Cow Country Reporter

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News from your CEO

September is a busy month in the cattle business. Cattle are being delivered to market and Fall-born calves are hitting the ground. Enough moisture has been sent by God so early winter wheat is getting planted. Cows are being "preg-checked" and open cows are moving to market. Labor Day has come and gone, schools are back in session and cattlemen are preparing for winter by estimating their hay crop, pricing ryegrass seed and in general looking back at the year 2018 as well as forward to 2019. The harvest is almost complete. We learned some lessons this year and from all accounts CPL members had a marketing plan for their calf crop and didn't just show up at the marketing place with no idea what the current market was and no plan for their calves.

Please take some time to read this newsletter and study the article about the new modern packing plant in Idaho. Your CPL Executive Committee visited the Caviness Packing plant in Hereford, TX and was impressed so I can only imagine what the new plant they have with Simplot looks like. As a point of interest, Caviness does buy cull cows from Louisiana. There is lots to talk about, so let's have a meeting in your area.

Dave Foster, CEO

2018 Winter Wheat Grazing Prospects

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

Oklahoma producers interested in dual-purpose or forage-only wheat for winter grazing often prefer to plant winter wheat in early to mid-September if conditions permit. For grain-only, winter wheat is typically planted mid to late October. Conditions are generally favorable for early wheat planting this year in Oklahoma. Wheat planted before the end of September can be ready for grazing by November 1 and allow for 120 days of winter grazing by early March and still permit harvesting wheat grain as a dual-purpose crop.

Stockers for winter grazing may be purchased over the next six to eight weeks. Timing of purchases will depend on expected availability of wheat pasture and the ability to receive and utilize other feed resources to hold stockers until wheat pasture is ready. Producers may be looking to buy stockers weighing from 450-600 pounds depending on a variety of factors but 475 pound steers are very commonly demanded for winter grazing. The availability of wheat pasture often coincides with seasonal low purchase prices for stockers. Typically, prices for stockers will decrease through September to seasonal lows in October. For example, 475 pound, Medium and Large, Number 1 steers in Oklahoma averaged about $170/cwt. in August and are expected to drop seasonally about 4.5 percent to October suggesting a price of roughly $162-$163/cwt. Heavier stockers over 550 pounds may drop 5.0 to 5.5 percent from August to October.

Feeder futures provide another means to estimate purchase price in October. October Feeder futures are currently around $149/cwt., showing little seasonal decline from August and September. With normal October basis for 475 steers of roughly $25/cwt., current October Feeder futures price would suggest an October cash price of $174/cwt. for 475 pound steers, roughly $10 -$12/cwt. over the projection above based on cash price seasonality. However, basis has been weaker than usual recently for lightweight feeder cattle suggesting that October prices for 475 pound steers will be lower than $174/cwt. Taken together, the cash seasonal and futures price projections suggest that the price of 475 pound steers (Medium/Large, Number 1) in Oklahoma is likely to average $163-$168/cwt. for an October low. Exceptionally good wheat pasture demand could

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hold prices at the upper end of the range or higher while any delays in wheat pasture development could allow prices to drop to the low end of the range or below.

Profitability of winter stockers will depend on numerous budget factors including purchase price, length of grazing period, rate of stocker gain, wheat pasture cost and, of course, selling price in late February or early March. The current March Feeder futures contract price is $145-$146/cwt. This implies an Oklahoma price for 750 pounds steers in early March of $146-$148/cwt. given an expected basis of roughly $1.50/cwt. Budget assumptions can vary widely but this appears to be a price that more than covers breakeven cost of production for winter grazing. Producers should develop and evaluate budgets which reflect their particular situation. It may be that current futures prices offer an opportunity to protect a decent margin for winter grazing programs.

CPA Statement on US-Mexico Trade Agreement

The Coalition for a Prosperous America (CPA) expressed support for President Trump and his trade team taking aggressive and unconventional steps to craft a new trade arrangement with Mexico. We continue to study the newly announced agreement.

"This is another example of President Trump living up to his campaign promises by renegotiating or terminating the North American Free Trade Agreement (NAFTA) and pursuing bilateral trade deals instead," said Dan DIMicco, Chairman of CPA. "Despite vociferous opposition from Congress, foreign companies and the import lobby, the President and his trade team continue to work hard for domestic producers."

"We support the administration's work to gain trade leverage and overturn the past policy of unilateral trade disarmament which caused offshoring and wage stagnation," said Michael Stumo, CEO of CPA. "If Canada refuses to negotiate, they should not expect to be included."

Previously reports by CPA have shown that US trade performance with Mexico significantly worsened after NAFTA was implemented in 1994. The details of the new US-Mexico trade agreement have yet to be fully revealed. Some basic information has been released.

Rules of Origin: Progress appears to have been made on rules of origin in several manufacturing sectors. Seventy five percent (75%) of auto content must be made in the US and Mexico under the agreement, which at first blush is an increase from the current NAFTA.

Other rules of origin on chemicals, steel intensive products, glass and optical fiber have been announced. Strong rules of origin are necessary to prevent China and other countries from shipping product through Mexico to the US. Certification and verification of rules of origin are also to be strengthened, which provides for more effective enforcement to prevent duty evasion. CPA will study those rules as more details are released.

Labor Content Rules: An intriguing new labor value content rule will require that 40-45% of auto content be made by workers earning at least $16 per hour. That rule, if implemented, could further increase the proportion of US content in autos because Mexican workers make far below that amount. The specific provisions of this rule are important and remain to be seen.

Agriculture: Agricultural goods will purportedly continue receiving zero tariff treatment. Corn and soybean farmers will be supportive because they are net exporters to Mexico. Fruit and vegetable growers as well as cattle producers, however, have suffered from cheap Mexican net imports that have displaced their share of the US consumer market.

We remain hopeful country of origin labeling for meats was included in the deal, though early reports are silent on this issue. Canada and Mexico were the instigators of a World Trade Organization proceeding that wrongly found that America's country of origin meat labeling rules violated international trade rules. Foreign and multinational food companies oppose informing consumers about where their food comes from.

Section 232 Tariffs on Steel and Aluminum: While early announcements did not discuss the section 232 tariffs on steel and aluminum, CPA has heard that the tariffs will remain in place as to Mexico or be shifted to quotas so as to prevent a surge of direct or trans-shipped imports from Mexico.

Misaligned Exchange Rates: Early reports are silent as to whether currency is included in the US-Mexico deal. We look forward to learning more. Whether or not included, America should implement unilateral measures such as charges on excessive foreign capital inflows that drive the US dollar too high. The strong dollar, supported by Wall Street financiers that sell dollar assets, depresses US exports of goods and services and subsidizes imports. The US needs a competitive dollar price to eliminate the trade deficit, increase wages and grow domestic production.

CPA will continue supporting the President and his trade team on efforts to grow valued added food and goods supply chains in the US, balance trade, and transition towards strategic trade policies that benefit American producers.

[Fact sheets distributed by the Office of the US Trade Representative can be found at the following links. Manufacturing Fact Sheet, Agriculture Fact Sheet, Intellectual Property Fact Sheet.]

About CPA: The Coalition for a Prosperous America is the nation's premier organization working on the intersection of trade, jobs, tax, and economic growth. We represent the interests of 4.1 million households through our agricultural, manufacturing, and labor members.
Paola Masman
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NAFTA DETAILS SKETCHY, BUT AG LOOKS OK

The real bottom line for agriculture was in the first "achievement" listed: "maintain zero tariffs on agricultural products."

By: Steve Dittmer

Remember way back, when all this NAFTA talk started and the general message from agriculture was first, "Do No Harm?"

All that talk finally led to some action—the U.S. and Mexico this week announced an agreement on the new version of the North American Free Trade Agreement or NAFTA. Skim what we know about the agreement in principle between the U.S. and Mexico and it looks like we're OK.

Most of the provisions outlined in the U.S. Trade Representative's (USTR) fact sheet have to do with better communications and more transparent management of agricultural issues on both sides of the border. The tenor was, "Let's discuss new things and agree before just changing a regulation and then telling the other side."

There are provisions to accommodate scientific biotechnology innovations, including gene editing, through better communication, but no detail was given regarding allowances or prohibitions. While there is lots of verbiage which will likely ease the burden of those dealing with minute details regarding product regulation, phyto and sanitary standards and speeding up processes, the real bottom line for agriculture was in the first "achievement" listed: "maintain zero tariffs on agricultural products."

Of course, the Canadian part of the NAFTA renegotiation is in high gear right now. Critics have been screaming that Canada has been forced to the sidelines for three weeks and President Trump is going to screw things up and there will be no trilateral agreement like the old NAFTA.

The facts are that Canada and Mexico trade very little with each other. The U.S. does a whole lot of trade with Mexico and the U.S. and Canada trade a whole lot with each other.

The truth is, President Trump wants to change the situation with Mexico, mostly involving autos and auto parts, so that it is not as attractive for U.S. companies to move parts and assembly factories to Mexico. The new rules say 75% of the parts for an auto must be made in the U.S. or Mexico, up from 62% and presumably in North America if Canada re-signs. While rules before required a majority of parts must be made in the U.S., the present fact sheet doesn't mention that requirement.

Those moves merely increase rules making it better to operate in North America. Fewer parts can come from China, Thailand or other countries. The key difference is that 40-45% of the parts must be manufactured by people earning at least $16 per hour.

While that narrows the advantage for American automakers in Mexico, perhaps discouraging construction of new plants, it certainly holds potential for Mexican workers in some existing plants to get some serious wage increases over the next few years. There are also provisions recognizing Mexican workers' rights to organize labor unions.

But this also puts an onus on the Trump Administration to get a deal done with the European Union (EU). Part of the reason American auto manufacturers assemble vehicles in Mexico is because there is no tariff on exports to the EU from Mexico, compared to a significant 10% tariff for American-made cars going to the EU.

For us in the deal with the EU is the hope that the "chicken tax" that has guaranteed high prices for pickups, a big profit for American car manufacturers and kept foreign pickups out of the U.S., could be included in the zero tariff negotiations. Ford, Dodge and GM have made huge profits on pickups for years because they were protected from foreign competition by the chicken tax—a 25% tariff on light trucks and work vans made in foreign countries.

The tax was imposed in 1964 and goes a long way toward explaining why the Big Three make $5,000-8,000 per pickup or SUV and a few hundred dollars on small cars.

If President Trump wants to make farmers and ranchers happy, as well as construction, logging and energy companies and landscapers happy, he should think long and hard about the chicken tax.

Another factor is that the lower labor cost in Mexico was more significant for American automakers on small cars, where the margins are smaller. However, Americans are not buying nearly as many small cars as they used to, are not even buying sedans like they used to.

Americans have become more enamored of pickups, SUVs and crossovers. That, coupled with the freezing of the Corporate Average Fuel Economy (CAFE) standards, will probably cause automakers to need fewer small cars and need less production in Mexico anyway.

Critics of the deal spent more time complaining about Canada not being in the agreement that they did attacking the deal with Mexico. There are even more environmental and trade union provisions in the deal, similar to the TPP agreement. So, while we might consider it meddling in other countries' business, the Democrats and their activist friends in Congress should like the deal better.

After all, this thing needs to get through Congress, likely a lame duck session at best. Getting some Democrat votes is said to be part of USTR Robert Lighthizer's long-term strategy to get the deal through Congress. That a Republican majority House and Senate can't be relied on to pass a trade treaty shows how much things have changed and how little even Republican Congressmen understand economics, incentive and trade.

The two key no-fly issues have apparently been finessed but details are scarce. The five-year sunset period, which was ridiculous on its face, has been replaced by a variously reported arrangement involving a six-year review period, with the ability to extend the deal for a decade, totaling 16 years.

No word on the process for possibly amending or extending the agreement. The dispute process is murkier still, with word that some industries will be exempt from the current process, including energy and telecom.

One key issue has apparently been left to deal with once all three countries are back in the negotiations at the same time. That is whether Mexico and Canada will be exempt from the 25% steel and 10% aluminum tariffs.

Now, it's on to Canadian negotiations and hopefully, more details on the agreed upon framework.

Dittmer is a longtime beef industry commentator and executive vice president of the Agribusiness Freedom Foundation.

Trail Rides: Into the cuts of a packing plant

By: Progressive Cattleman writer Joy Hendrix

Calving, branding, weaning and shipping, these are the seasons in a cattle producer's year. Although every producer knows what happens after shipping, their job is to get the cattle on the truck as easily and in the best shape as possible. An entire year's worth of work is over in just a few hours. Some producers are relieved after this moment, while others worry that their livelihood was just put into the hands of someone else to finish the job.

In June I attended the Idaho Cattle Association Summer Round-Up. On the third and final day, all attendees were given the chance to tour the CS Beef Packers Facility in Kuna, Idaho. Caviness and Simplot have joined together to create the most state-of-the-art packing facility built to date, and the entire plant was designed with animal welfare and safety as the main goals.

After a two-hour tour of the facility, here are some points I took away from the tour:

- A hallway with windows lines one wall of the plant, allowing tours to be given without the traditional safety concerns, which are the primary reason for not allowing tours.
- We were introduced to many people who worked in various parts of the plant, and each one of them spoke about how passionate they were about their job and the animals that come through the facility.
- While our main tour guide spoke, he shook hands with every employee that walked by him.
- As if shaking hands wasn't enough, he also broke his train of thought to call each employee by name and greet them in a friendly way.
- Each step of the process was explained to us thoroughly, and new methods for a more productive process were introduced at each stage.
- Caviness has managed to integrate their family-run business and the qualities that come along with it into a large-scale production facility.
- Simplot has an on-site lab for developing embryos that are ready to be placed into recipient cows.
- A career in this industry isn't for the faint of heart.

Overall, it was clear to me how much the people at CS Beef Packers care about the work they do. The cattle, producers and employees are all in great hands at this facility, and it revealed the importance of learning more about the company producers trust with their year's work after the shipping process. Perhaps it will even provide a feeling of relief, rather than worry, next time the truck pulls out loaded with cattle.

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