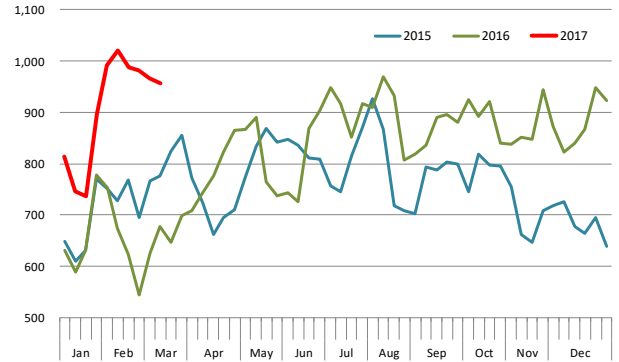


The rally in boxed beef prices has once again pushed implied packer margins back in the black although the extent of beef packer profits is always a point of debate and varies depending on the assumptions you make on operating costs, etc. **The comprehensive beef cutout value for the week ending March 10 was quoted by USDA at \$207.87/cwt, a 4% jump from the previous week and now 9% higher than it was four weeks ago.** More than half of the increase is due to higher prices for steak cuts but also a sharp recovery in the value of 50CL beef trim (ground beef, hot dog demand) The average calculated feedlot price for last week is around \$200/cwt on a dressed basis. The way we calculated that number is by adding up the sales of all cattle traded on a negotiated basis, both on a live and dressed basis, and converting all to the same dressed value. The value of the drop credit for last week was quoted at \$11.91/cwt on a live basis or \$162 head. Drop credit values have shown steady improvement in recent months and the increase has added an extra \$12.4/head to the packer margin compared to the same period a year ago. Adding up the revenue side (cutout value + drop credit) and subtracting the cost side (cost of cattle) yields a gross margin of around \$225 head. Estimates as to what the packer needs to get to cover operating costs vary, some using \$150/head and others thinking it is close to \$200/head. We really don't want to be in the guessing game and have no particular insight here. Still, it appears to us that the latest numbers do indicate that a) packer margins by most measures are back in the black, and b) they are currently running substantially higher than last year when the gross margin was almost half of what it is today.

The improvement in packer margins should make packers more willing buyers than a year ago at a time when feedlot supplies are considerably more current. But that is not the only thing that's positive in the current market. One of the insights included in the USDA beef comprehensive cutout report is volume of beef that has already been sold for future delivery. As the top chart shows, the volume of forward sales improved significantly in the last quarter of last year and it continues to run well above year ago levels so far in the first quarter. The report showed that for the week ending March 10 packers had sold 908 loads for delivery between early April and mid May. During the same week last year sales for this time period were around 633 loads. But because week to week volumes move around a lot, a four week moving average makes more sense. At this time the four week moving average is at 956 loads/week, 41% higher than the same period last year. Sales for time periods past 60 days are also running about 17% higher than last year. In other words, packers have been more successful in selling beef forward, something you want to see if you expect an increase in cattle supplies/availability. Also interesting/important is that packers are selling more beef into export markets. We see these higher sales in the weekly export data and they are also reflected in the comprehensive cutout report. For the last four weeks packers sold an average of 889 loads/week for export, about 34% more than they did for the same period last year. Export sales are volatile but so far this year the pace of shipments has been quite robust, helping clean up spot supplies and contributing to the overall improvement in fed cattle prices.

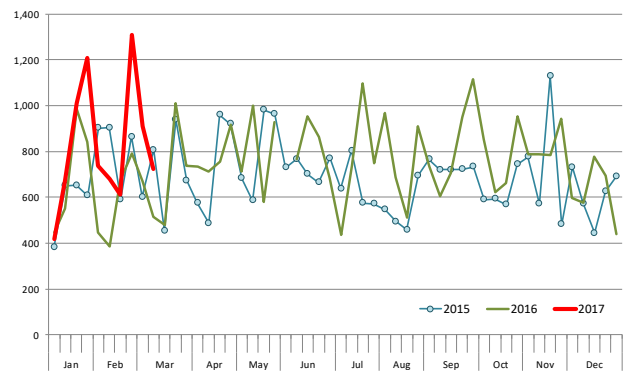
Beef Loads Sold For Delivery 22 - 60 Days. 4-WK MA

Data Source: USDA Mandatory Price Reporting System

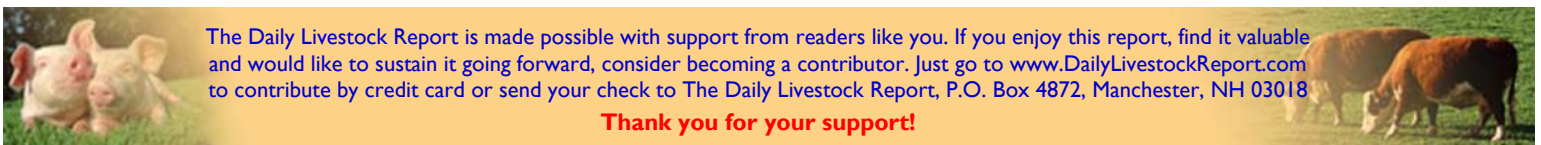
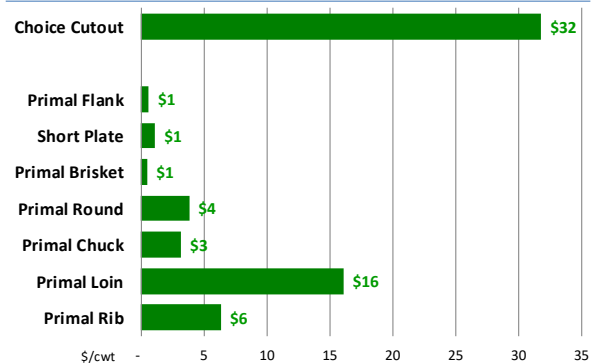


of Beef Loads Sold to Export Market. Weekly Data

Source: USDA Comprehensive Cutout Report, MPR System, AMS



Change in CHOICE BEEF Cutout Value and Contribution by Primal
Mar 14, 2017 vs. Feb 15, 2017



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