

In the next two days we will discuss the hog market in a bit more detail but **given the release of the cattle inventory survey results, it is only appropriate to round our recent cattle discussions.** We think the results of the report may be viewed as moderately bearish by futures market participants, although given the recent pullback one could argue that the market already was trying to get ahead of this report. Most key numbers in the report came in above pre-report estimates although, as we noted yesterday, the estimates only reflected the ideas of three analysts and thus a bit too narrow to use as a benchmark. We do not think the results of this report markedly alter the fundamental supply outlook presented in the latest WASDE report. The US beef industry continues to expand, albeit at a slower pace than in 2015 and 2016. Below are some of the key numbers:

- The **total inventory of cattle and calves as of January 1, 2017 was 93.585 million head, 1.8% higher than a year ago** and 1 percentage point larger than pre-report estimates. This is the largest cattle inventory in the US since 2010 and 5 million head larger than the 2014 cycle low.

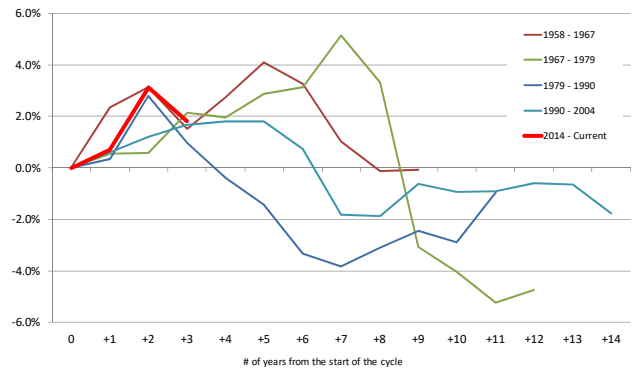
- The **beef cow herd is currently estimated at 31.2 million head, 3.5% higher than a year ago.** Pre-report estimates were expecting the beef cow herd to be up just 1.1% from last year. While USDA made some downward revisions to its beef cow herd estimate for the previous year, current numbers suggest further gains in the 2017 calf crop and thus increasing beef supplies in 2018 and first half of 2019. To us this is probably one of the more bearish numbers in the report, especially given speculation from some producers that herd rebuilding has come to an end.

- Producers also retained more heifers for beef cow replacement, increasing the stock by 79,000 head or +1.2%. Beef cow replacement numbers hit a low of 5.1 million head in 2011 and have been increasing steadily since then. **Current replacement numbers are the highest they have been since 1995.**

- Feeder cattle supplies (cattle outside feedlots) as of January 1 were 26.522 million head, 2.2% higher than a year ago. Robust marketings during the last quarter of 2016 have helped get feeder supplies more current. On feed inventories were down 1% from the previous year, in line with the monthly USDA survey and also indicating that front end fed cattle supplies also are quite current. This was the most supportive part of the report for fed cattle prices. The report also showed a decline in the feedlot inventory in IA, MN and SD, areas with a larger percentage of farmer feeders. Last year these states showed a notable increase in feedlot cattle numbers but the sharp fed cattle price declines last summer and fall may have discouraged some producers. We see this as supportive for prices going into the spring.

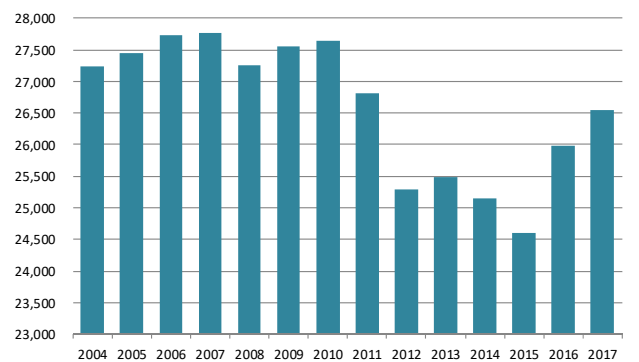
**Bottom line:** The report confirmed that cattle supplies continued to expand through much of 2016 and producers today have a larger production base (cows/heifers) than they did last year. By holding back more heifers for replacement they also intend to continue to expand the production base this year, albeit at a smaller rate. The larger production base implies continued increases in calf production and thus larger beef supplies in 2018 and likely 2019.

Comparing US Cattle Cycles of the Last +50 Years  
Y/Y Change in Cattle Inventories.



January 1 Feeder Supply, '000 Head

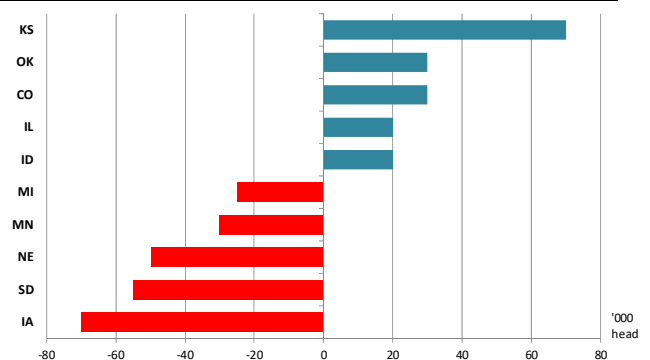
Data Source: USDA Cattle Inventory Report



\*\* Has not been adjusted for cows that may be in feedlots

10 STATES WITH BIGGEST GAINS/LOSSES IN ON FEED NUMBERS. Jan 2017 vs. Jan 2016

Data Source: USDA 'Cattle' inventory report, '000 head change



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## JANUARY 1st U. S. CATTLE INVENTORY

INVENTORY (000 OMITTED)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	% Ch. vs. 2016	Pre-Report Est.
ALL CATTLE AND CALVES	96,100	94,403	95,018	96,342	96,573	96,035	94,721	94,081	92,887	91,160	90,095	88,526	89,143	91,918	93,585	1.8%	0.8%
COW AND HEIFERS THAT HAVE CALVED	42,125	41,519	41,678	41,806	41,789	41,692	41,127	40,526	40,068	39,517	38,853	38,293	38,609	39,476	40,559	2.7%	1.0%
BEEF COWS	32,983	32,531	32,674	32,703	32,644	32,435	31,794	31,440	30,913	30,282	29,631	29,085	29,302	30,166	31,210	3.5%	1.1%
DAIRY COWS	9,142	8,988	9,004	9,104	9,145	9,257	9,333	9,087	9,156	9,236	9,221	9,208	9,307	9,310	9,349	0.4%	0.4%
HEIFERS 500LBS. AND OVER	19,629	19,282	19,445	19,950	20,074	19,855	19,604	19,778	19,650	19,445	19,256	18,969	19,261	19,907	20,052	0.7%	0.8%
BEEF COW REPLACEMENT	5,624	5,508	5,638	5,864	5,835	5,647	5,550	5,443	5,135	5,281	5,429	5,551	6,086	6,340	6,419	1.2%	-1.2%
DAIRY COW REPLACEMENT	4,114	4,018	4,117	4,298	4,325	4,415	4,410	4,551	4,577	4,618	4,546	4,549	4,710	4,814	4,754	-1.2%	0.0%
OTHER HEIFERS	9,891	9,756	9,690	9,788	9,914	9,793	9,644	9,784	9,938	9,546	9,281	8,869	8,464	8,753	8,879	1.4%	2.7%
STEERS 500 LBS. AND OVER	16,554	16,201	16,466	16,988	17,185	17,163	16,809	16,568	16,394	15,957	15,931	15,668	15,630	16,315	16,354	0.2%	1.1%
BULLS 500 LBS. AND OVER	2,248	2,201	2,214	2,258	2,214	2,207	2,188	2,190	2,165	2,100	2,074	2,038	2,109	2,142	2,234	4.3%	-0.3%
HFRS, STRS AND BULLS UNDER 500 LBS.	15,545	15,200	15,215	15,339	15,311	15,118	14,994	15,019	14,610	14,141	13,983	13,558	13,534	14,077	14,386	2.2%	0.4%
ANNUAL CALF CROP **	37,593	37,260	37,106	37,016	36,759	36,158	35,939	35,740	35,357	34,469	33,730	33,522	34,087	35,083		2.9%	2.1%

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