

# EXPERIENCED PROFESSIONALS IN COMMODITIES

***December 19, 2023***

---

**Contact:**

Spencer Caviness – 806.370.9378  
[spencer.caviness@hilltopsecurities.com](mailto:spencer.caviness@hilltopsecurities.com)

Mark Clift – 972.624.6333  
[mark.clift@hilltopsecurities.com](mailto:mark.clift@hilltopsecurities.com)

Jeff Hauschild. – 214.987.5239  
[jeff.hauschild@hilltopsecurities.com](mailto:jeff.hauschild@hilltopsecurities.com)

Will Snead – 806.350.2403  
[will.snead@hilltopsecurities.com](mailto:will.snead@hilltopsecurities.com)

Brock Thompson – 806.350.2401  
[brock.thompson@hilltopsecurities.com](mailto:brock.thompson@hilltopsecurities.com)

**HTSCommodities**

Amarillo, TX  
Dallas, TX  
St Paul, MN  
New York, NY  
Memphis, TN

**[www.htscommodities.com](http://www.htscommodities.com)**





- The objective of this work is to highlight the flow of Mexican feeder cattle into the US during 2023 along with the key drivers that helped keep the supplies moving.
- Historically, Mexican feeder cattle represent a 5-10% of Texas's placements and on-feed supplies. We see the prolonged drought in key Mexican cattle producing, and background states as a factor that is helping to cull a portion of the local beef cattle herd.
- We view the historically high CME feeder cattle futures and cash cattle prices a major incentive for Mexican cattle operations to export cattle.
- By pulling cattle forward, we see a scenario developing where Mexico should experience a long-term supply shock. Like the US, there is a lack of clarity in assessing Mexican upstream supplies at the cow/calf level.
- **We expect to see a modest annual 1.75-2.1% contraction of the Mexican cattle herd during 2024 and 2025 which can suppress exports to the US.**

# Mexican Feeder Cattle Imports: Helping To Ease Texas Supply Constraints In 2023. Tighter Supplies In 2024

---

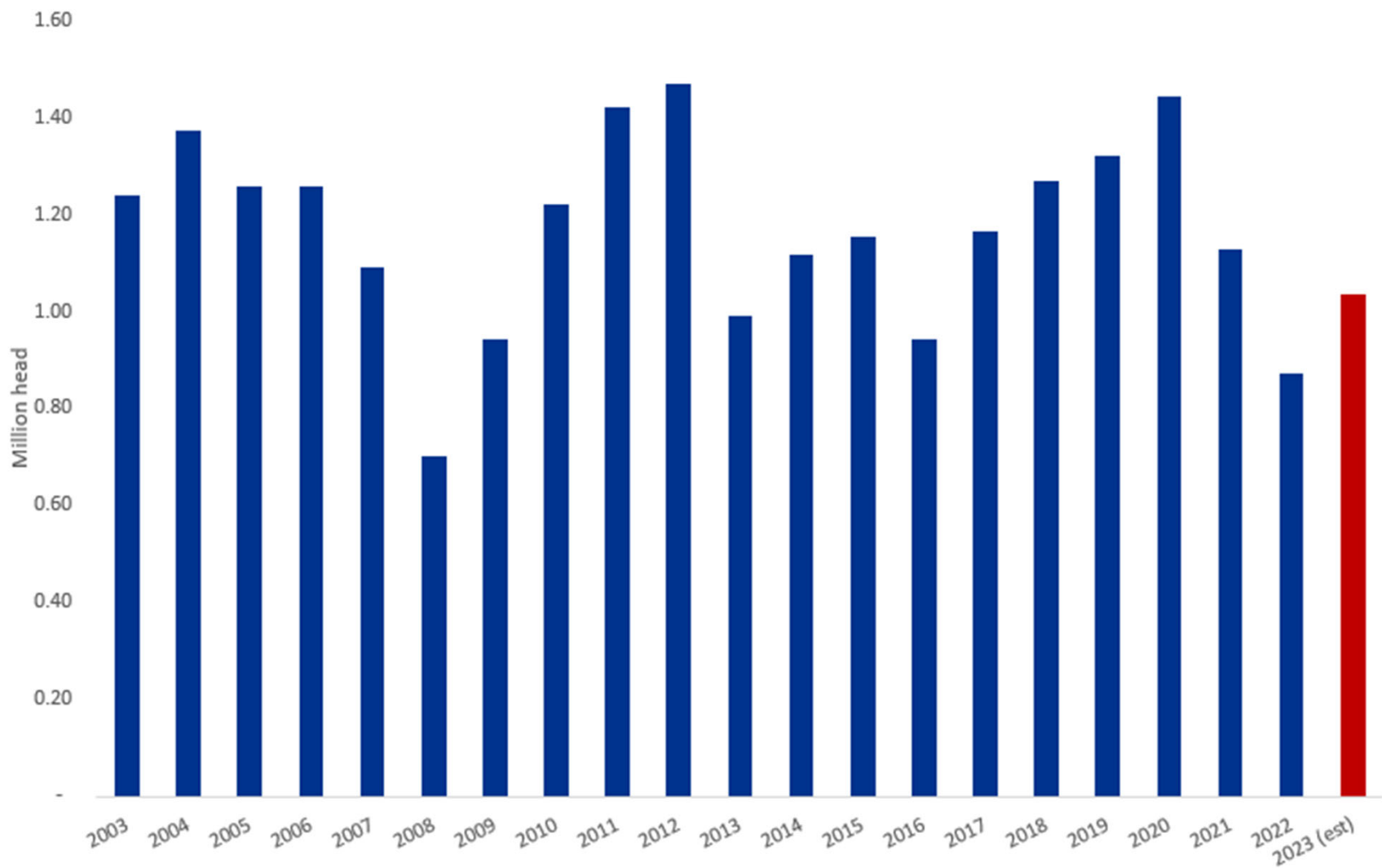
## Background: Mexican Feeder Cattle Imports (1/2)

1. Since 2010 the Mexican cattle herd has experienced linear growth. The drought of 2008 allowed the local beef cattle supply chain to recalibrate. The development of the local packing and beef export industries has supported the expansion of Mexico's cattle herd.
2. As the Mexican beef cattle herd transitioned into the expansionary phase of the cycle, the timing aligned with the contraction of the US herd in 2014.
3. As the US cattle cycle started expanding in 2015 the Mexican cattle herd was growing at average annual rate of 2%.
4. As the Mexican cattle herd was expanding, domestic beef production was climbing at an annualized rate of 1.5% which was slightly below the growth rate of the cattle herd.
5. Data from Mexico's SAIP and the USDA's illustrates that as the post-2008 drought restocking of the Mexican cattle herd occurred, development of the cross-border feeder cattle trade accelerated.

## Background: Mexican Feeder Cattle Imports (2/2)

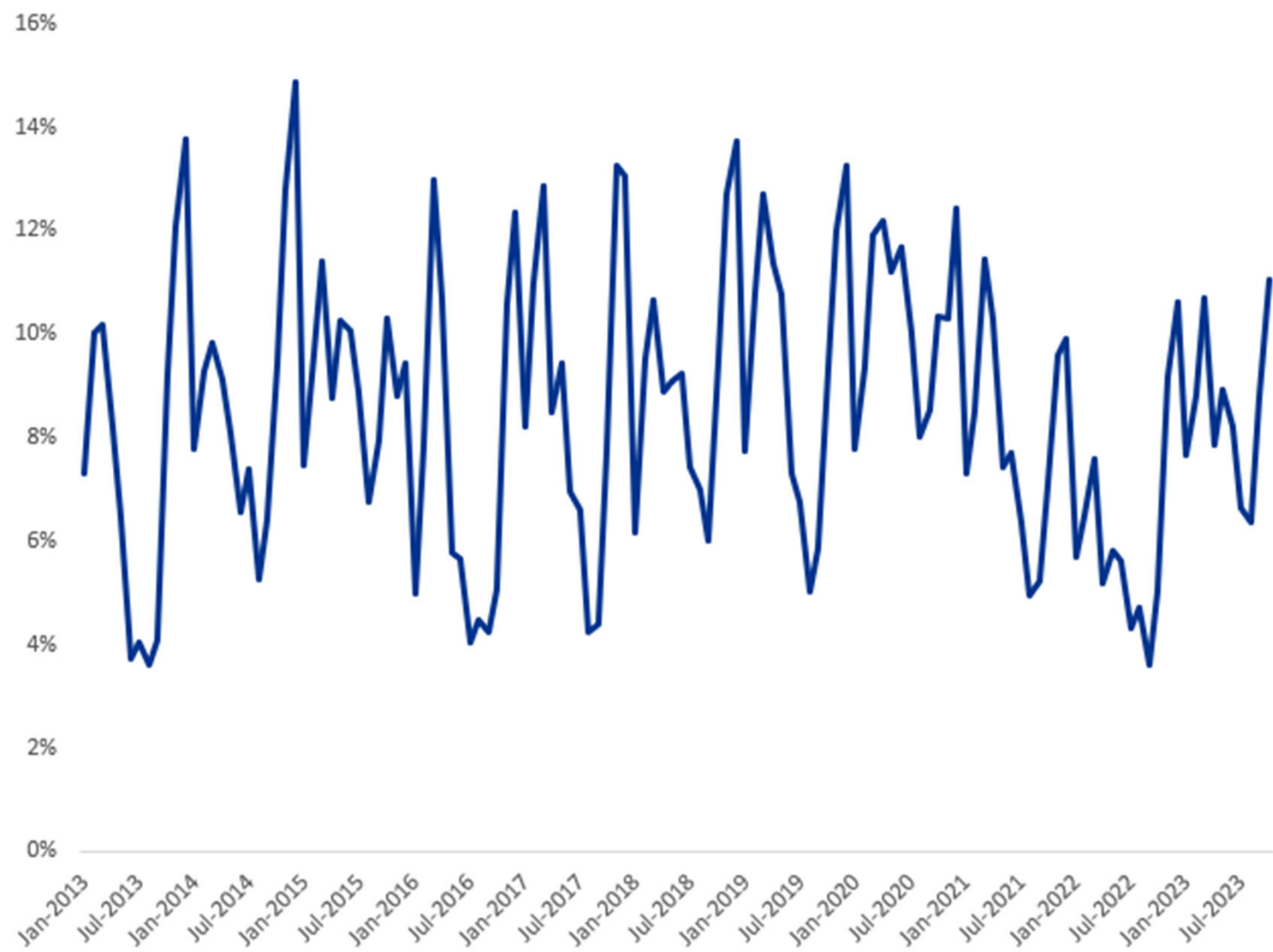
1. Texas has always been an important destination for the cross-border cattle trade.
2. Over a 20-year period, annual Mexican cattle imports represent approximately 3.5-12% of monthly Texas cattle placements.
3. During the same time, Mexican cattle represented a monthly average of 7% of total Texas placements.
4. While 7% is not a large number, there are seasonal trends with the volumes of Mexican cattle moving into Texas feedlots. We also believe that 7% represents a marginal placement number that can dramatically impact the feeder cattle supply chain.
5. Over 20 years, USDA reported that feeder cattle entering the US at Texas border locations averaged 25% of all total Mexican cattle exports to the US.

# Annual Mexican Feeder Cattle Imports



Soruce: USDA, Hilltop Securities

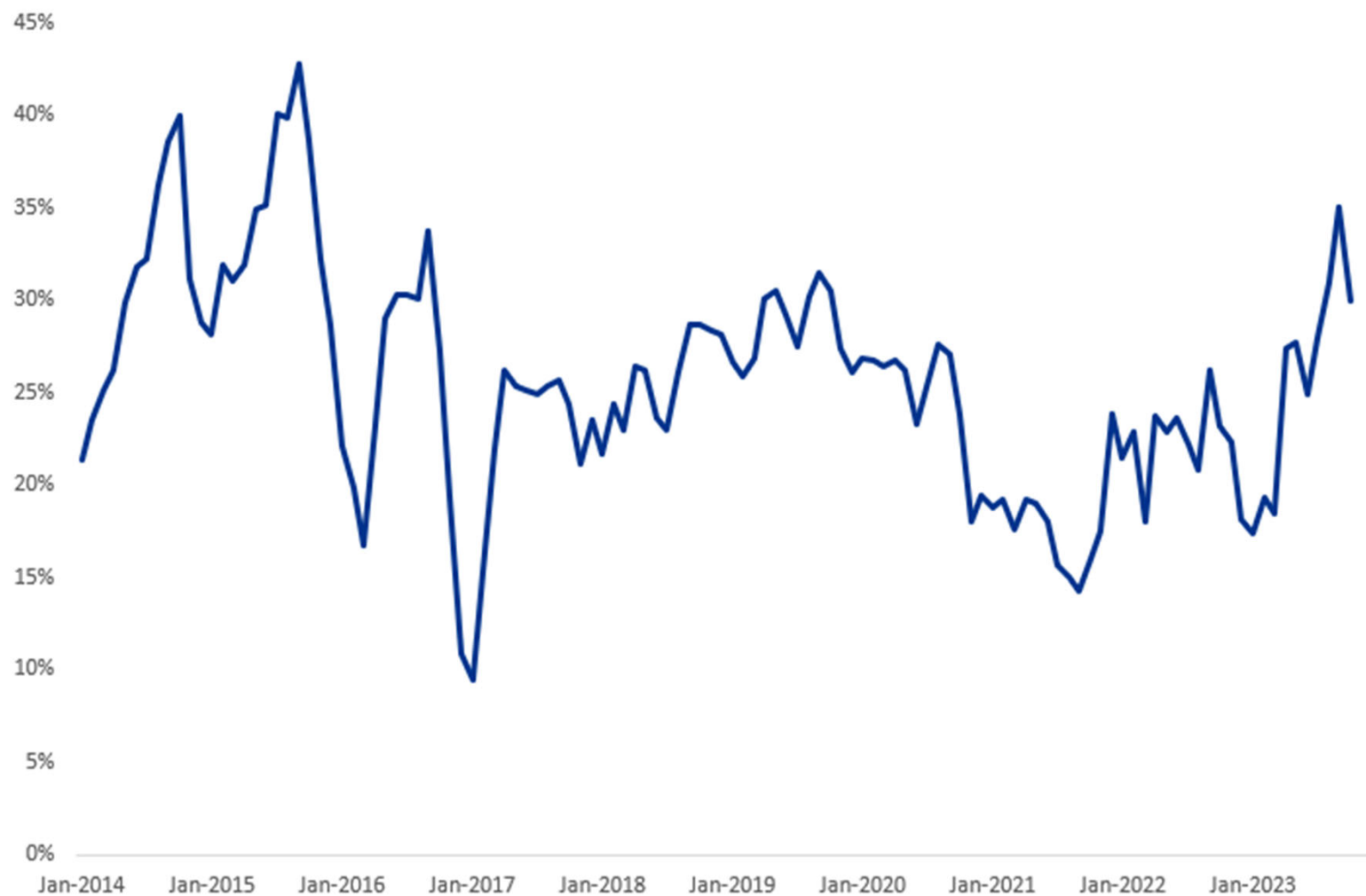
# Mexican Feeder Cattle As Percent Of US Placements



Source: Hilltop Securities



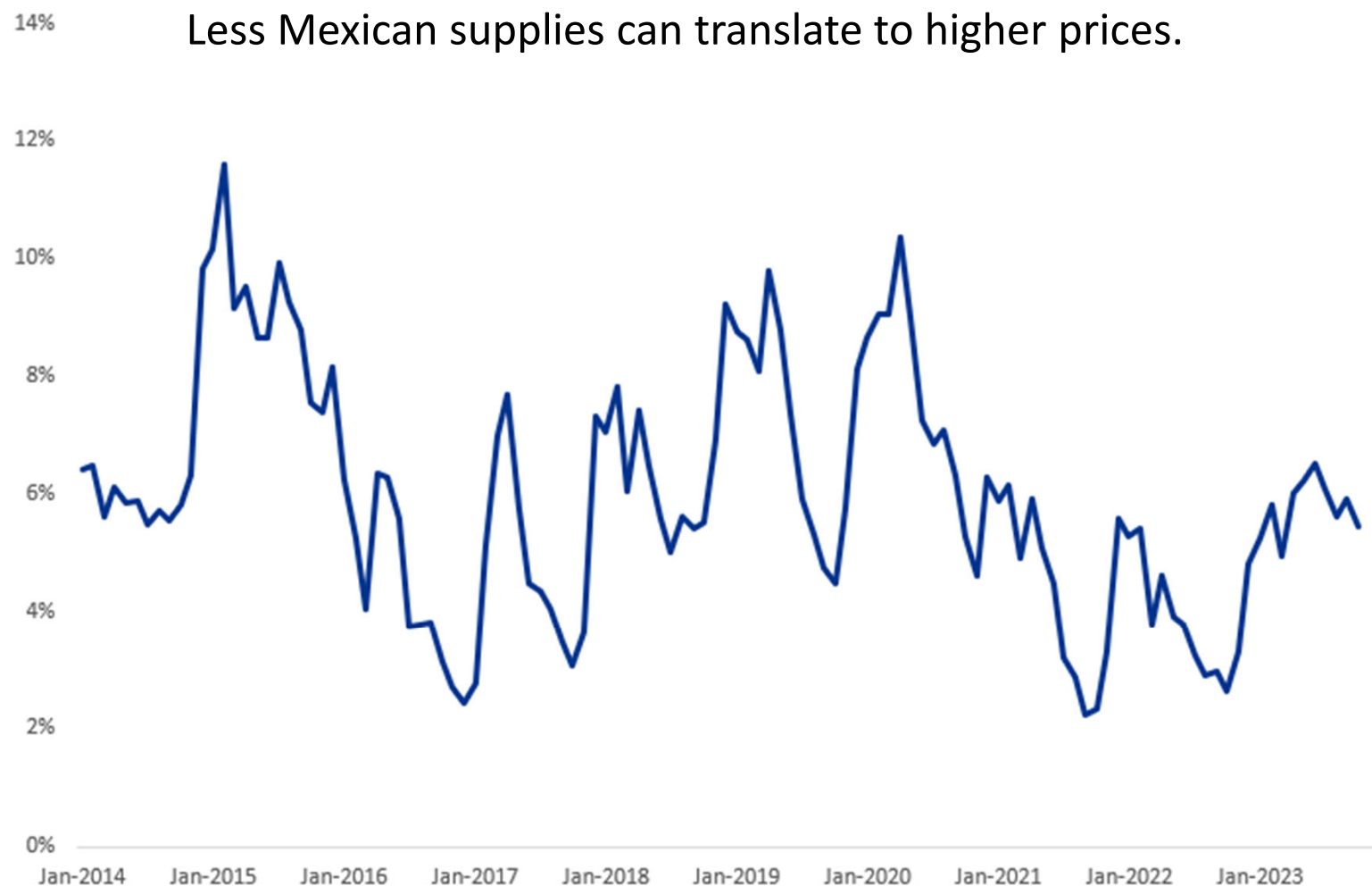
## Precent of Total Mexican Feeder Cattle Imported Into Texas



Source: Hilltop Securities

## Mexican Feeder Cattle As Percent Of Texas Placements

Mexican cattle represent a marginal component of Texas supplies.  
Less Mexican supplies can translate to higher prices.

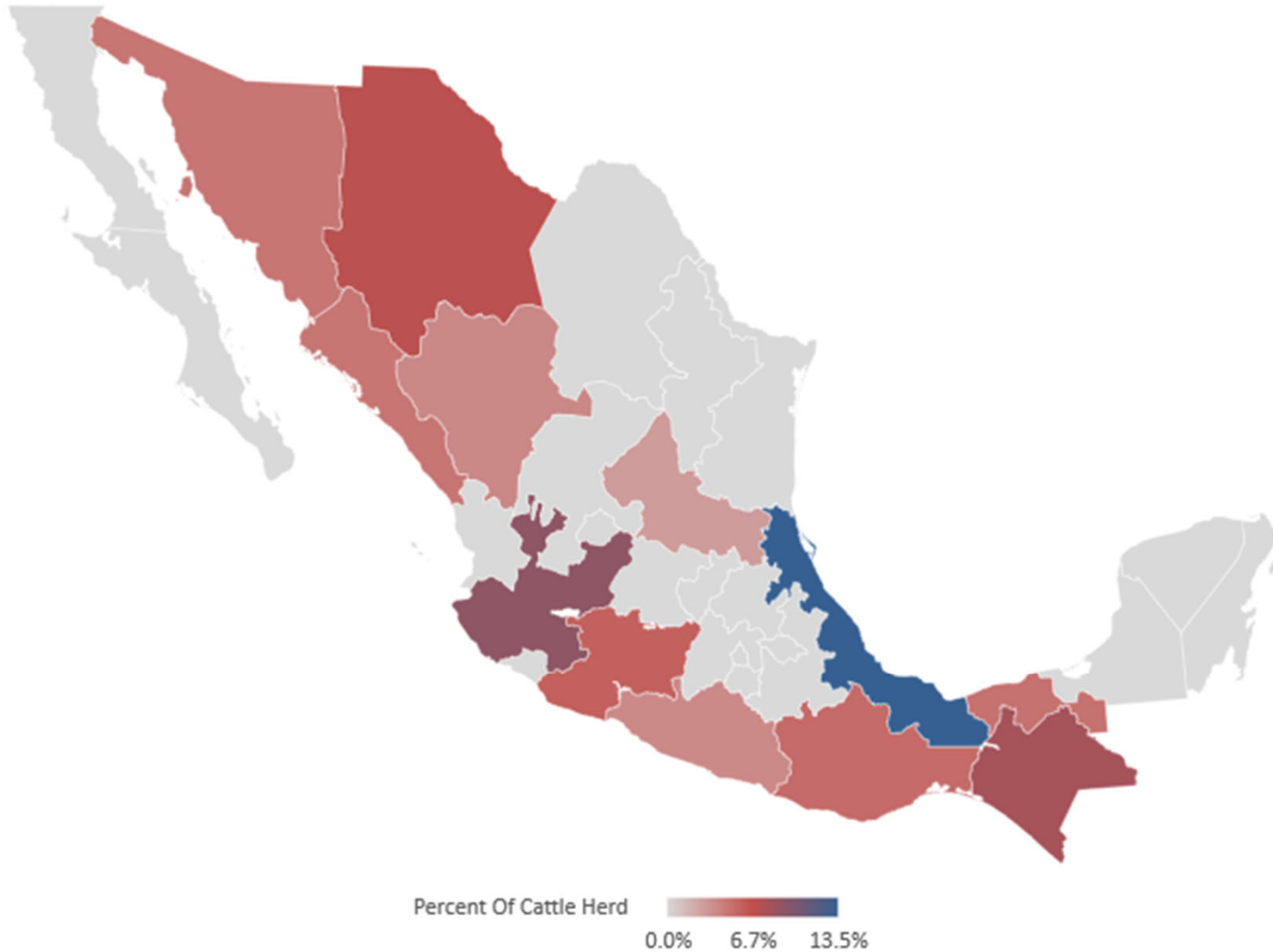


Source: Hilltop Securities

# Drought Combined With Record High Feeder Cattle Futures Prices Increased The Mexican Export Pace

---

# Mexico Cattle Producing States

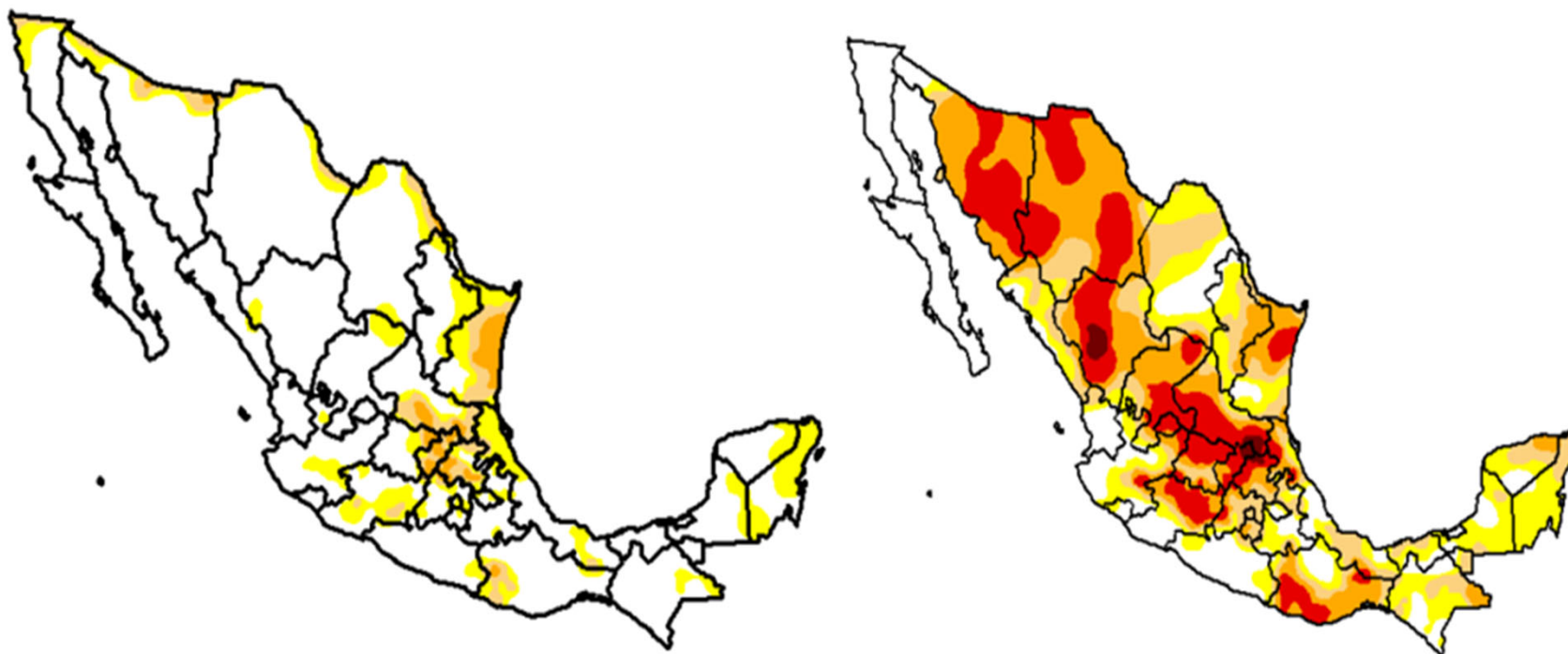


Source: Hilltop Securities, Servicio de Información Agroalimentaria y Pesquera (SIAP)

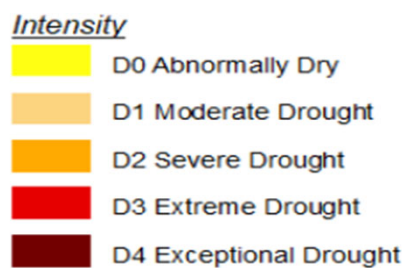
# Mexican Drought Evolution

December 2022

December 2023



Source: US Drought Mitigation Center, University of Nebraska- Lincoln





# Mexico Cattle Producing States & Drought

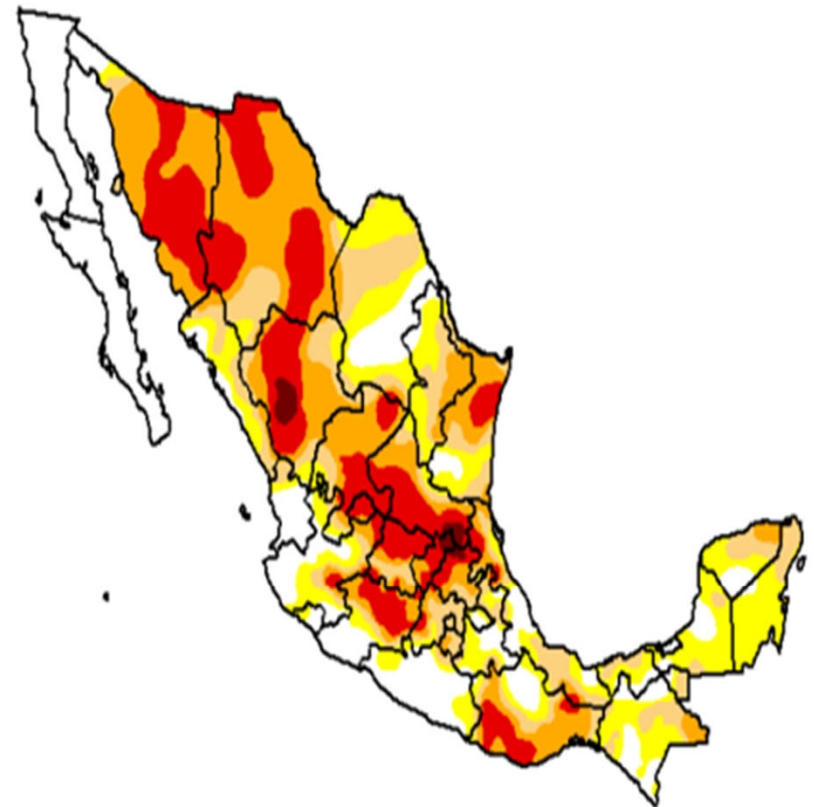
The El Nino influenced drought is impacting future inventories in key cattle producing states

December 2023



Percent Of Cattle Herd  
0.0% 6.7% 13.5%

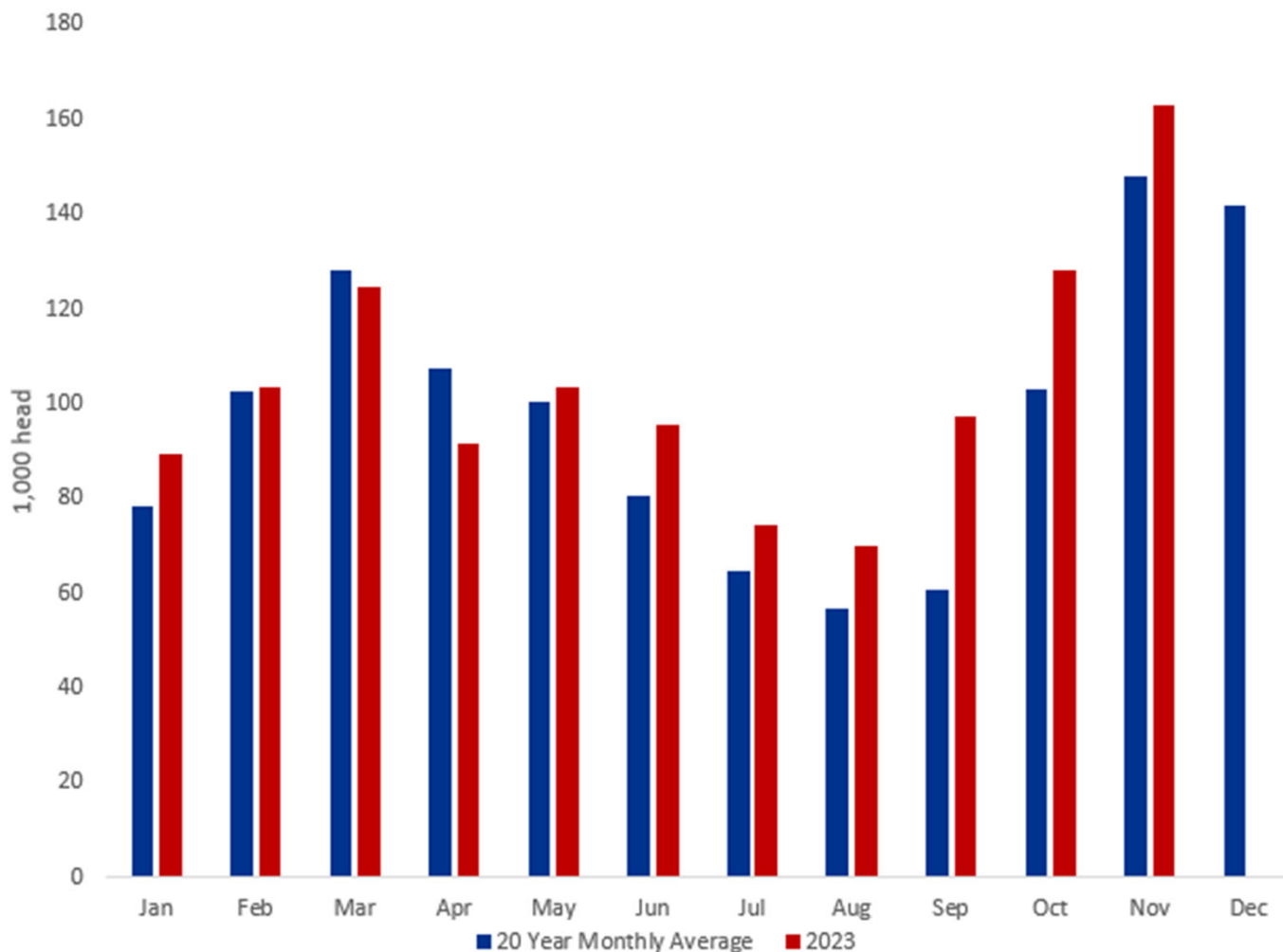
Source: Hilltop Securities, Servicio de Informacion Agroalimentaria y Perquera (SIAP)



Source: US Drought Mitigation Center, University of Nebraska- Lincoln

# Monthly Mexican Feeder Cattle Imports

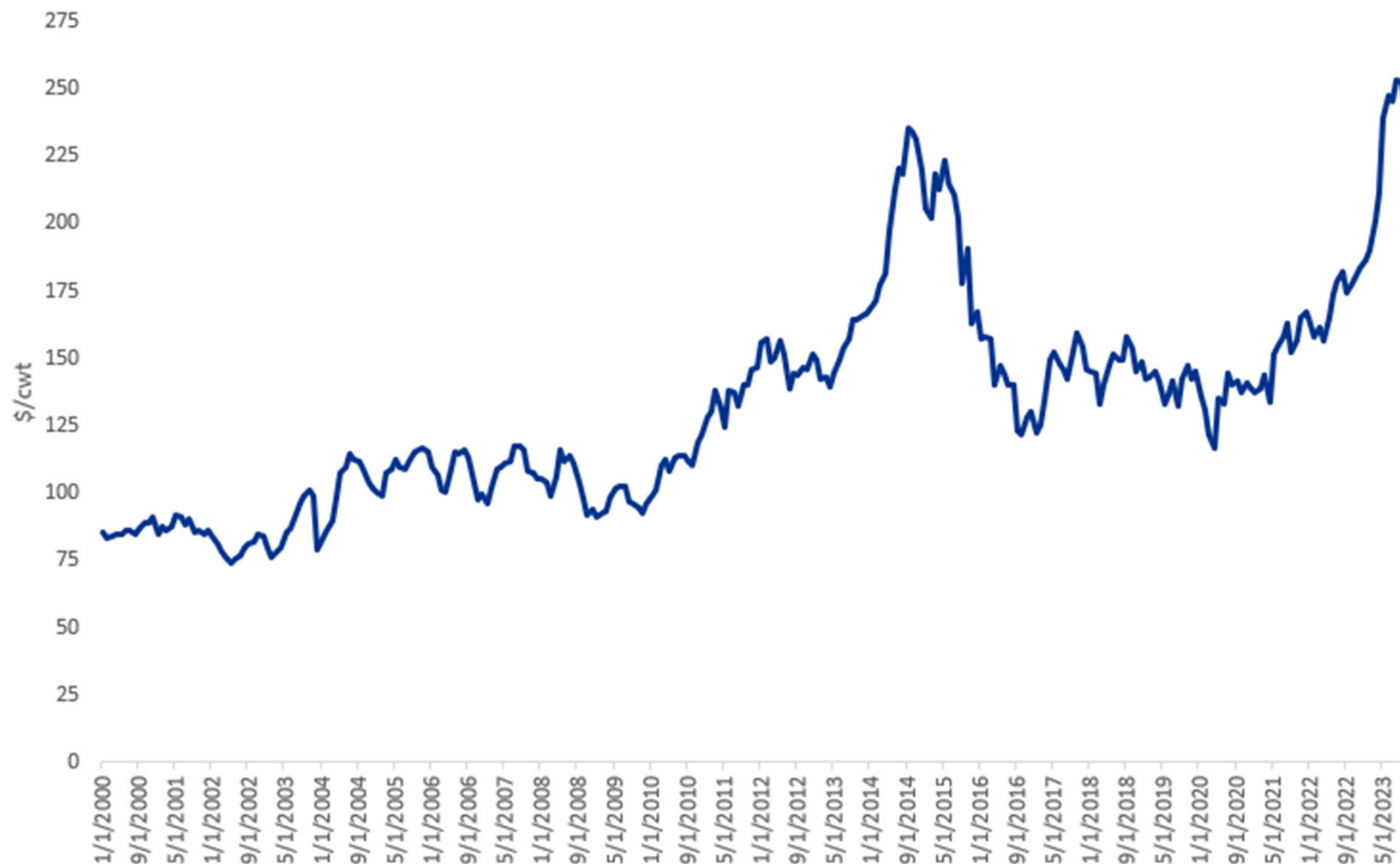
In 2023, worsening drought and high prices helped push Mexican US feeder cattle exports to the US to record levels.



Source: Hilltop Securities

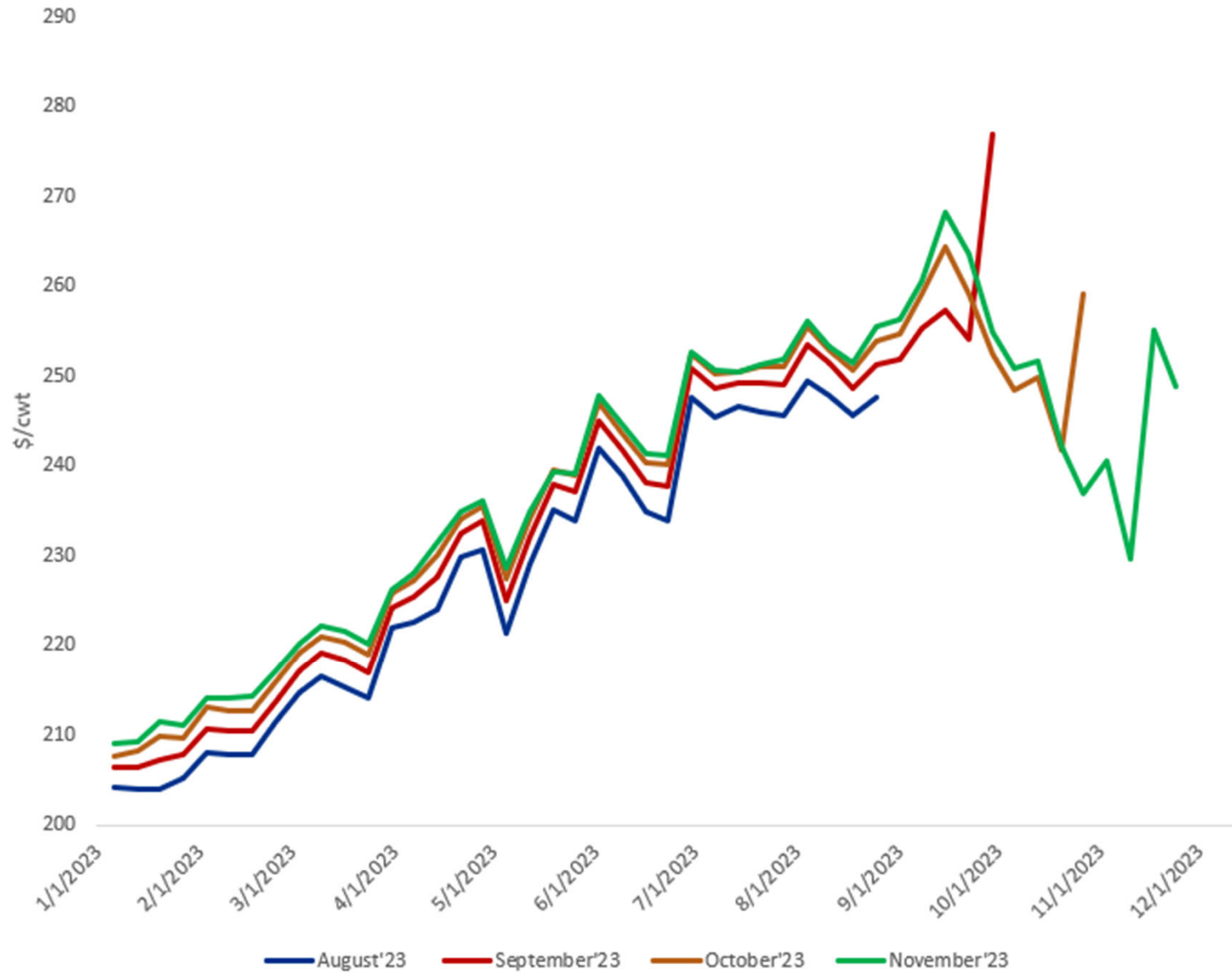
# Continuous CME Feeder Cattle Futures

Record high CME Feeder cattle futures prices during 2023 also incentivized Mexican producers to export cattle to the US instead of rebuilding the herd



Source: Bloomberg

# 2023 CME Feeder Cattle Futures



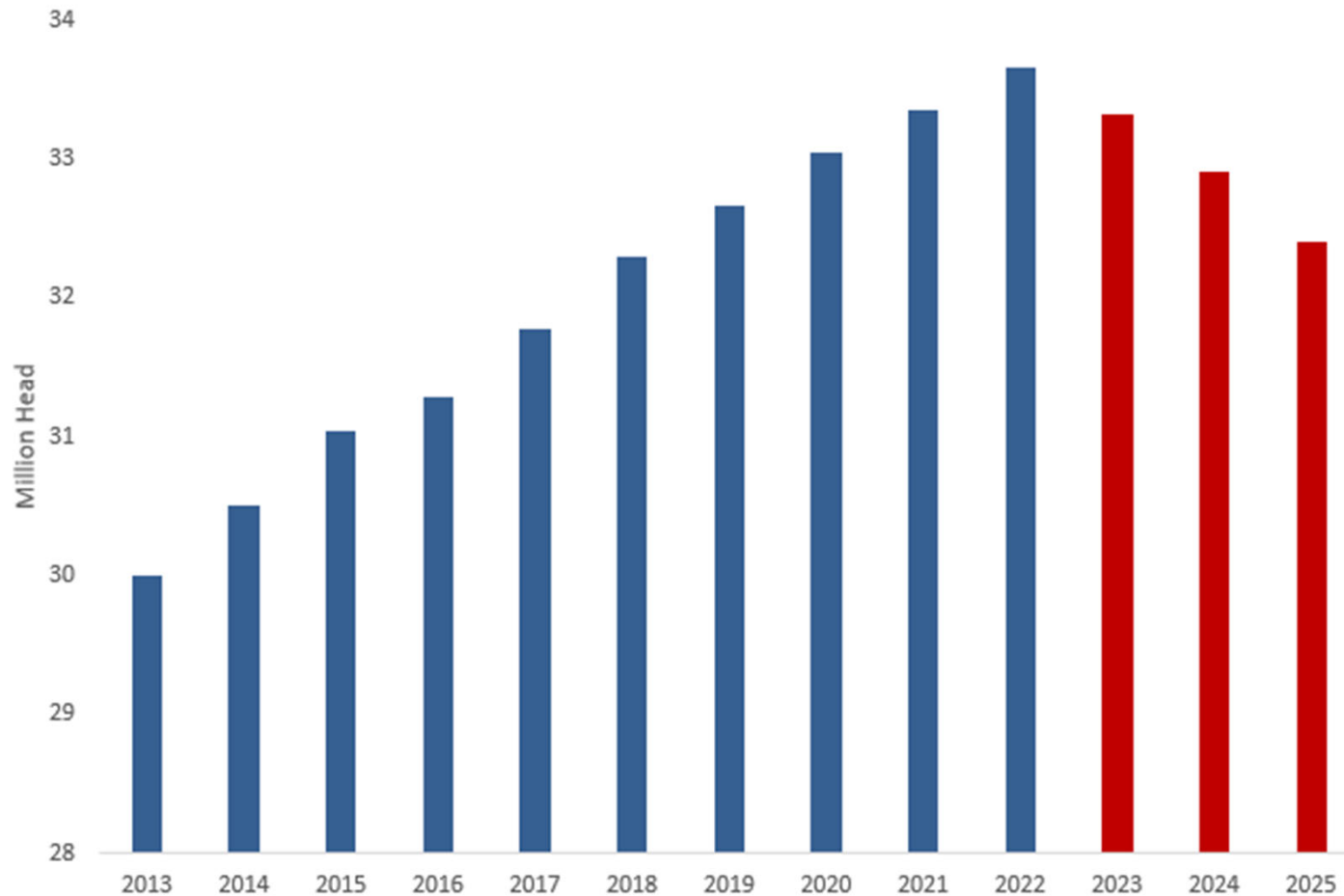
## Conclusion

---



# Mexican Cattle Supplies

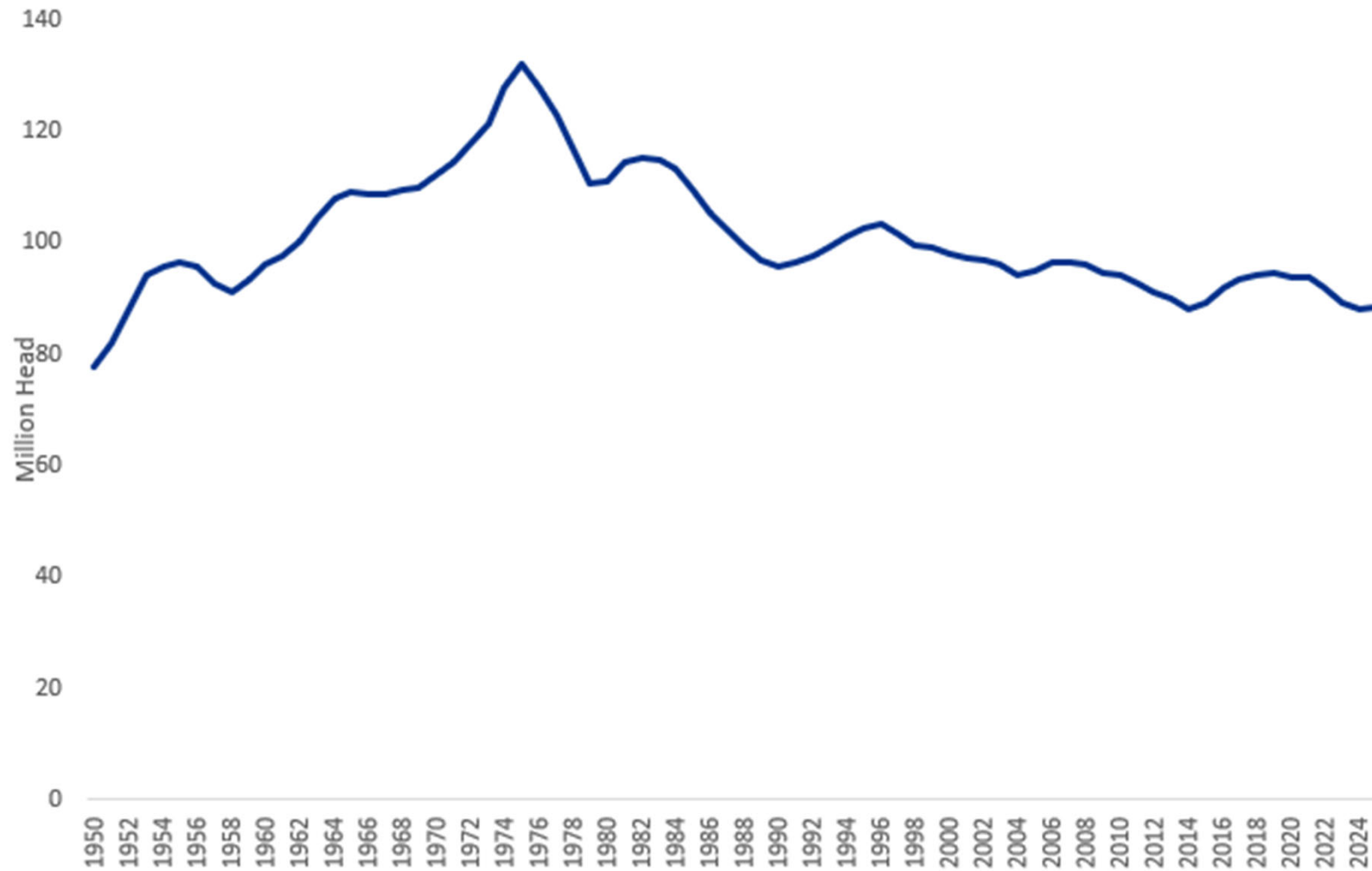
We estimate that as the Mexican cattle herd rebuilds, local supplies contracted in 2023. This will continue into 2024 and mid-2025 before recovering in 2026.



Source: Hilltop Securities

## January 1 All US Cattle & Calves

We estimate the USDA's January 1 2024 inventory number at 88.1 million head which would be the lowest value since 1954. We see inventories incrementally rising in 2025.



Source: Hilltop Securities

## How Contracting Mexican Cattle Supplies Impact Texas

- As the Mexican drought continues to intensify before peaking in early 2024, it is probable that dryness will continue spreading into critical cattle producing and backgrounding states.
- Expanding dryness in Mexico combined growing domestic packer demand for cattle should help exportable supplies to the US contract.
- As El Nino starts to weaken and the climate reverts to a neutral pattern, we see opportunities for the Mexican cattle herd to expand. We estimate that expansion of the Mexican herd will cause domestic supplies to contract by 1.25-2.1% during 2024 and 2025.
- Because Mexican cattle represent 5-10% of monthly Texas cattle placements, losing these marginal supplies should place a greater burden on Texas feedlots that feed Mexican cattle.
- We estimate the USDA's January 1, 2024, inventory number falling to 88.1 million head (mh) and the 2025 figure at 88.3 mh.
- **Result:** Ultimately, reduced Mexican cattle supplies as the US cattle herd starts to rebuild can support local cash and CME feeder cattle futures prices.

# Additional Information About HTS Commodities

---

## About HTS Commodities



- HTS Commodities is a division of Hilltop Securities based in Dallas, Texas.
- Our office in Amarillo, and Dallas TX has a long history of helping clients throughout the cattle supply chain successfully navigate market volatility.
- We listen to and work with clients to create personalized risk management solutions.
- We work with a diverse group of commodity producers, processors, and end users across the United States and cover the breadth of the commodities complex. This includes: energy, livestock and grains.
- We provide custom risk solutions to some of the largest multinationals but pride ourselves on working with midmarket firms.
- Please contact us with any questions about this presentation and to learn more about how HTS Commodities can solve your commodity risk management needs.



---

**Contact:**

Spencer Caviness – 806.370.9378  
[spencer.caviness@hilltopsecurities.com](mailto:spencer.caviness@hilltopsecurities.com)

Mark Clift – 972.624.6333  
[mark.clift@hilltopsecurities.com](mailto:mark.clift@hilltopsecurities.com)

Jeff Hauschild. – 214.987.5239  
[jeff.hauschild@hilltopsecurities.com](mailto:jeff.hauschild@hilltopsecurities.com)

Will Snead – 806.350.2403  
[will.snead@hilltopsecurities.com](mailto:will.snead@hilltopsecurities.com)

Brock Thompson – 806.350.2401  
[brock.thompson@hilltopsecurities.com](mailto:brock.thompson@hilltopsecurities.com)

**HTSCommodities**

Amarillo, TX  
Dallas, TX  
St Paul, MN  
New York, NY  
Memphis, TN

[www.htscommodities.com](http://www.htscommodities.com)

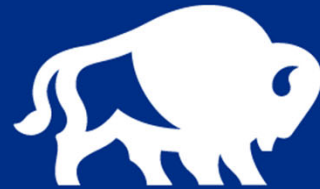


Trading on regulated commodity exchanges inherently involves risk of loss and is not suitable for everyone. The leverage created by trading on margin can work against you just as much as it can benefit you, and losses could exceed the entire investment as well as additional cash deposits. You may be required to immediately provide capital upon notice to maintain any or all open positions, and failure to do so in a timely manner could result in penalties, liquidating debit balances, unforeseen financial obligation and the loss of opportunity sought by participating in the commodity futures and options marketplace. Only risk capital should be considered for alternative investment or speculation. Before opening an account, you should seek advice from related associations, regulators, certified public accountants, industry professionals and other trusted advisors. Be certain that you understand the risks and can withstand the potential losses associated with SWAPS, futures, options on futures or any other derivatives or cash commodity transactions in which you intend to participate. HTSCommodities may not represent, guarantee or warrant that you will profit from any trading activity nor that realized losses will be limited whatsoever.

The presentation document was prepared by HTSCommodities. This material represents historical information only and is not an indication of future performance. Nor is it a recommendation or solicitation or any specific product. This material has not been prepared in accordance with the guidelines or requirements to promote investment research, it is not a research report and is not intended as such. Sources available upon request.

Principals, managers and some associates are registered with the National Futures Association (NFA) and all members participate as part of an independent Introducing broker in good standing. Members operate under the governance and guidelines of the Commodity Futures Trading Commission (CFTC) and are authorized to represent multiple futures clearing merchants or FCMs for the benefit of clients' selection and or suitability.

Hilltop Securities Inc. is a registered broker-dealer, registered investment adviser and municipal advisor firm that does not provide tax or legal advice. HTS is a wholly owned subsidiary of Hilltop Holdings, Inc. (NYSE: HTH) located at 717 N. Harwood St., Suite 3400, Dallas, Texas 75201, (214) 859-1800, 833-4HILLTOP



**HilltopSecurities**<sup>SM</sup>

HILLTOPSECURITIES.COM