Cow Country Reporter

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News from your CEO

The year 2020 is behind us and we look forward to 2021. When I think of the old adage, "hind sight is 20/20 vision" it has a different "feel" now. This January may be the month to pause, take a deep breath and reflect on just what happened in our own operation and how can we improve in the year 2021. Let's expand that thought to statewide and then national. Yes, we have seen change, yes, we have experienced disasters and yes, we have a whole new "ballgame" in Washington, D.C. The first step is to address the issues in our own operation and when we have identified our weaknesses, fix them. We need to build on the positives of our operation and look for ways to expand these programs that work and provide a profit. As y'all have heard me say may times "be flexible" and open to new concepts that may add value to your cattle operation. Here are some facts that may change our cattle business in 2021. The U.S. Cattle Inventory report (which comes out the end of January) will be lower. Soil health and water quality should be a major priority on your ranch. Beef demand continues to rise. The consumer wants to know where their food comes from and how it was produced. Consumers are moving toward buying local. Our light-weight Louisiana calves, under 600 lbs., will be in good demand in the first quarter of 2021. Cattle receipts at our local stockyards will be lower in 2021 (receipts 2020 9.5% lower than 2019). Fact: approximately 80% of our calves sold weighed less than 650 lbs. We can grow forages almost year-round. We can market our calf crop earlier or later than the majority of the rest of the country which allows us to take advantage of higher prices. How will you manage your operation in 2021? May y'all have a safe, healthy and prosperous New Year!

Dave Foster, CEO

The 2021 Cattle Market Beginning Slate

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

The cattle industry, like everyone else, is more than ready to move past 2020 and into a new year. While the industry will start the year with a new slate, there are numerous factors in place that will shape markets for, at least, the first few months of 2021. Cattle markets face a mix of opportunities and challenges as the New Year begins.

The pandemic continues and seems likely to face the worst conditions to date in the next few months. For cattle markets, this means a continuation of a limited food service sector and more challenges in food product markets. Boxed beef prices at the end of 2020 were just about exactly equal to one year earlier but that obscures the continuing variation in food service and retail grocery product demands. Primal chuck and round prices were higher year over year along with ribs, while loins were down. Food service dependent products continue to be noticeably affected by limited demand with, for example, prices for tenderloin down 14 percent; Petite tender prices down 25 percent and brisket prices down four percent, while strip loin steaks (popular in retail grocery) are up 12 percent year over year. Overall beef demand has been, and continues, strong but the challenges to food supply chains will continue.

Grain and oilseed prices are significantly higher than one year ago as 2021 begins. On average, cash corn prices in December 2020 were about 22 percent higher than one year earlier, with sorghum prices up over 50 percent; wheat prices up about 30 percent; and soybean prices up 35 percent year over year. Dried distillers grains (DDGs) prices at the end of 2020 were roughly 39 percent higher than the end of 2019. Higher feed prices mean higher feedlot ration costs and higher supplemental feed costs for stocker and cow-calf production. Cattle production will be affected by higher feed prices, not so much in terms of how much production will occur,

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but more in terms of how production will change. For example, higher ration costs will change feedlot demand for the type and size of feeder cattle preferred in feedlots.

At the end of 2020, 41 percent of the U.S. was experiencing some degree of drought (Drought Monitor D1-D4), mostly in the western half of the country. One year ago, the D1-D4 level in the country was less than 10 percent. The current level of drought is concerning and, should it persist into the coming growing season, may have significant impacts rather quickly in 2021. Drought generally expanded through 2020 to encompass most of the Rocky Mountain and western Plains regions.

Hay supplies going into 2021 appear to be adequate with a slight reduction in 2020 hay production offset by larger May 1 beginning stocks. Hay prices in late 2020 were slightly lower year over year for both alfalfa and other hay and are projected to average lower in 2021. In part, the lower price projections reflect expectations of less total hay demand as cattle numbers decline in 2021. Regional hay market conditions vary considerably and are be higher than the national average prices in regions where drought is more severe. Persistent drought conditions may influence both hay demand and supply in 2021.

Cattle prices struggled through much of 2020 but ended the year with some momentum. Calf prices in Oklahoma were close to year earlier levels at the end of December and increased nearly 20 percent from lows earlier in the fall. Prices for heavier feeder cattle remained about 7 percent below year earlier levels at the end of the year but similarly increased roughly 13 percent from fall 2020 lows. Fed cattle prices finished the year with strength that represented a roughly 18 percent increase from summer lows but were more than 8 percent lower year over year.

Strong beef demand and tightening cattle supplies provide cautious optimism for cattle markets in 2021. Higher feed prices and continuing drought conditions are threats to individual producers and perhaps to overall market conditions in the coming year. Consumer demand will be supported by additional federal stimulus for a time but continuing macroeconomic challenges will persist through the year. The continuing pandemic and the time needed for vaccine implementation suggest that much of the promise of 2021 may be pushed into the second half of the year. In the meantime, uncertainty and volatility are likely to remain elevated and risk management continues to be a key management and marketing consideration.

Goodbye 2020; Hello New Cash High

By: Cassie Fish, http://cassandrafish.com

It is the end of week, month, quarter, and year of one of the most difficult years in modern history. Cattle prices reached 10-year lows and are still depressed compared to most other commodities.

This week has seen the mood improve and though it's still a couple of hours before the market closes, today's performance is positive. Expiring Dec LC is trading at the highest point of any spot cattle contract since February 2020. Dec LC has narrowed the spread to Feb LC to 170 points which is supportive for Feb LC.

Feb LC itself is just slightly lower on the week as last Friday's close as $114.97. Since Feb made a new high for the move once again failing above $116, a lower weekly close could give credence to another short term top having been made. But the day is not over and a higher weekly close could set up a break out to the upside instead, which is not been expected by many.

Just moments ago, cash cattle prices in Texas, Kansas, Colorado, and western Nebraska traded at $112 and is still bid, $2 higher than last week and almost $3 higher than last week's 5-area average of $109.19. The highest average price paid since the $112.39 paid the first week in June was the average was $110.27 Thanksgiving week. The market has clearly made a new high for the move this week and is closing in on that early June high. And is a long time coming.

In the north $176 dressed, up $4 from last week, moved some cattle but is being passed today, with cattle priced from $178 to $180.

There is a perception that the backlog of cattle has not been cleared but indeed, the industry has all but dispensed of it. Weights are falling and will continue to decline until May. Yes, placed against numbers for Q1 were up, but some in the industry fail to realize that seasonally fed cattle supplies in Q1 will be down significantly from the huge numbers saw in both Q3 and Q4.

The continuation of the pandemic will support retail beef features and robust movement to the consumer. Boxed beef prices are recovering from their seasonal sell off and could rise $10 in the coming couple of weeks. Packer margins are record wide for the end of December. The packing industry has ever incentive to schedule brisk January kills.

Packers must replenish fed cattle supplies to supply those slaughters and it is taking higher money to do so. Packers will certainly pull on formulas and contracts but it will take an increase in negotiated volume to complete needs.

This week's holiday-reduced slaughter is estimated at 550k to 560k head compared to 550k a year ago. Anything larger than that would be even more supportive fundamentally.

Cattle Markets in 2021

By: Josh Maples

Happy New Year! Last week's article looked back on 2020 and the incredible challenges and market volatility. This week, I'm focusing on cattle markets for the coming year. There are reasons to be optimistic for cattle markets in the new year. There are also threats that deserve consideration and planning.

The cattle supply setting lends optimism to cattle markets. The annual January cattle inventory report will be released at the end of this month and is likely to show a beef cow inventory near or slightly below year ago levels. The calf crop has declined slightly the past two years and could follow that trend in 2021. We are not in a rapid herd contraction phase, but a general tightening of cattle supplies appears likely. Lower supplies would be supportive of stronger prices.

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Cattle Markets in 2021

Beef demand continues to be strong overall, but the challenges faced by the restaurant/food service sector persist due to the pandemic. While the boxed beef cutout value is near year-ago levels, there are differences between cuts depending on their typical sales channel. Products popular in sit-down restaurants continue to face a tougher demand environment than products more typically sold in grocery stores. Beef exports regained steam at the end of 2020 and could be a bright spot for beef demand in 2021.

Surging grain markets in recent months are a headwind for cattle markets. There is a clear negative relationship between corn prices and cattle prices due to the cost of feed. As corn prices increase, feeder cattle prices typically decrease. The increase in grain prices has been driven by large exports to China. Sharply higher grain prices throughout 2021 are not a given -- planting conditions and crop progress will be important as usual. However, cattle producers need to consider risk management strategies and alternative feedstuffs for a year with higher feed prices than the past few years.

Drought conditions in the Plains region and West continue to be a concern as shown in the Pasture Conditions section below. The Southeast currently has relatively few areas under drought conditions. However, for the U.S. as a whole, USDA estimates approximately 47 percent of cattle inventory is within an area experiencing drought. This is sharply higher than where we began 2020. The possibility of drought conditions expanding into the Midwest would directly impact cattle markets if producers had to sell cows or calves early. Additionally, it could lead to a smaller corn crop and higher grain prices.

The start of a new year is a good time to consider marketing plans and risk management strategies. Risk management looks different for every operation and occurs on both inputs (feedstuffs) and output (cattle sales). It is worth taking a look at price risk management tools such as Livestock Risk Protection (LRP), futures and options, or some type of forward contract to see if one fits your operation. 2020 was a rough year for risk management as the pandemic disruptions hit during the spring when many producers would normally consider some sort of coverage. A hopefully more normal spring will allow better price risk management opportunities. Marketing and production plans also vary by operation. Some producers may benefit most from improved production practices such as castrating bull calves or a tighter calving window. Now is a good time to consider how calves will be sold in 2021 and what strategies can be used to improve their expected value.

These are just a few points to consider as we look ahead. As always, feel free to reach out if I can help. Here's to hoping for a more normal 2021, whatever that may mean!

Yearend: Meat sector rebounded from COVID in 2020, but feed costs, consumer demand to determine sector's 2021 course

By: James Mitchell

This week's article was written by Mary Hightower at University of Arkansas Division of Agriculture. Below are exerts from her article that summarize a yearend report that I put together to closeout 2020. The full article is available here.

The COVID-19 pandemic challenged the resiliency of the U.S. meat supply chain, and markets were tasked with sorting through unprecedented levels of uncertainty in 2020.

The first shock came shortly after COVID-19 was declared a global pandemic in mid-March as states began to issue stay-at-home orders. Roughly 50% of food is consumed away-from-home in the United States, and these shutdown orders effectively took away this channel for food consumption. As consumer panic buying set in and households began building up at-home food stocks, the meat supply chain faced a major logistical challenge. Meat and dairy products destined for restaurant outlets cannot simply be rerouted to retail grocery stores.

The second shock came in April when COVID-19 found its way into livestock and poultry processing plants. Many plants shut down as COVID-19 infections spiked among employees, a skilled labor pool that cannot easily be replaced, and many others reduced their processing capacity. Before COVID-19 began impacting U.S. meat processing plants, weekly federally inspected beef production was averaging 6.8% above 2019 production for the Jan-Mar period. At its lowest, weekly beef production was 33.8% below 2019.

What did these shocks do to meat and cattle prices? The retail meat price situation reflects having to ration tighter supplies and a mixed consumer demand impact. In June, retail beef and chicken prices were $7.39/lb. and $2.07/lb. or 26% and 11% above 2019 prices. The impacts of the pandemic on cattle prices reflects weaker feeder and fed cattle demand during the processing plant disruptions. Southern Plains feeder steer prices reached a low of $119.72/cwt in April or 20% 2019. Southern Plains fed steer prices reached a low of $94.31/cwt or 13% below 2019.

Ultimately, meat supply chains were up to the challenge and rebounded remarkably well and, markets have continued to work as they should. 2020 beef production is expected to finish even to slightly above 2019 production, totaling 27.2 billion pounds. Retail and wholesale meat prices have started to moderate. November retail beef and chicken prices averaged $6.26/lb. and $2.02/lb. but remain elevated above 2019. Cattle price dynamics have begun to return to their normal seasonal patterns. However, persistent drought in the western part of the United States and rising feed costs have put recent downward pressure on prices for certain classes of cattle. Before expiring, the 2020 harvest futures contract for corn had been trading above $4.00/bu since mid-October. Southern plains feeder steer prices averaged $140..04/cwt last week or $9.42/cwt below 2019 prices for the same week. Improved winter pasture conditions in the southern plains have resulted in stronger stocker cattle demand, and last week feeder calf prices averaged $187.84/cwt or $7.81/cwt above 2019 prices for the same week.

Next week's article will provide an outlook for 2021. Consumer demand and feed costs are likely factors to monitor. Economic recovery in international markets will also be important in 2021. Drought in the southwest will continue to present challenges.

Happy New Year from CPL

Update on cattle herd dynamics

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

Much of 2020 has been preoccupied with daily and weekly slaughter numbers, carcass weights and boxed beef prices, along with monthly cattle on feed dynamics. The intertemporal volatility through the year adds to challenge of assessing what, exactly, is the situation regarding the cattle cycle and longer term herd dynamics. USDA will be providing estimates on January 29, 2021 regarding cattle inventories going into 2021. The data available at this time provides mixed signals about how herd inventories have changed in 2020.

Cowherd changes depend on both heifer retention and cow culling. On January 1, 2020, the number of beef replacement heifers was 18.4 percent of the beef cow inventory. This was down from the peak retention in 2016 of 21.0 percent, when herd expansion was in full force. Historically, the replacement heifer percentage drops below 18 percent during herd liquidation. Of course, producer plans can change during the year. The July inventory estimate for beef replacement heifers was unchanged from last year but is a low enough level to potentially suggest some herd liquidation.

Heifers not retained for breeding end up in the feedlot. On average, the number of heifers in feedlots in 2020 was down 1.1 percent year over year, with an October 1 estimate that was about equal to one year ago. Heifer slaughter in 2020 is projected to be down about 3.6 percent year over year. Heifer slaughter as a percent of the cow inventory is not low enough to suggest herd expansion nor large enough to suggest significant liquidation. Taken together, the various heifer data seem to suggest mostly steady heifer retention, which could support a 2021 herd inventory either side of unchanged from 2020 levels.

Beef cow slaughter in 2020 is projected to be up about 2.6 percent year over year. This implies a net beef cow culling rate (beef cow slaughter as a percent of herd inventory) of 10.5 percent. Beef cow culling has increased from the record low level of 7.6 percent in 2015 when herd expansion was accelerated. Herd culling above 10 percent is consistent with modest levels of herd liquidation though the current level is below the culling rates (typically above 11 percent) that indicate significant herd liquidation. The mid-year cattle report pegged the beef cow inventory down 0.8 percent year over year, generally consistent with the cow slaughter data this year.

In total, the most likely scenario appears to be a beef cowherd on January 1, 2021 in the range of unchanged to down one percent year over year. This would continue the slow slide in cattle numbers and general tightening of cattle and beef production in the coming year. Total 2021 cattle slaughter is forecast to be down about one percent leading to a year over year decrease in beef production of 1-2 percent. Herd dynamics in 2021 could affect these forecasts. If herd liquidation should accelerate, the short-term impacts would be an increase in cattle slaughter due to more heifers and cows in the slaughter totals. Conversely, should the industry move to expand cattle inventories, cattle slaughter would be reduced with fewer heifers in feedlots and fewer cows culled. There is potential for either scenario. The cattle inventory trajectory in 2021 will depend on numerous factors including control of the pandemic, U.S. macroeconomic conditions, global protein markets, drought conditions, and feed prices, among others.

As we wrap up 2020, a couple of items for CCC readers. First, a big thank you to all those who replied to the mid-December request for information on how the CCC is used and distributed. The information is very helpful. And lastly, I wish everyone a happy, healthy and prosperous New Year!

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