Cow Country Reporter

January 2024 Volume 16 Issue 1

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News from your CEO

HAPPY NEW YEAR! May you and your family have a HAPPY, HEALTHY, SAFE AND PROSPEROUS 2024.

As we say goodbye to 2023, we all can say "I learned a lesson or two". We learned that when MA Nature shuts off the water for several months what we have to do to survive. Same goes for late frosts at the start of Spring planting or how it affects the growth of our forages. We saw the destruction caused by forest fires, just to name a few that caused the Louisiana cattle industry to make adjustments. These disasters caused some $1.69 billion in losses to our farmers and ranchers in 2023. These disasters were a major factor in an increase of cattle being marketed at the 7 auction markets in Louisiana. According to USDA, NASS we started the year 2023 with 3% less cattle and calves and 3% less beef cows, but sold 30,000 more cattle and calves through our local auction markets. What will happen in 2024? USDA, NASS will report less cattle and calves in 2024. Their report will be released at the end of January. Receipts at our 7 Louisiana auctions will be light the first quarter of 2024 (Jan.-Mar.). Demand for calves to go on graze out wheat will be good, cull cow demand will be very good and demand for replacement heifers and cows should also improve. Keep posted on the markets, have a marketing plan and be flexible. Enjoy the New Year!

Dave Foster, CEO

2023 Year in Review

By: Mark Z. Johnson

The end of 2023 arrives at a time when we, as cattle producers, have a great deal to be thankful for. Strong cattle prices and historically strong profit opportunities have made headlines in the past year. Overall, 2023 should close out as profitable year for all segments of beef cattle production (cow-calf producers, stocker operations and cattle feeders). This is historically rare. Current low cattle inventories indicate high value of cattle of all classes for the next several years. The market value of purebred seedstock should be supported in the future as the nation re-populates with cows. The drought released its grip on Oklahoma during 2023, timely rains and good management permitted recovery of grazing lands and our hay inventory ebbed back higher.

As we look forward to 2024 in the cattle business, keep the following in mind:

1. When the nation's cow herd inventory starts to increase remains in question. What is certain however is the opportunity to "rebuild better." Sound selection and mating decisions now will enable you to regrow cow numbers with a biological type that fits your production environment, management and marketing plan. Mature cow size, level of milk, fertility and breed composition all contribute to cows that best fit your production environment.
2. It's not just the cattle, remember to manage and care for your soil and plants. Grazing ecosystems can take several years to recover from drought. At the beginning of future grazing seasons, manage to give your rangeland a competitive advantage over grazing pressure. Don't re-stock until your pasturelands are ready.
3. Low cow inventories support higher value of cattle. That being said, keep input cost, interest rates and inventories of feedstuffs in mind when making future business decisions.
4. Finally, The cattle business is based on having an available forage base that cattle can graze and turn into beef. The key to profitability is to find a long-term balance of forage produced, other input expenses and production levels.

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2023 Year in Review

It is the ingenuity, perseverance, work ethic and "can do" attitude of America's cattle men and women, and ag producers that permit us to enjoy the highest quality beef produced in the world and spend a relatively small percentage of our disposable income on food. Merry Christmas and Happy New Year! Thanks for reading and best of luck to cattlemen and women in 2024.

Wrapping up Christmas Presents and Cattle Markets

By: Derrell Peel - Oklahoma State University

The final Cattle on Feed report of the year showed that December feedlot inventories were 102.7 percent of last year at 12.006 million head. Among the four largest cattle feeding states, Texas (2.91 million head) and Kansas (2.50 million head) were up the most, with Texas up four percent and Kansas inventories up seven percent year over year. Nebraska (2.58 million head) and Colorado (1.03 million head) were both down one percent in feedlot totals compared to one year ago. The top four states represent 75.1 percent of December 1 feedlot inventories.

Feedlot inventories in number five Iowa are up two percent year over year at 640 thousand head and California, the sixth largest cattle feeding state, had a December feedlot total of 510 thousand head, up one percent over one year ago. Oklahoma, Idaho, Washington, and Arizona round out the top ten cattle feeding states.

November feedlot placements were 98.1 percent of last year, smaller than last year after two months of year over year higher placements in September and October. The placement total was a little larger than average expectations at the top end of pre-report estimates. Although feedlot inventories are 2.7 percent larger than one year ago, total feedlot placements the last six months (which account for 96.2 percent of the December feedlot inventory), are down 0.3 percent from the same June-November period last year. This means that the larger feedlot inventory now is due to a slower feedlot turnover rate and not because of increased total feedlot production.

This is reflected in the November feedlot marketings that were down 7.4 percent year over year. A slower feedlot marketing rate raises concerns that feedlots may not be staying current in marketings. Steer carcass weights pushed to new record levels in the past month with weekly weights at 940 pounds in late November and early December. (Heifer carcass weights peaked at 854 pounds recently, just one pound shy of the largest weekly heifer carcass weight in January 2022.) However, indications are that the heavier carcass weights reflect deliberate marketing intentions (feeding cattle longer) rather than a systemic lack of currentness in feedlots.

Feeder and fed cattle prices increased the week before Christmas. The five-market cash fed price on December 22 was $170.50/cwt., up roughly $2/cwt. from the previous week. On a weekly basis, fed cattle prices have average 22 percent above year earlier levels in 2023. Feeder cattle prices were sharply higher in Oklahoma auctions for the final week of sales in 2023. The price of 475 pound, medium/large, #1 steers was $317.52/cwt, up 44 percent from one year ago, and have averaged 37 percent higher year over year across all weeks this year. The price of 775-pound steers was $225.87/cwt., up 28 percent year over year. These big feeder cattle have averaged 31 percent higher year over year on a weekly basis in 2023.

Merry Christmas and a Happy New Year to all.

Speer: LRP, Markets, Good Business

By: NEVIL SPEER

Premise: LRP insurance is an immensely valuable program. It's straightforward, versatile, and makes risk management readily accessible to producers. And that's more important than ever; record prices translate to heightened equity risk for farmers and ranchers.

Market: As quick review, the fed market established a new record ($189) in early June. And for the next five months, it remained remarkably resilient – averaging $184 through October. However, that resiliency was increasingly bumping up against growing supply coupled with ongoing concerns about the economy and consumer demand.

The pressure ramped up in October: federal budget deadline, House speaker debacle, Israel-Hamas conflict, spiking bond yields (topping out on Oct 18 at 5%) and plunging equity markets (the S&P 500 marked a new-term low on Oct 26). But October's cattle-on-feed report threw gas on the fire leading to an inevitable price break.

Blame LRP: All that got ignored by some industry observers who wanted to establish blame: CME, NCBA, packers (of course) and investment funds (always bash the speculators). But specific to this discussion the list also included LRPs: "I think your LRPs are partly responsible...." It's a little like saying, "Hey neighbor, your LRP policy broke the market."

Options Action: All that aside, my recent column covered some additional granularity. Many readers emailed their concerns about the options market. The thinking being LRPs are influencing volume and volatility (especially on the put side).

Zeroing In: The first graph details changes in option volume versus changes in LRP volume. As expected, LRP coverage and option open interest largely trend together, but there remains lots of noise in the data (weekly differences in LRP coverage account for only 20% of the weekly variation in CME feeder cattle option open interest).

Nevertheless, much of the concern includes the single-week addition of ~10,000 option contracts. It's an outsized move in a relatively small (and illiquid) market – clearly way off trend. That creates challenges in terms of bid/ask spread for those attempting to use options as a risk management tool. And there's been some further big moves in the weeks since.

But is LRP the driver? Hard to know. Meanwhile, during the past 8 weeks, LRP coverage has declined by

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R-CALF USA: Free Trade Distorts Domestic Cattle Prices

It seems free trade, which facilitates unlimited, tariff-free imports, works for some but not for others.

Let's go over some basics: First, the value of light-weight cattle is the expected future value of the animal when it reaches slaughter weight. Second, the fed cattle cash market is the industry's price discovery market and the primary starting point used to formulate an expected future value of lighter-weight animals.

Let's call this Rule No. 1: When prices in the fed cattle cash market rise, the price of lighter-weight cattle is likewise expected to rise. And vice versa: when fed cattle prices fall, the price of lighter-weight cattle is expected to fall.

Third, fed cattle are perishable products and must be slaughtered soon after reaching slaughter weight. Fourth, the demand for fed cattle is bounded on a weekly basis by the available weekly shackle space (meaning the number of cattle the packers are willing to slaughter each week). Fifth, due to these factors, the weekly price of fed cattle is highly sensitive to the supply of slaughter-ready cattle.

So, here's Rule No. 2: When weekly fed cattle supplies exceed weekly shackle space, fed cattle prices can be expected to fall. And vice versa: If there are insufficient weekly cattle supplies to fill available shackle space, prices can be expected to rise.

Now sixth, imported cattle delivered for slaughter are a direct substitute for domestic cattle because beef from imported cattle is not distinguished from beef from domestic cattle with a country-of-origin label. Seventh, imported cattle arrive in the U.S. duty free, so there is no adjustment to their value to address disparities between foreign and domestic production standards and related costs or differences in currency valuations. Eighth, many, and likely most, of the packers participating in the weekly fed cattle cash market also purchase imported live cattle to increase weekly cattle supplies.

And here's Rule No. 3: Packers purchase imported cattle to increase weekly cattle supplies, and because the resultant beef is not distinguished from domestic beef, those imports displace the domestic producer's opportunity to receive higher prices and to present more cattle for sale, such as through herd expansion or new rancher entrants.

So, let's recap the three Rules: 1) The fed cattle cash market price influences the price for all weights of cattle. 2) The weekly fed cattle price is influenced by the available supply of cattle in relation to weekly slaughter volume. 3) Packers purchase imported cattle that are direct substitutes for domestic cattle even though their value is not adjusted to reflect the United States' higher production standards and higher currency valuation, with the result of displacing the domestic producer's ability to receive higher prices, expand production, or attract new entrants.

Now let's summarize the recap: Free Trade in live cattle allows packers to increase price-depressing supplies to the detriment of American cattle producers, regardless of the weight of cattle they sell.

And now let's apply this basic tenet to what we're experiencing in the cattle market today.

Data show that fed cattle prices have been trending downward for several months, losing nearly $15 per cwt since early November. Data show that 600-weight calves lost about the same amount since July. And during the month of November, about 42,000 imported cattle were slaughtered, which compares to about 28,000 slaughtered during the same time last year, representing about a 48% year-to-year increase in imported cattle slaughter for November.

A recent CME Group report states that live cattle imports in October were up by over 76% compared to October last year, and for the first 10 months of this year, those imports were up more than 24% compared to the same period last year. The data show that while most of the increase in imports came from Mexico, there has been a substantial increase in live cattle imports from both countries from August through October.

So, it seems the law of supply and demand is at work in our U.S. cattle market, but it seems to work best for those who can manage both sides of the equation.

When tight domestic cattle supplies are supplemented with increased cattle imports that function as direct substitutes for domestic cattle, domestic cattle prices can and should be expected to fall. And they have.

And in our highly concentrated market, we see that reduced slaughter volumes and increased cattle imports, not to mention increased beef imports, correlate with falling domestic cattle prices.

So, it seems free trade, which facilitates unlimited, tariff-free imports, works for some but not for others.

You see, it depends on where you participate in the multi-segmented beef supply chain.

If you participate in the beef segment of the supply chain, where you want to lower the cost of your primary input, which of course is cattle, then it works quite well for you.

But, if you participate anywhere along the live cattle supply chain, where you want a fair, competitive price for your live cattle, well, it just doesn't work that well for you.

Commentary by Bill Bullard, CEO, R-CALF USA

Mackey: Feeders Push the Tide Higher Throughout Week

By: Brodie Mackey

Cattle feeders continued to change the tide as the week (Dec. 18) progressed. Early week business at steady failed to fully establish a trade. As the week continued cattle feeders gained strength in their asking prices.

By late week packers eager to get to the weekend paid up to move the inventory. Bids at $171 cwt would trade the South, with at least 3 packers participating. The North would pass the $270 cwt dressed and $171 cwt live bids and move the market $1 higher, and $271 and $172 would trade the cattle.

Again, another week of multiple packers participating. Volumes on Friday have the National negotiated number at 50,000 head— Roughly 6,000 more than the week previous.

Looking ahead— the week will be filled with Cattle on Feed commentary. Likely, most will look for it to pressure the markets. Winter weather will impact a large area with many feedyards in the footprint of the storm. Look for that to offset some of the negativity. Most will look to advance prices, as packers work a short trade week for a long harvest.

Speer: LRP, Markets, Good Business

~487,000 head; option open interest has gone the other way, tacking on another 2,554 contracts.

Back To Blame: Responding to my recent LinkedIn post one individual proclaimed LRP volume resulted in "increasing downward market pressure with substantial volume." Then, he summarized with this: "If the goal was downside price protection and market stability, the LRP feeder program achieved the exact opposite on both counts…". That assessment is counterfactual:

1. It ignores fundamentals described above (e.g. economy, cattle-on-feed) and avoids complexities of markets.
2. Options are a derivative of futures, and futures a derivative of cash. It's directional – else the three markets would be caught in a meaningless, circular loop. Changes in option volume doesn't influence the physical market (see second graph - the correlation is .007, the regression .000006).
3. Neither has LRP volume influenced the cash market (see final graph below).
4. It disregards favorable LRP stories from the country.

Good Business: During the past month, I've heard every combination and permutation regarding LRP and options and futures and cash – many of them not quite sure how it all fits together. And while it might've seemed like LRPs are responsible for the sell-off, the data indicates need for careful discernment before the business decides what's what.

Darin Newsom at Barchart provides some great perspective of late on both feeder cattle (and markets in general). With that in mind, as stated in my previous column, let's be careful not to throw the baby out with the bathwater.

Most important, it's easy for producers to be consumed by LRP talk and subsequently overlook the importance of taking action to manage price risk. That'd be a mistake: things that never happen, happen all the time.

To that end, one email I recently received cut straight to the matter – risk management is essential to the bottom-line: "There are seasoned risk managers…Those people know that they don't know [what the market will be] and act accordingly day in and day out. It's pretty boring…and consistently profitable."

That's good business.

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