf price decline have picked back up. Some producers that I have talked to last fall and this winter have held and fed calves and cull cows in hopes of some price improvement. Perhaps not into the next calendar year.

The most troubling news in the report is the sluggish marketings. This is one of the main fundamental factors that has driven fed animal prices lower through the last half of 2015 and it continued through December. Calculations by the LMIC of cattle on feed over 90 days and over 120 days show continued abundant showlist volumes. The over 90 day inventory grew modestly when it usually begins a strong seasonal increase but the over 120 day remains a persistent issue. I believe the next two months will tell what type of seasonal rally we may see with cattle prices in the spring. Long-fed inventories need to be reduced for this to occur and it may be that the feeding industry is close to cleaning these up.

Cash fed cattle and also boxed beef values have shown some strength over the past several weeks. Albeit, movements up off of very low prices. The 5-area fed animal price rallied to $133.25 from $116.60 three weeks prior. Likewise, Choice boxed beef rallied to $234.67 from $193.83 just two weeks prior. It is just plain difficult to explain those low prices based on market fundamentals. Thus, they are most likely the overreaction to the downside. Retail margins are strong and featuring of beef and pork appears to be moving product. Pork in cold storage has moderated, whereas, the volume of beef has not. While the lower prices are painful for sellers, especially the sellers that had become a bit accustomed to record high prices, those prices appear to be doing their job. The overreaction to the downside creates buying opportunities, will move product volume, and offset imbalances seen with the by-historical-standards tight supplies. But in the meantime, the abundant showlist inventories and market-ready volumes remain the front and center issue.

R-CALF USA Responds to Dubious TPP Testimony and NCBA Jabs

R-CALF USA’s brief, however, cites recent articles published in Drovers Cattlenetwork that describes how a large U.S. cattle feeder was recently approached by a shipper who could ship up to 20,000 cattle at one time and who claimed that cattle actually gain weight during the shipping. The other article explains how about 68,000 calves from Hawaii are shipped to the mainland each year in “cowtainers” that are unloaded directly from ships and onto waiting trucks for delivery to Texas cattle feedlots.

“It can no longer be denied that the technology, infrastructure and equipment are already in place to economically and safely transport live cattle from anywhere in the world to anywhere in the world,” states the group.

During a particularly heated moment during the hearing, Kester accused Bullard of falsely claiming the highly concentrated structure of the U.S. meatpacking industry allows multinational meatpackers to capture for themselves the profits that a competitive market should be allocating to cattle producers.

R-CALF USA’s statement is “conjecture,” Kester told the ITC.

But R-CALF USA retorted that the evidence is in U.S. Department of Agriculture (USDA) data that show the producers’ share of the consumers’ beef dollar declined significantly since the 80s, falling to the lowest level in history in 2009. The group’s brief additionally cites a study indicating that fed cattle prices are likely being reduced between $136.25 and $272.50 per head as a result of the meatpackers’ cattle procurement practices that are extinguishing the negotiated cash market.

CattleFax Market Forecast: Look for cyclically softer prices in 2016

By: Burt Rutherford

"When we look at the beef cow side, we've had profitabilityand we'll continue to expand as we move forward. We think cow slaughter will start to pick up, but at a pace that would suggest expansion."

However, as Kevin Good told a pack house at the annual CattleFax outlook seminar during the 2016 Cattle Industry Convention in San Diego, Calif., that expansion will continue at a slower pace than the aggressive push we saw in 2015.

That's because of the cyclical pressures that cattle producers will feel in the next few years. As the industry grows cattle numbers, supplies will grow as well. In fact, CattleFax predicts a roughly 3% increase in fed cattle slaughter in 2016 and cow slaughter up about 4%. Carcass weights will flatten out after a sharp climb in 2015, with most of the year-over-year increase in beef production coming in the second half of the year, Good says.

"Taking in that production forecast and rolling in exports up 3% and imports down 8%, per-capita supplies for the year will only beef slightly above year-ago levels. So the take-home message is that beef supplies are friendly for the market."

But those supplies will grow as the cattle cycle winds its way upward. But the worst is behind us. In fact, Good says, "The supply shock was last year. Yes, the trend works against us as we move forward this year and the next couple of years. But we had the supply shock and with that supply shock, we also had a price shock."

So, while beef producers can look forward to cyclically down-trending prices, the slope may be manageable. Looking at the calf market, Good predicts a $195 per cwt average for the year, with prices bouncing between $150 per cwt on the low end and peaking around $215. "We would expect to have the highs in the spring, green grass fever as we typically do, then move lower into the fall." But he issues a warning: "We've got to recognize, as we work into bigger supplies of calves, that long-term trend is going to be a little soft as we go forward."

For 750-pound yearlings, Good predicts the 2016 average will be $165 per cwt, with a range from $150 to $180. Given the forecast for corn to average $3.75 per bushel in 2016 and cattle feeders still bleeding from a brutal 2015 market, Good says cattle feeders will be looking to buy a better crush margin this year.

"All that rolls together and, on average, we'll roll a yearling back about $40 to put some profit in the cattle feeder's pocket," Good says. "Also recognize in the years following where the cattle feeders lost a ton of money like we have the last 12 months, the feeder market typically does not have much of a spring rally. Typically it underperforms as we go through the first half of the year as the cattle feeder buckles down and buys a better breakeven."

Given that, Good thinks the fed cattle market will be a little more kind to cattle feeders in 2016. He predicts cash fed cattle to average between $130 and $135 per cwt, with a bottom set in the fourth quarter of 2015 in the teens and low 20s and a spring high from $140 to $145 per cwt.

"We're in a weather-influenced year and carcass weights are declining at a faster-than-normal clip from the fourth quarter to where we're at today. It's a combination of not only weather effects on cattle, but the fact that we are finally, for the first time in 12 months, starting to pull cattle forward instead of pushing cattle back. And when that occurs, especially if it occurs continuously, that's very friendly for the market."

For bred cows, Good thinks that nearly everyone recognizes that a $3,000 cow was a little pricy. "As we do the math and take 1.65 times the value of a 550-pound steer calf, the range is probably $1,600 to $1,900. As calf values move softer, we expect the bred price to move softer as well."

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