

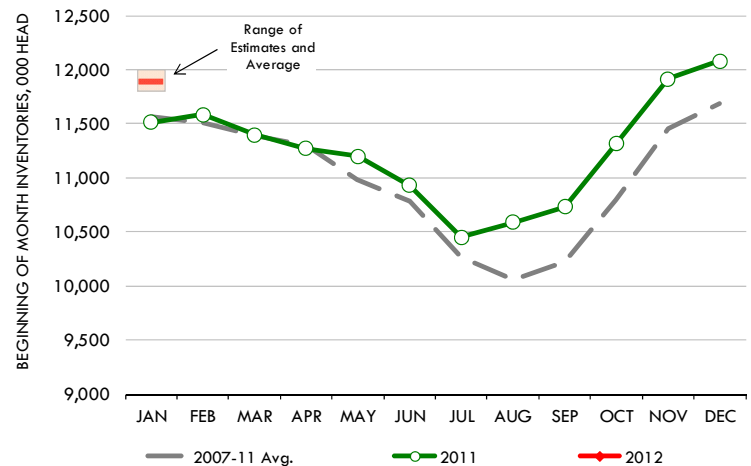
Market Comments

USDA will release this afternoon the results of its **monthly survey of feedlot operations that on January 1, 2012 had more than 1000 head of cattle on feed**. Analysts polled by Dow Jones wire service ahead of the USDA report on average **expect the total inventory to be some 3.3% larger than a year ago**. The year over year increase is not a surprise given the rapid increase in placements last summer and fall. At the moment, markets remain more concerned with the ability of feedlots to sustain placements in light of ever shrinking calf and feeder supplies. The **CME feeder cattle index**, which is a weighted average price of feeder cattle prices at designated delivery points, on Wednesday was quoted at **\$150.2/cwt., 17.9% higher than a year ago and almost 70% higher than what it was in late 2008 and early weeks of 2009**. There is plenty of debate in the trade as to the outlook for cattle prices in 2012. To some, cattle prices in the \$130 range appear unsustainable given current purchasing power of the US consumer. The problem in our view is that when feedlots have to purchase \$150 feeders and buy \$6 corn (July corn was \$6.16), it is difficult to price live steers below current levels. Could the US consumer give up and go to chicken, pasta and rice? To a certain extent that has happened. And restaurants have become adept at offering menu items with less protein on them (smaller portion sizes). Our argument in yesterday's note was that much will hinge on how the US economy performs going forward. If the recovery continues, albeit slow, it will be difficult to arrest the inflation in beef prices given how tight domestic supplies are. Indeed, the pullback in grain prices combined with all time record feeder prices will likely contribute to even smaller cattle numbers coming to market as producers hold back heifers.

All analysts in the survey expected December placements to be lower than in 2010, the only question being the magnitude of the decline. For some of them, placements could be down as much as 10% from a year ago. This could pose a problem for cattle supplies going into the grilling season in 2012. Cattle futures have been buoyed in recent days by such speculation and the April contract is currently near contract highs at \$128.8/cwt. on open interest of 125,877 contracts. This is not good news for packers who are struggling to fill orders on the books as feedlots appear to be relatively current on their marketings (remember the young feeders will take longer to hit

US FEEDLOT INVENTORY

Feedlots with 1000+ Cattle, USDA, 000 head



COF Pre-Report Estimates. Dow Jones Survey

	Average of Estimates	Implied Cattle #	Range of Estimates
On Feed Jan 1	103.3%	11,894	102.7% - 104.2%
Placed on Feed in Dec	94.2%	1,685	90.0% - 98.4%
Marketed in Dec	97.0%	1,775	95.1% - 101.7%

Note: All % are comparisons to year ago levels

market weights). Steer and heifer slaughter the last two days has dipped below 100,000 head and the seven day rolling total is currently below 500,000 head, 2% lower than a year ago. Packers continue to indicate that they will reduce hours. The reality, however, is that there is less beef to go around today that even five years ago. Next week USDA will issue its semi annual report on US overall cattle inventories as of January 1, which should tell us how big the shortfall in US beef supplies is, and how long it may take for supplies to recover. Stay tuned.

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