

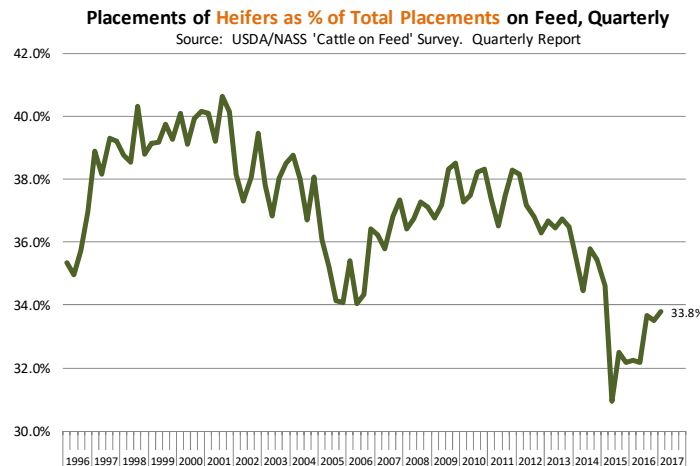
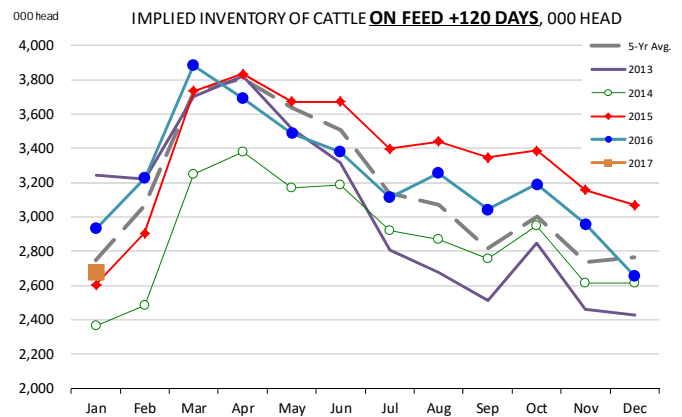
USDA released on Friday afternoon the results of its monthly survey of feedlot operations with +1000 head capacity. The table to the right summarizes the three key points from this report and futures market participants may view the results as somewhat bearish when markets open this morning. But looking a bit closer to the details of the report the situation, at least in the very near term, may not be as troublesome as a 9% miss in the placement estimates may suggest. It is clear that **feedlots were much more aggressive in placing cattle on feed during December than most analysts expected.** Good pasture conditions and poor forward returns limited feedlot demand for cattle in September and October, leading to double digit declines in placements. Feedlot operators have more than made up for the lower fall placements in the last two months, however. More than half a million cattle have been placed on feed in November and December. But will all these cattle be available in the spring? Looking at the structure of placements, the bulk of the inventory placed on feed in December was cattle that were under 700 pounds. Placements of light feeders (under 600 pounds) were up 60,000 head or 16% from a year ago while placements of cattle between 600 and 700 pounds were 95,000 head or 27% higher than last year. Futures already have priced a significant spread between spring and summer cattle and the latest inventory survey results seem to justify that. Indeed, front end supplies remain quite current and, in the short term, this could continue to support fed cattle prices. We calculate the inventory of cattle that have been on feed for +120 days at 2.678 million head, 8.6% lower than a year ago. It will be interesting to see how packers approach the market in the next two months. Last year we saw a significant reduction in fed cattle slaughter during February and March, causing the supply of market ready cattle to swell by spring and possibly contributing to the weak pricing during late summer and early fall. **What is different, and likely more supportive for fed cattle this year, is that front end supplies are more current, steer weights are declining and packers have a few more forward bookings that they need to fill.** Retail beef prices also continue to adjust lower, which should help drive sales and higher disposable incomes are positive for foodservice sales. For now, however, futures will continue to hold a discounted structure given expectations for larger feeder supplies and increased slaughter during the summer and early fall months.

We will continue the cattle discussion in tomorrow's letter with a discussion of **analyst estimates ahead of the USA 'Cattle' report.** The report is often used to **benchmark supply expectations for the next 18 to 36 months given estimates of the cow herd that will be used to project calf production in 2017.** It will also provide insights as to the total supply of cattle on feed, including those from smaller feedlots that are not included in the monthly USDA survey. Heifer retention remains a major topic of discussion in the industry. The last cattle on feed report showed that producers have started to increase the supply of heifers that they place on feed but the ratio of placements to total placements at under 34% still remains one of the lowest in the past 20 years. Expansion may have slowed down but it likely has not come to an end yet.

U.S. ALL CATTLE ON FEED: 1,000+ CAPACITY FEEDLOTS

Source: USDA/NASS. Analyst Estimates from Urner Barry

	Number, Thousand Head			Current Year as % of Year Prior		
	2014	2015	2016	Actual	Estimates	Difference
Placed on Feed During Dec	1,537	1,527	1,795	117.6	108.8	8.8
Fed Cattle Marketed Dec	1,655	1,674	1,787	106.8	106.7	0.1
On Feed January 1	10,626	10,575	10,605	100.3	99.1	1.2



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PRODUCTION & WKLY AVG. PRICE SUMMARY

Week Ending **1/28/2017**

Source: Various USDA Agricultural Marketing Service reports. Some data are preliminary. Weekly Avg. Prices

Item	Units	Current	Last	Pct. Change	Last	Pct. Change	YTD	Y/Y % Change	
		Week	Week		Year				
		28-Jan-17	21-Jan-17			30-Jan-16			
Total Beef, Pork, Chicken, Turkey		mil lbs., cwe	1,813	1,857	-2.35%	1,768	2.53%	6,390	-2.4%
C	FI Slaughter	Thou. Head	577	569	1.41%	570	1.14%	2,298	-0.9%
	FI Cow Slaughter **	Thou. Head	114	104	8.99%	115	-1.05%		
T	Avg. Dressed Weight	Lbs.	834	835	-0.12%	832	0.24%	832	0.2%
T	Beef Production	Million Lbs.	480.1	473.9	1.31%	473.4	1.42%	1,913	-0.7%
L	Live Fed Steer Price	\$ per cwt	121.40	121.89	-0.40%	136.36	-10.97%		
E	Dressed Fed Steer Price	\$ per cwt	193.58	194.80	-0.63%	210.26	-7.93%		
	Oklahoma Steer (600-700 lbs)	\$ per cwt	140.18	136.50	2.69%	170.16	-17.62%		
&	Choice Beef Cutout	\$ per cwt	192.09	191.65	0.23%	221.40	-13.24%		
	Hide/Offal	\$ per cwt, live wt	11.91	11.95	-0.33%	10.41	14.41%		
B	Rib Primal, Choice	\$ per cwt	291.98	291.34	0.22%	317.76	-8.11%		
E	Round Primal, Choice	\$ per cwt	173.53	172.12	0.82%	206.59	-16.00%		
E	Chuck Primal, Choice	\$ per cwt	161.19	163.71	-1.54%	196.59	-18.01%		
F	Trimming, 50%	\$ per cwt	64.75	58.19	11.27%	53.31	21.46%		
	Trimming, 90%	\$ per cwt	205.88	203.52	1.16%	205.05	0.40%		
	FI Slaughter	Thou. Head	2,367	2,329	1.63%	2,320	2.02%	9,164	-5.2%
	FI Sow Slaughter **	Thou. Head	58.6	48.6	20.45%	59.3	-1.19%		
H	Avg. Dressed Weight	Lbs.	213.0	212.0	0.47%	213.0	0.00%	213	-0.6%
O	Pork Production	Million Lbs.	503.7	493	2.17%	494.5	1.86%	1,950	-5.8%
G	Iowa-S. Minn. Base	Wtd. Avg.	64.05	63.29	1.20%	59.21	8.17%		
S	Natl. Base Carcass Price	Wtd. Avg.	65.67	64.55	1.74%	60.37	8.78%		
	Natl. Net Carcass Price	Wtd. Avg.	67.98	66.75	1.84%	62.39	8.96%		
	Pork Cutout	205 Lbs.	81.79	79.58	2.78%	76.37	7.10%		
	Ham Primal	\$ per cwt	62.90	61.70	1.94%	58.32	7.85%		
	Loin Primal	\$ per cwt	77.84	80.74	-3.59%	82.39	-5.52%		
	Belly Primal	\$ per cwt	152.41	134.00	13.74%	123.13	23.78%		
	Trimming, 72%, Fresh	\$ per cwt	66.58	72.90	-8.67%	55.06	20.92%		
	Hog By-Product Value	\$ per cwt, live wt	3.89	3.90	-0.26%	3.05	27.54%		
C	Young Chicken Slaughter *	Million Head	155.9	164.3	-5.11%	148.3	5.12%	468	-0.8%
H	Avg. Weight (RTC)	Lbs.	4.68	4.70	-0.32%	4.67	0.16%	6.24	1.0%
I	Young Chicken Production (RTC)	Million Lbs.	730.0	771.8	-5.42%	693.3	5.29%	2,218	0.0%
C	Eggs Set (19-state)	Million	210.2	209.1	0.54%	208.8	0.67%	630	1.0%
K	Chicks Placed (19-state)	Million Head	172.8	171.9	0.56%	168.3	2.68%	517	1.5%
E	National Composite Whole Bird	Composite	83.36	85.13	-2.08%	86.35	-3.46%		
	Northeast Breast, B/S	\$/cwt	104.36	100.01	4.35%	113.45	-8.01%		
	Northeast Leg Quarters	\$/cwt	31.97	32.33	-1.11%	26.82	19.20%		
T	Total Turkey Slaughter *	Million Head	3.874	4.427	-12.49%	4.185	-7.43%	11.804	-7.8%
U	Avg. Weight (RTC)	Lbs.	25.61	26.62	-3.79%	25.58	0.09%	32.48	1.1%
R	Turkey Production (RTC)	Million Lbs.	99.2	117.8	-15.81%	107.1	-7.35%	309	-6.7%
K	National Hen (8-12 lb)	8-16 Lbs.	102.82	95.50	7.66%	114.00	-9.81%		
G	Corn, Omaha	\$ per Bushel	3.41	3.45	-1.16%	3.57	-4.48%		
R	Distillers Grain, Chicago	\$ per Ton	102.50	105.00	-2.38%	135.00	-24.07%		
A	Wheat, Kansas City (deliv.)	\$ per Bushel	3.69	3.78	-2.38%	4.52	-18.36%		
I	Soybeans, Cntrl IL	\$ per Bushel	10.34	10.57	-2.18%	8.78	17.77%		
N	Soybn Meal 48%, Cntrl IL	\$ per Ton	341.40	347.20	-1.67%	275.90	23.74%		

* Chicken & turkey slaughter & production are 1 week earlier than the date at the top of this sheet.

** Cow and sow slaughter reflect levels from two weeks ago due to reporting lag.

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