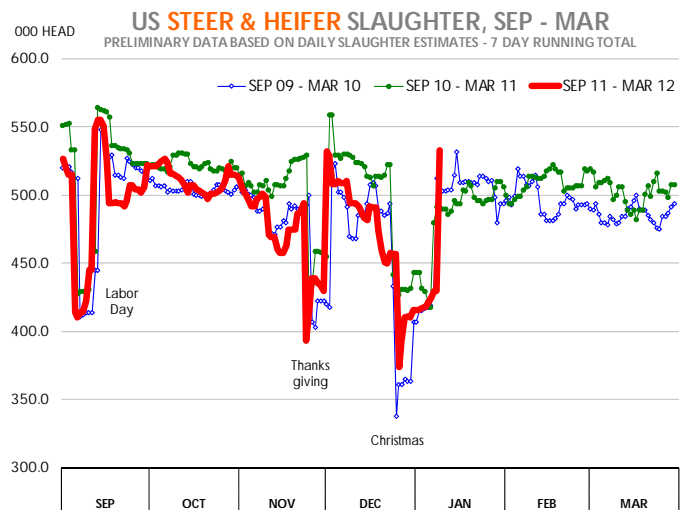
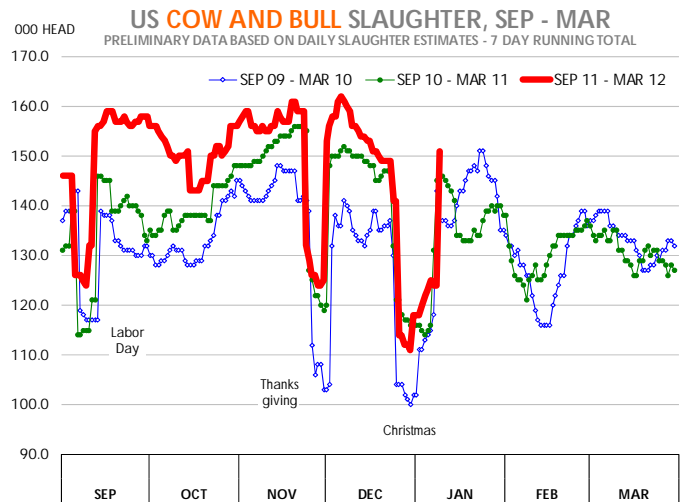


Market Comments

Live cattle futures were modestly lower on Monday as market participants continue to fret about the state of beef demand. Beef supplies at the moment appear to be at or above year ago levels and there is some concern about the ability of the market to absorb higher supplies at current price levels. The choice beef cutout closed on Monday at \$189.6/cwt., about \$4.5/cwt. or 2.3% lower than on January 3 but still some 13.3% higher than the same period a year ago. While choice beef has shown some weakness, which is not all that unusual following the seasonal decline in some popular holiday features, the select cutout has held up well. On Monday the composite select cutout closed at \$179.5/cwt., about the same as last Tuesday and 11.3% higher than the same period a year ago. In the last two years, both the choice and select cutout have trended higher into mid January, pulled back some into late February and then surged higher into March and April as retailers and food-service operators prepare for the start of the grilling season in May (there is some lag between the time wholesale orders come in and when the product will be marketed). It is still too early to make any pronouncements about trends given the few data points for the year but this is an issue that will be watched closely given the lofty price levels for a number of beef items.

Our report yesterday showed weekly slaughter tabulations but, as usual, the year to year comparisons for the holiday weeks are somewhat skewed and tell us little about the general trend in terms of steer, heifer and cow slaughter. The attached charts should be familiar to regular readers. They track a rolling seven day total of US cow slaughter and compare it to slaughter data for same timeframe during the previous two years. After the normal holiday break, both fed and non fed cattle slaughter is now above year ago levels. Based on the preliminary slaughter data, US steer and heifer slaughter for the seven days ending January 9 was 533,000 head, 8.7% higher than the same period a year ago. Cow and bull slaughter during the same period was estimated at 151,000 head, 3.4% higher than the same period a year ago. The big cow slaughter numbers are somewhat surprising given how aggressive producers were in liquidating the herd last fall. With improving feed supplies and strong calf prices, there is an expectation that cow slaughter will slow down in the first half of the year. It is



possible that the surge in cow slaughter will be short lived, driven in part by "tax cows" (cows that were not sold until the start of the year so as not to count in the past tax year). Prices for US lean grinding beef are currently past the \$2 mark and should cow slaughter start to dry up, we could see notably higher ground beef prices in Q1.

**Announcing Weekly Live Cattle Options
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