Cow Country Reporter

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News from your CEO

We are in the shortest month of the year, February, and if the weather does not give us a break it maybe longer than we think. Sunshine and more moderate temperatures are sure on the "wish list" for most of us in the cattle business. Cattle receipts at our local auction markets are light which reflects the time of year, weather and price. Cull cow prices are moving higher and calf prices continue to show improvement. Everyone in the cattle business should be waiting on the USDA cattle inventory report for 2019. This report will set the tone and market direction for us in the cow-calf states and is due out on February 28, 2019. Based on this report, coupled with other information, cow-calf producers in Louisiana should be contacting their marketing reps to make plans to sell their 2019 calf crop. It is not too early to start.

We are excited about our CPL Information Seminar, Cover Crops; Views from Farmers and Ranchers. This meeting may be the beginning of working together with our row crop farmers to improve soil health by using cover crops that may lead to some grazing opportunities. Please let me know if you would like some meetings in your area about topics that are of interest to you and don't forget Valentine's Day!

Dave Foster, CEO

More beef in 2019

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

With USDA data flowing again, the final numbers for 2018 will begin to emerge soon as well as current numbers for 2019. The annual Cattle report will be released after a one month delay in late February. The January Cattle on Feed report is scheduled to be released on February 22 with the February report to be released on March 8.

With all but the last few days of 2018 slaughter and carcass data available, 2018 beef production totals are nearly final. Total commercial beef production for 2018 is projected at 26.9 billion pounds, up 2.6 percent from one year ago and just fractionally smaller than the record U.S. beef production of 27.1 billion pounds in 2002. Beef production in 2019 is forecast at a record 27.4 billion pounds, up 1.8 percent year over year. Total beef production is likely to grow through 2020 at least.

Total cattle slaughter in 2018 was up 2.5 percent year over year with steer slaughter down 0.7 percent from 2017 and heifer slaughter up 6.5 percent year over year. Total cow slaughter was up 6.8 percent with dairy cow slaughter up 5.1 percent and beef cow slaughter up 8.6 percent year over year. Beef cow slaughter represented 9.5 percent of the herd inventory; a culling rate just equal to the long term average. Bull slaughter was down 0.4 percent year over year and calf (veal) slaughter was up 13.5 percent from 2017.

Steer carcass weights increased just two pounds year over year in 2018 to 880 pounds. This was a smaller increase than earlier projected. Heifer carcass weights increased five pounds year over year to 816 pounds. Heifer weights continue to increase relative to steers. In 2018, heifer carcasses averaged a record level of 92.7 percent of steer carcass weights. Cow carcasses averaged 645 pounds in 2018, up two pounds from 2017. Bull carcasses were down year over year by six pounds to 889 pounds. In 2018, steer carcass weights were 98.9 percent of bull carcass weights.

The modest increase in steer and heifer carcass weights relieves some of the earlier concern that relatively inexpensive feed would lead to even higher carcass weights. Data from Kansas suggests that feedlot cost of gain increased roughly 5 percent in 2018 but still remained attractive for cattle feeding. While feedlots have an incentive to keep feedlots full and the feed mill humming, larger cattle numbers with the recent herd expansion also

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More beef in 2019

gives feedlots an incentive to finish and market cattle in a timely manner and replace with new cattle. Feedlot ration costs are expected to remain close to current levels in 2019 while feedlot numbers will continue to expand, albeit more slowly. As long as feedlots maintain good marketing rates, beef production will continue to grow in 2019, but at a modest pace.

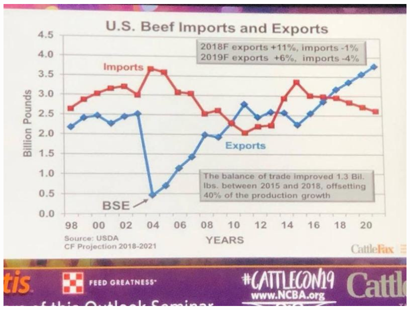
Why R-CALF USA Trade Charts Differ From CattleFax Trade Charts

Op-ed by Bill Bullard, CEO, R-CALF USA

At the ongoing National Cattlemen's Beef Association (NCBA) Cattle Industry Convention & Trade Show in New Orleans, CattleFax presented charts purporting to describe the state of the U.S. cattle and beef industries. One chart in particular depicts the U.S. balance of trade for beef, which shows the U.S. had a beef trade surplus during 2010 through 2012 and, beginning in 2017, another trade surplus was realized and CattleFax projects that surplus to both grow and continue through 2020.

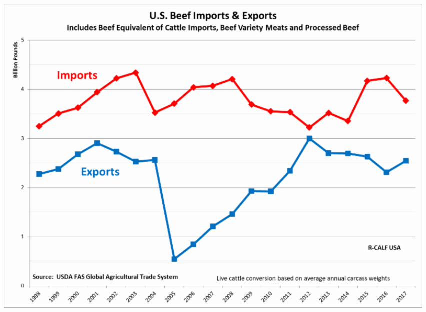
This has to be wonderful news to U.S. cattle producers who know that if the U.S. sells more beef than it buys, the economic strength of the U.S. cattle industry will improve.

CattleFax Trade Chart



However, R-CALF USA's chart depicting the balance of U.S. beef trade tells a very different story. It shows the U.S. has maintained a trade deficit every year since 1998 and that the deficit was over 1.2 billion pounds in 2017. This would indicate the U.S. cattle industry is being forced to absorb other countries' overproduction and overcapacity.

R-CALF USA Trade Chart



The difference between the two charts is profound. This is because the CattleFax chart is geared toward meatpackers who consider all the beef derived from imported cattle to be U.S. beef. R-CALF USA's chart, on the other hand, is geared toward independent cattle producers who realize that the U.S. imports beef in two distinct forms: 1) the U.S. imports beef in packages; and, 2) the U.S. imports beef on the hoof in the form of live cattle.

R-CALF USA's chart includes all beef imports, both packaged and on-the-hoof and converts the on-the-hoof beef into a beef equivalent by multiplying the number of imported cattle by the average carcass weight reported by U.S. meatpackers each year.

For example, in 2017 the U.S. imported over 1.8 million cattle, which represents the beef equivalent of about 1.4 billion pounds of beef.

By omitting the significant impact of imports of beef-on-the-hoof, CattleFax satisfies the packers' strategy of convincing independent cattle producers to support the economic interests of the packers. They are able to convince producers to discount the adverse effects of imports and to support the packers' efforts to continue focusing only on exports. Admittingly, that is good for packers and is helping them earn record margins while domestic cattle prices remain depressed.

Even the U.S. Department of Agriculture (USDA), which has historically favored the packers' economic interests over the interests of independent producers, acknowledged in a 2012 study that "beef produced from foreign-born cattle accounted for 8.1 percent of monthly U.S. beef production."

See https://file.scirp.org/pdf/AS20120200006_23587394.pdf. The USDA also stated that unless this production from imported cattle is accounted for, "this production from imported livestock clouds what can be said about changes in U.S. technical efficiency in beef production."

See https://www.farms.com/news/imported_livestock_contribute-49580.aspx.

So, why does the CattleFax trade chart differ from the R-CALF USA trade chart? The answer is simple: The beef industry knows it cannot continue controlling U.S. cattle producers and their markets if cattle producers know the truth.

Bill Bullard is the CEO of R-CALF USA, the nation's largest non-profit trade association exclusively representing the U.S. cattle industry.

Myths and truths of crossbreeding

Crossbreeding and the resulting heterosis have been utilized for generations. But questions still remain.

By B. Lynn Gordon

There is always a lot of discussion and debate in the cattle business about crossbreeding. Two Kansas State University researchers have teamed up to answer some of the most common questions beef producers ask about crossbreeding and address whether the questions are myths or truths.

Here are some common questions about crossbreeding.

There are benefits to crossbreeding? ***Truth.***

"The benefits of crossbreeding are heterosis and breed complementarity," says Bob Weaber, Extension beef cattle specialist. Historically, heterosis or hybrid vigor has been the positive outcome from crossbreeding because of the superiority of a crossbred animal as compared to the average of its straightbred parents. An increase in weaning weight, for example.

Recently, the crossbreeding discussion has included reference to breed complementarity which is the result of taking two different breeds and pairing them to complement the core traits of each breed.

"The focus is to complement each other's strengths and weaknesses," says Megan Rolf, K-State assistant professor of genetics. Two animals are crossed to build on the strengths of the individual animals. For example, the muscling featured in one breed to overcome the shortcoming of muscling in the other breed. Basically, it's building off of a strength of one breed that will complement an area of needed strength in another breed to reach the end goal.

Crossbreeding results in a large increase in calf birth weight? ***Myth.***

A large collection of data from the Meat Animal Research Center (MARC), on a variety of the major U.S. beef breeds and their crosses (over 25,000 breedings/calves in the database), re-estimated the heterosis effects on birth weight, weaning weight and yearling weight including British x British; Continental x British; and Continental x Continental, explains Weaber. "The average increase in birth weight due to heterosis was 1-1.5 pounds," he says, "not a large increase as often believed."

The more genetically distant the two parental breeds, the greater the amount of heterosis? Truth.

"The more divergent or different the parental breeds are, the more heterosis a beef producer will see from the mating," says Rolf. Heterosis is derived from combinations of different alleles (commonly referred to as forms of a gene), from parent breeds, which increases heterozygosity at many places in the genome and helps individuals recover from inbreeding depression.

"For instance, crosses of British breeds like Hereford and Angus creates slightly less heterosis effect than crosses of British and Continental breeds. Crossing Bos taurus breeds with Bos indicus breeds creates substantially more heterosis than just crosses of Bos taurus breeds," she notes.

In general, British breeds are more closely related to each other than to Continental European breeds. These breeds are diverged from each other 100-200 years ago. Recent data suggest Bos taurus cattle diverged from Bos indicus 80,000 to 100,000 years ago, making these two groups genetically distant.

Heterosis only exists in the first generation of crossbreeding? ***Myth.***

"The mating of two straightbred animals [of different breeds] in a first cross will result in heterosis. However, the mating of an F1 and two F1 crosses (F1 cattle are the offspring from the initial cross) with the same breed composition will still result in 50% heterosis in the mating," Rolf says.

"In fact, the mating of two crossbred animals does result in the retention of some heterosis, however, the amount of heterosis retained will be different in different crossbreeding systems depending on the system and number of breeds involved."

A cross of unrelated lines within a breed, (for example a maternal line with a terminal line) will result in heterosis? ***Myth.***

"Heterosis is not available from within-breed matings, rather only available by mating animals of two or more breeds," says Weaber. For example, a Hereford x Hereford will not provide heterosis, yet, research indicates the most heterosis will occur from crossing a British animal with a Continental animal or to a Bos indicus animal.

Carcass traits benefit more from crossbreeding than reproduction traits? Myth.

Beef research demonstrates the level of heritability and heterosis are inversely related. As a result, those traits that are highly heritable tend to be the opposite when it comes to heterosis benefits.

"While carcass performance can benefit from crossbreeding, more benefit comes from focusing on breed complementarity than heterosis. Reproductive traits, which are very important to cow-calf producers, are lowly heritable, and thus get a large benefit from heterosis," says Rolf.

Trait	Heritability	Heterosis
Reproduction (fertility)	Low	High
Production (growth)	Moderate	Moderate
Product (carcass)	High	Low

But there is more to crossbreeding than just heterosis, Rolf reminds cattlemen. This is due to the benefits that come from breed complementarity, where the focus is on the core strengths of each breed and allowing these core strengths to compliment each other across the two breeds utilized in crossbreeding. The end goal is to optimize performance levels.

"Producers can enhance the outcome of crossbreeding by taking advantage of the economically important traits like reproduction/fertility that benefit greatly from heterosis but are lowly heritable and then utilize breed complementarity and EPDs to gain a benefit from the more highly heritable traits," concludes Weaber.

B. Lynn Gordon is a freelance writer from Brookings, S.D.

Cash trade vs fed cattle basis; What's the deal?

Some are concerned that with only 25% of fed cattle trading on the cash market that the system is broken. Here's what the numbers tell us.

By: Nevil Speer

During the past several weeks, Industry At A Glance has focused on cash trade trends in the fed cattle market. The discussion primarily stems from a recent petition filed by the Organization for Competitive Markets (OCM) against USDA regarding the agency's plan to withdraw implementation of the GIPSA Farmer Fair Practices Rules (otherwise referred to as the GIPSA rule).

The petition has subsequently been denied. But as noted in previous weeks, given the long history of this issue, it's likely additional legal challenges will occur.

As quick review, last week's column highlighted the relationship between cash trade and volatility. The industry has seemingly found an extended equilibrium where cash trade represents one-fourth of all cattle traded on a weekly basis. And for some in the industry (e.g. OCM), that level is insufficient. They voice concerns that reduced price discovery subsequently causes artificial deflation in cash prices and increased price volatility from week to week.

Last week's discussion noted that despite declining cash trade, in terms of absolute dollars, weekly volatility is the same now as it was when cash trade was more than double the current level. And from a percentage of total steer/heifer value, volatility has actually declined over time.

As noted above, though, there's a second issue that needs to be addressed: Artificial price deflation. There's no way to determine exactly what cattle should be worth—or would be worth if negotiation levels were increased.

However, if a distinct trend was developing it would most likely show up in the form of basis (cash minus futures). That is, cash price trends would begin to deviate sharply from what's occurring at the CME—turning sharply negative IF declining cash trade was unduly influencing the market.

This week's graph addresses that very issue. It outlines the relationship between nearby basis (cash less futures) and cash trade. Interestingly enough, while cash trade has diminished, basis has actually trended more in a positive direction (not the other way around), with runs up to +$6 along the way.

As such, it seems cash trade has worked well in tandem with the futures markets; actually benefitting sellers along the way as cash trade levels have declined.

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