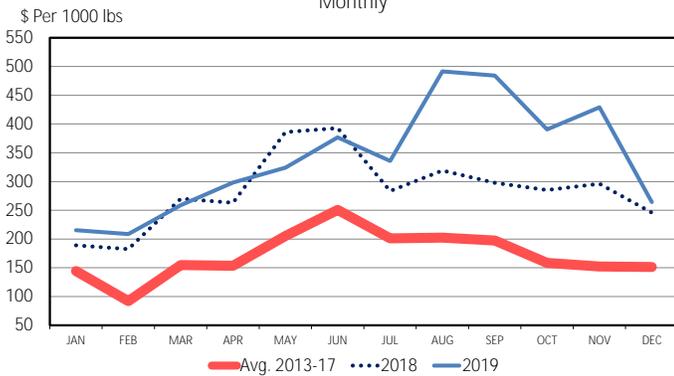


Large beef packer margins evaporated in December after recording highs earlier in 2019. The Livestock Marketing Information Center (LMIC) calculates the gross margin for packers based on the live to cutout spread (including by-products) per 1000 lbs. of steer. Using this calculation, August was the highest gross margin on record, with data going back to 1987. August posted \$491.57 per 1000 lbs. of steer, and would see two of the following four months post gross margins over \$400 per 1000 lbs. of steer. Over the last 10 years, the average monthly gross margin calculates to \$168.86, only a third of the value of August's figure.

LIVE TO CUTOUT BEEF PRICE SPREAD

Monthly



Data Source: USDA-AMS & USDA-ERS, Compiled & Analysis by LMIC
Livestock Marketing Information Center

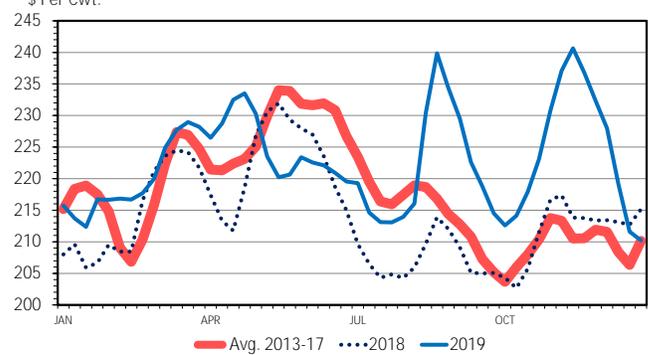
C-P-02
01/06/20

The principle driver to the aggressive slide in the gross margin has been the rally in fed cattle prices. The LMIC uses a live price from Western Kansas that posted a December average of \$119.97 per cwt, a \$4 per cwt increase from the previous month. Since August the live steer price has risen over \$14 per cwt. Also, working against packer margins in December was a notable decrease in choice boxed beef cutout value. The second half of 2019 was extremely volatile for the cutout value, producing two large price spikes 12 weeks apart. December however, hit a low point of \$217.24 per cwt. The lowest monthly boxed beef average since July 2019.

Several factors have moved the cutout in the last 6 months of 2019. The first was the Tyson fire, which caught retailers and restaurants short only a few weeks before Labor day, the last big grilling holidays of the year. The second spike likely had both demand and supply components. As boxed beef prices fell after the initial Tyson fire shock, those purchasing wholesale beef had a great deal of uncertainty regarding prices which likely lent to delayed purchasing for the holiday

BOXED BEEF CUTOUT VALUE

Choice 600-900 Lbs., Carcass, Negotiated, Weekly



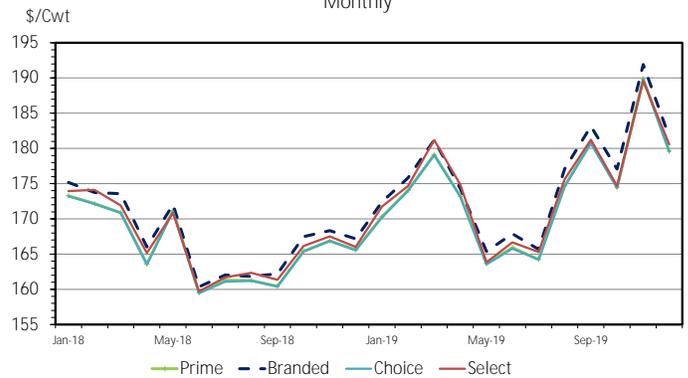
Data Source: USDA-AMS
Livestock Marketing Information Center

C-P-62
12/30/19

season. The demand this holiday season was also stronger than they expected causing a short term scramble to fill needs. Those components effected largely more expensive holiday cuts. But, lower value cuts and ground beef experienced unique situations during this time period as well. U.S. imports of Australian beef pulled back 7% year-over-year in October, a 4.5 million pound (carcass weight) reduction. This raised 90% lean trimming prices and meat packers ground mostly rounds, and some chuck primal cuts to compensate for lower lean imports. This also explains the strength in those primal values which underpinned cutout gains in the second price spike.

ROUND VALUE COMPARISON

Monthly



Data Source: USDA-AMS, Compiled by LMIC
Livestock Marketing Information Center



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