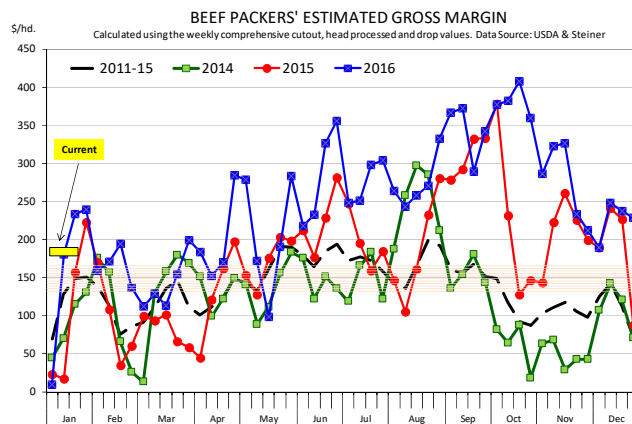


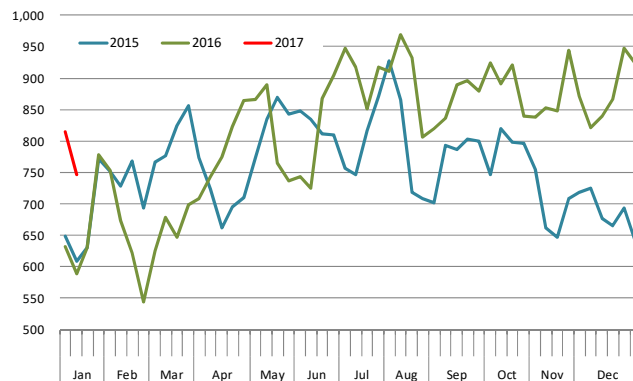
Fed cattle futures traded higher yesterday and the nearby February contract closed at the highest level since March of last year. The gains in fed cattle prices have come even as the beef cutout lost significant ground in the first two weeks of this year. Rounds and chucks, items that normally sell well during this time of year, have failed to match the performance of recent years. The chuck primal started the year at around \$180/cwt but closed last night at \$164/cwt, a \$16 decline that removes around \$5 from the value of the overall carcass. Similarly round prices started the year at around \$191/cwt but closed last night at \$171, a decline which also erased another \$5 from the carcass value. Beef ribs have lost significant value since their peak in mid December but that is par for the course following the holidays and loin values have been for the most part steady - again no surprise there. The question is whether the decline in chucks and rounds is enough to completely undermine packer margins and force them to cut back on slaughter in order to get their margins back in order. So far that has not been the case. Sure, packer margins are no longer what they were in the fall but that is somewhat common for this time of year. Indeed at current cattle prices and cutout values packer margins are performing just about as they normally do at this time of year. **Ongoing weakness in the price of value beef cuts could make packers more reluctant buyers come February and March but we will likely need to see much more significant price erosion for that to be the case.** It will be important to watch what happens with the value of 50CL beef trim. Prices for this item, which is a significant credit item for all primals, normally move up in January as ground beef demand improves. Current price is around \$54/cwt compared to mid 30s in December. Last year we saw prices for this item collapse in February but maybe retail ground beef prices are now cheap enough to compete more successfully with chicken breasts and pork chops.

For the moment it does not appear that the packer situation is dire enough to force them to back off the market in a big way. One of the questions that always comes up is what the forward position looks like for packers, be this in terms of the beef that they have sold and the number of cattle that they have contracted for delivery in forward months. Thanks to the Mandatory Price Reporting system producers and other market participants now have some visibility on both counts. The second chart to the right shows the number of beef loads that packers have sold for delivery in the 4-8 weeks out front. Notice how much more significant that forward sold position was for packers in November and December, which likely helped support the market and probably contributed to the recovery in fed cattle values. End users planned on featuring more beef and thus bought more product for the important holiday season. Forward sales for that time period still are running about 27% higher than a year ago. Sales for product that will deliver 60-90 days from now, on the other hand, are down 5% compared to a year ago while sales for product that will deliver more than three months down the road are up around 33% but that volume is still relatively small. Keep in mind that for all these calculations we use a 4-wk moving average because week to week there is a lot of variability in the numbers. Packers have about 14% more cattle contracted for February delivery. Cattle contracted for March delivery are down 26% while April bookings are up 3.4% from last year.



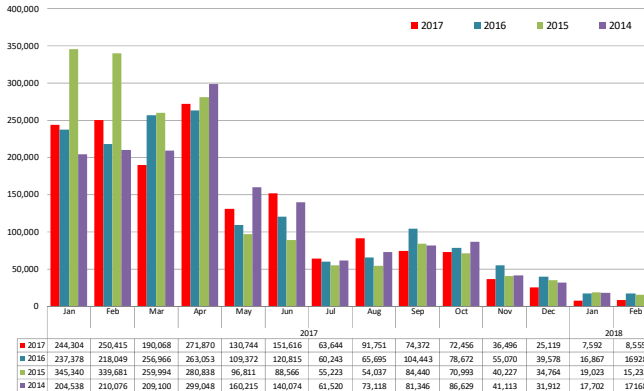
Beef Loads Sold For Delivery 22 - 60 Days. 4-WK MA

Data Source: USDA Mandatory Price Reporting System



Cattle Forward Contracted for Delivery in a Given Month

Supply Cumulative as of January 16, 2017 and Comparable Period in Previous Years. Source: USDA MPR System



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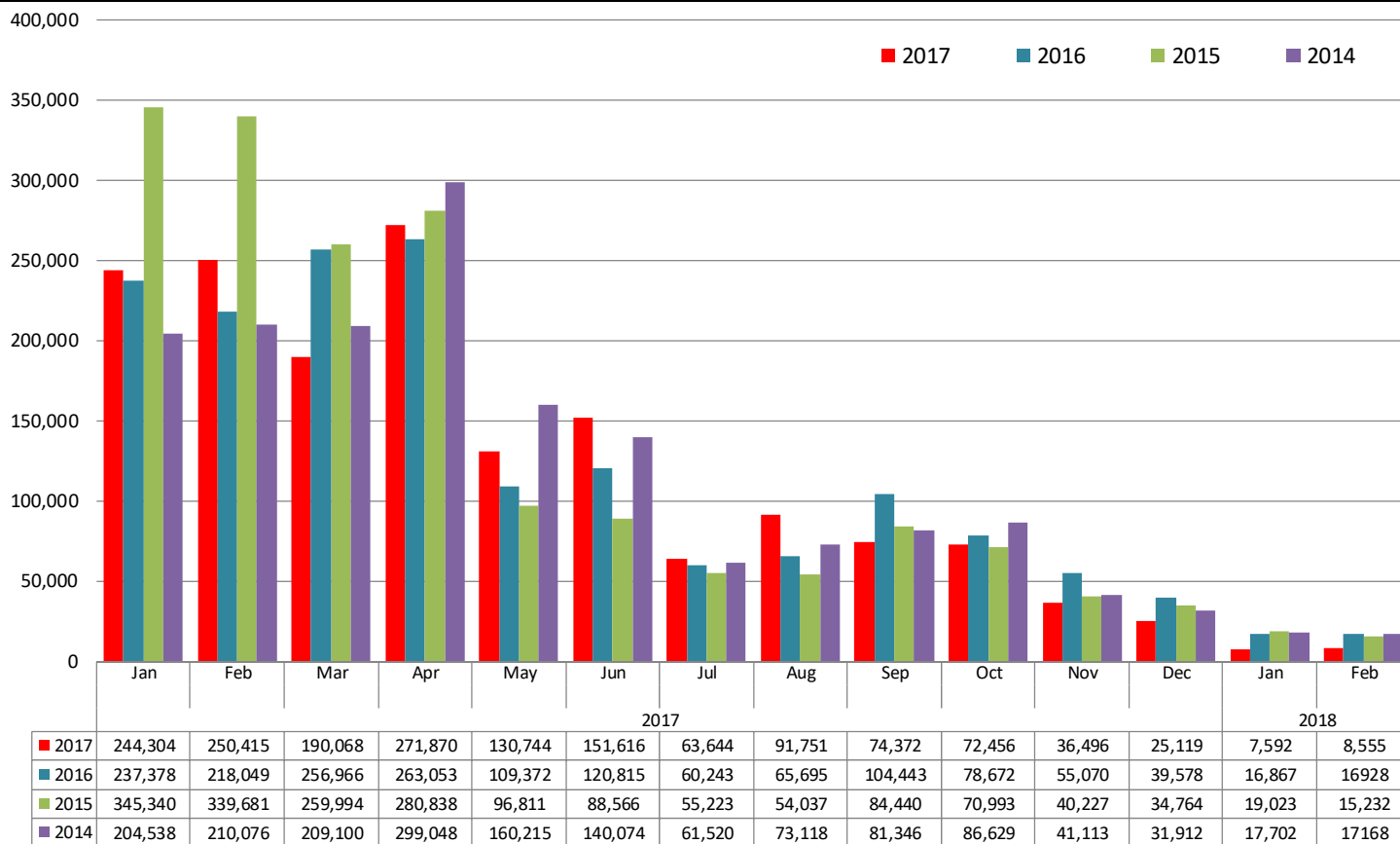
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Cattle Forward Contracted for Delivery in a Given Month

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