Daily Livestock Report

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Vol. 15, No. 21 / February 1, 2017

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.

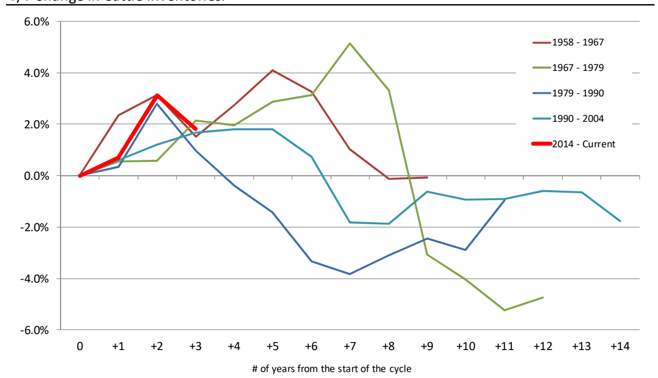
- Producers also retained more heifers for beef cow replacement, increasing the stock by 79,000 head or +1.2%. Beef cow replacement numbers hit a low of 5.1 million head in 2011 and have been increasing steadily since then. **Current replacement numbers are the highest they have been since 1995.**

- 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.

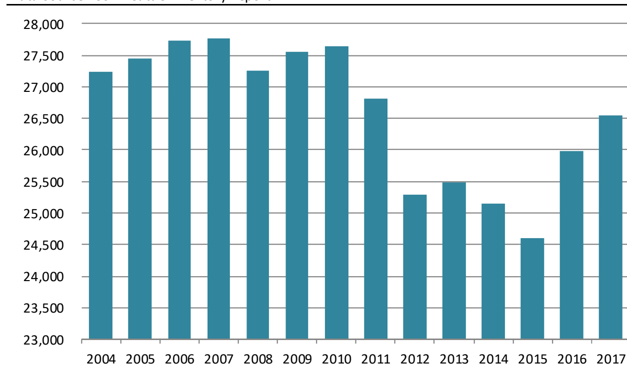
Comparing US Cattle Cycles of the Last +50 Years

Y/Y Change in Cattle Inventories.




**January 1 Feeder Supply. '000 Head**

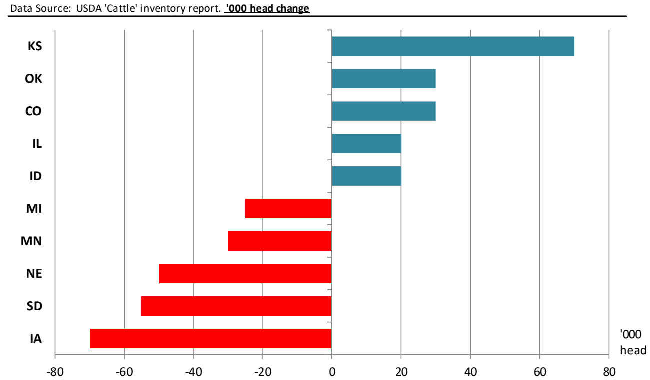
Data Source: USDA Cattle Inventory Report




** 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 REPALCEMENT | 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% |