

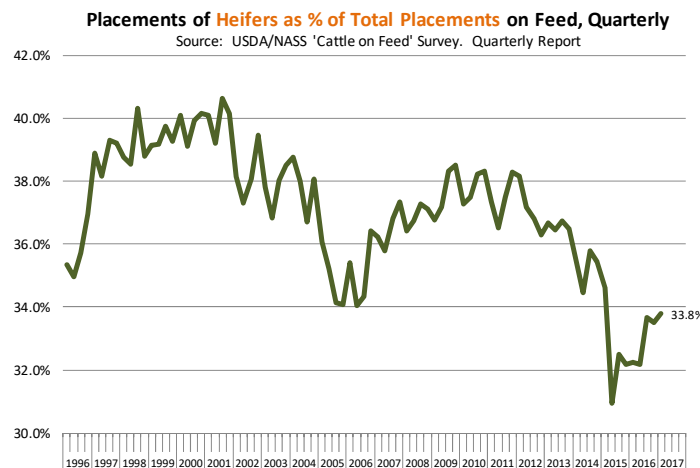
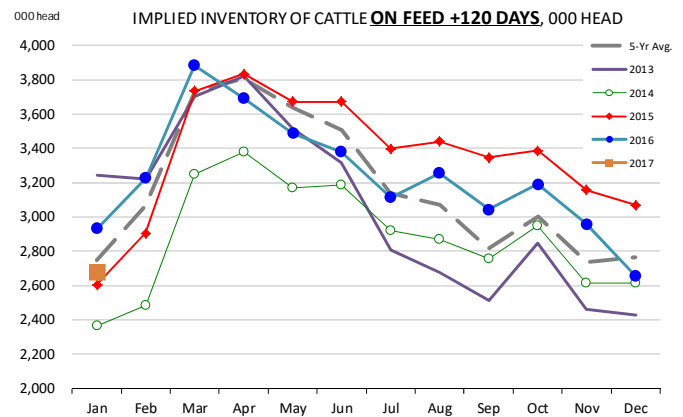
USDA released on Friday afternoon the results of its monthly survey of feedlot operations with +1000 head capacity. The table to the right summarizes the three key points from this report and futures market participants may view the results as somewhat bearish when markets open this morning. But looking 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 Week | Pct. Change | Last Year | Pct. Change | YTD | Y/Y % Change |
|---|----------------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|
| | | 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% |
| T 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% |
| L Beef Production | Million Lbs. | 480.1 | 473.9 | 1.31% | 473.4 | 1.42% | 1,913 | -0.7% |
| E 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% | | |
| B Choice Beef Cutout | \$ per cwt | 192.09 | 191.65 | 0.23% | 221.40 | -13.24% | | |
| E Hide/Offal | \$ per cwt, live wt | 11.91 | 11.95 | -0.33% | 10.41 | 14.41% | | |
| E 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 Trimmings, 50% | \$ per cwt | 64.75 | 58.19 | 11.27% | 53.31 | 21.46% | | |
| F Trimmings, 90% | \$ per cwt | 205.88 | 203.52 | 1.16% | 205.05 | 0.40% | | |
| H FI Slaughter | Thou. Head | 2,367 | 2,329 | 1.63% | 2,320 | 2.02% | 9,164 | -5.2% |
| H FI Sow Slaughter ** | Thou. Head | 58.6 | 48.6 | 20.45% | 59.3 | -1.19% | | |
| O Avg. Dressed Weight | Lbs. | 213.0 | 212.0 | 0.47% | 213.0 | 0.00% | 213 | -0.6% |
| G Pork Production | Million Lbs. | 503.7 | 493 | 2.17% | 494.5 | 1.86% | 1,950 | -5.8% |
| S 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% | | |
| S Natl. Net Carcass Price | Wtd. Avg. | 67.98 | 66.75 | 1.84% | 62.39 | 8.96% | | |
| S Pork Cutout | 205 Lbs. | 81.79 | 79.58 | 2.78% | 76.37 | 7.10% | | |
| S Ham Primal | \$ per cwt | 62.90 | 61.70 | 1.94% | 58.32 | 7.85% | | |
| S Loin Primal | \$ per cwt | 77.84 | 80.74 | -3.59% | 82.39 | -5.52% | | |
| S Belly Primal | \$ per cwt | 152.41 | 134.00 | 13.74% | 123.13 | 23.78% | | |
| S Trimmings, 72%, Fresh | \$ per cwt | 66.58 | 72.90 | -8.67% | 55.06 | 20.92% | | |
| S 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% | | |
| E Northeast Breast, B/S | \$/cwt | 104.36 | 100.01 | 4.35% | 113.45 | -8.01% | | |
| E 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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