

U.S. Commodities Markets

USDA's January Biannual U.S. Cattle Inventory Report: Structurally Short Beef Cattle Supplies

- The January 1 Cattle Inventory report reinforced the structurally tight supply narrative that has been present in the U.S. beef cattle complex during 2022. The report illustrates that the prolonged drought throughout the western and southwestern states has led to aggressive culling of beef cattle breeding herd, cows, and heifers, which has ultimately led to a smaller domestic calf crop.
- The data showed no signs that the beef cattle breeding herd is expanding.
- Overall, we believe the supply reductions will impact the price of feeder cattle and live cattle from Q3'22 and into 2024/25.
- The data does not change but reinforces our live cattle futures price outlook for 2023.

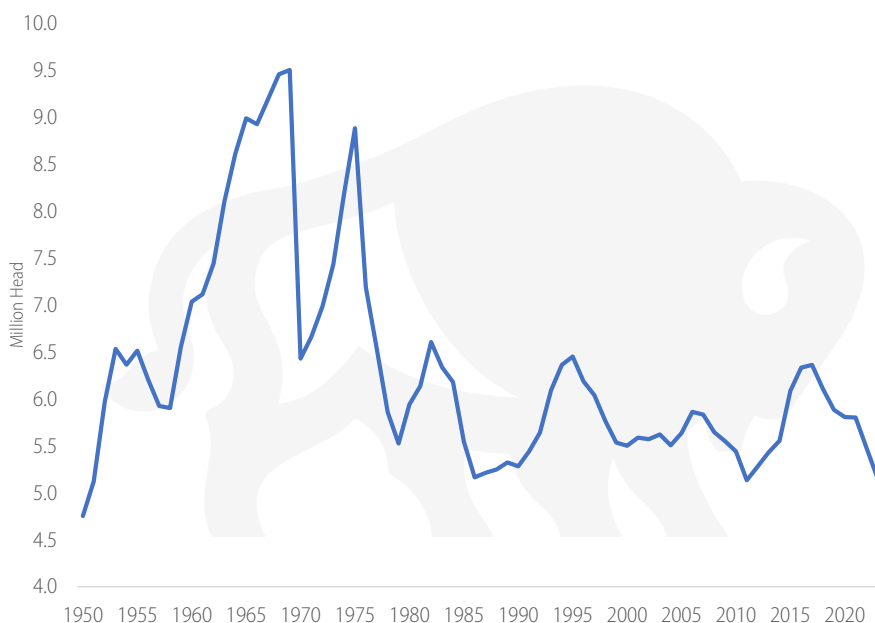
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Heifers for beef cow replacement was the second lowest since 1951

The reported 5.1637 million head (mh) of heifers for replacement represents a 5.8% YoY decline. This was the largest single year drop going back to the January report in 1985. This data point profoundly impacts and limits future supplies of feeder and live cattle well into 2024. Of the major, minor, and tertiary cattle producing states, only Missouri showed an increase from 2022. None of the core cattle producing states: Texas, Kansas, Oklahoma, Nebraska, South Dakota, Iowa, Montana, and Wyoming showed an YoY increase in the number of heifers for cow replacement. Data from the west coast states (California, Oregon, Washington) was unchanged from 2022. We see drought mitigation in late 2023 helping with this stabilization.

Overall, we believe the supply reductions will impact the price of feeder cattle and live cattle from Q3'22 and into 2024/25.

January 1 Heifers For Beed Cow Replacement



Source: USDA, HilltopSecurities.

Please see disclosure starting on page 4.

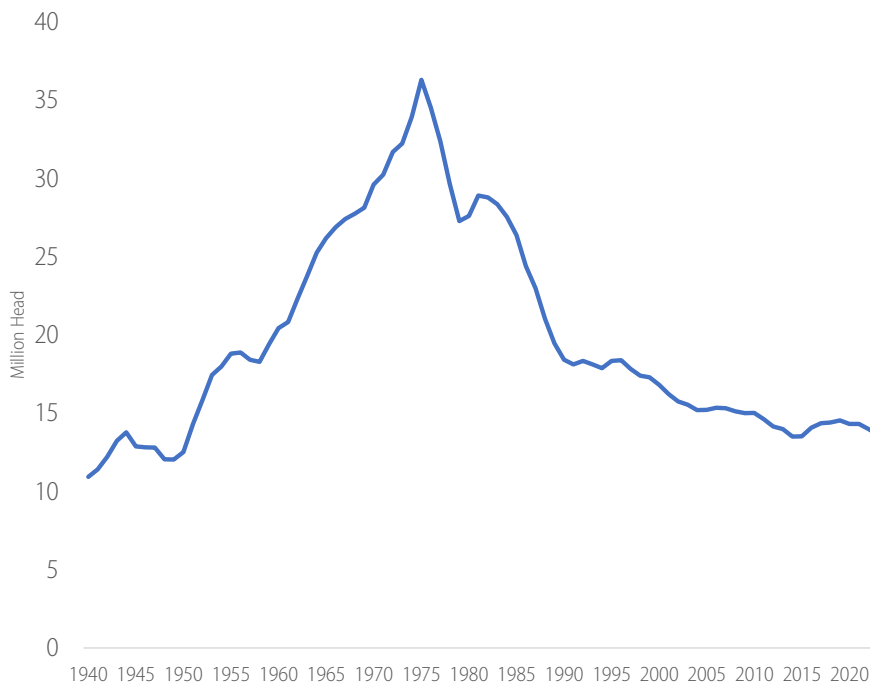
With no expansionary signals we view the heifer replacement data as a bullish input for future feeder and fed cattle prices.

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Domestic calf supplies remain tight

Both the 2022 calf crop and the reported number of January 1 calve inventory figures exhibit the anticipated structural tightness. The 2% YoY decline of the 2022 calf crop was the second largest since 2012. The reported 13.6mh calve inventory figure was the third smallest going back to 1950.

January 1 Calf Inventory



2022 calf crop data showed that supplies in the primary northern and southern cattle producing states had declined from 2021.

Source: USDA, HilltopSecurities.

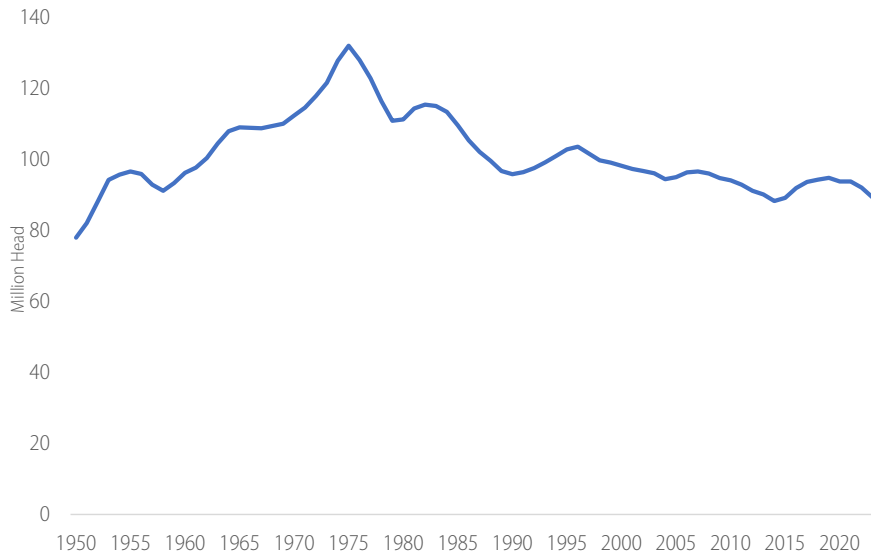
2022 calf crop data showed that supplies in the primary northern and southern cattle producing states had declined from 2021. Supplies in the western states, California, and Oregon, showed no changes from 2021 and Washington experienced a slight decline. The calf crop in Missouri and South Dakota also showed signs of stabilization.

The U.S. cattle herd is at historically low levels and could be bottoming

The reported Jan. 1, 2023, 89.3 mh, -3% YoY, was not a surprise. On a relative basis the herd size is the lowest since 2014 and the second lowest since 1952. As the 2023 domestic weather pattern transitions from La Nina to a neutral and a growing probability of a mild El Nino during H2-'23, the drought that has engulfed the southwest and the western states will dissipate. As moisture returns to these regions, pasture conditions will improve, corn and row crop yields will trend higher, and the U.S. beef cow/calf producer will start to retain heifers for breeding.

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January 1 All Cattle & Calves



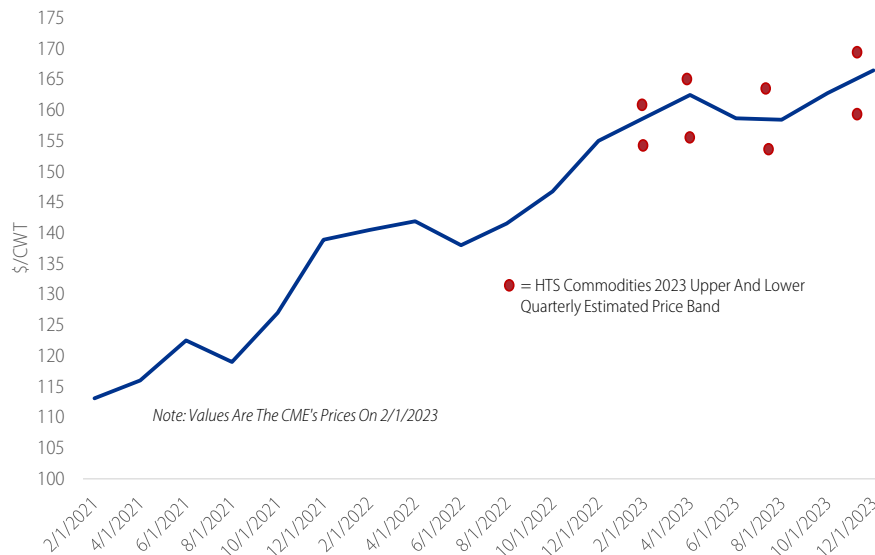
Source: USDA, HilltopSecurities.

Takeaways:

- We don't view the YoY decline in the beef cattle breeding herd, and the number of heifers retained for breeding as a surprise. The USDA's higher frequency data points during the second half of 2022, H2-22, has been illustrating the speed and depth of the liquidation of the female feed stock.
- Except for Missouri, which has not experienced the same intensity of the La Nina driven drought as the northern, western, and southwestern cattle producing states, the lack of material expansionary green shoots will help maintain the structural bullish price narrative of listed feeder and fed cattle futures.
- We use the inventory data to help provide board guidance about the status of the US cattle herd.

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Live Cattle Futures Prices



Source: Bloomberg, HilltopSecurities.

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