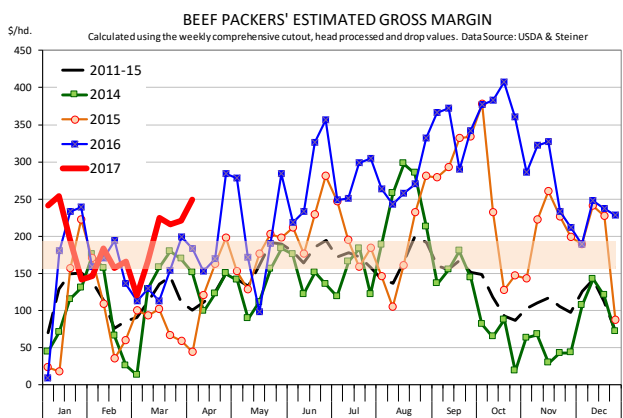
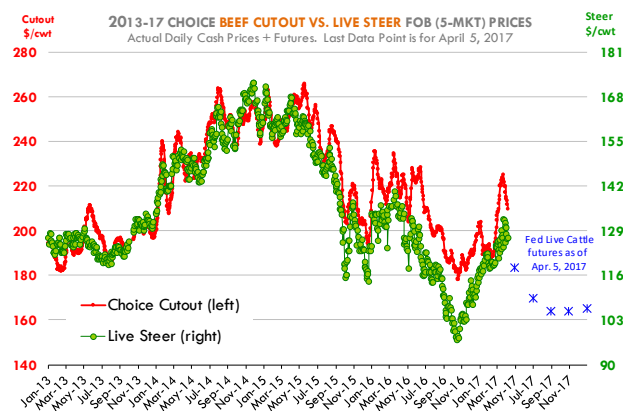
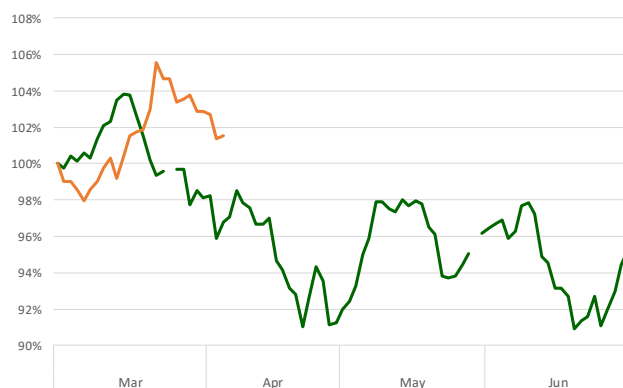


Fed cattle futures have declined in the last few trading sessions on weaker beef prices and concerns about packers slowing down the pace of slaughter this spring. We also suspect that part of the reason for the more bearish attitude has to do with memories of last year, when fed cattle futures deteriorated sharply between mid March and late April (see chart). There is a fairly long managed money position in the June contract and there is a persistent fear that if conditions deteriorate further we could see many of those longs trying to get out, further depressing the market. At this point fed cattle futures appear to be following a similar trajectory to 2016 (see chart) but that's where the parallel ends. Those that hold a more bullish view of the market likely will point to a number of factors that are different today compared to a year ago. For one, futures already had priced in a fair amount of bearishness in the spring and summer contracts. In late March, when the choice beef cutout was pushing above \$220 and packers were paying \$135 for cattle in the cash market April futures still were hovering in the low 120s and June cattle never rose above \$114. If you look at the interaction of feedlots and packers in terms of leverage, it appears that at this point feedlots are in a much better position than they were a year ago.

For all the talk of packers slowing down slaughter, and they did on Saturday and then again on Monday, **fed cattle slaughter continues to run significantly above year ago levels and has helped feedlots to stay current.** Fed cattle slaughter last week was around 472,000 head, down from 488,000 the week before but still 9.5% higher than a year ago. This week fed slaughter could end up at around 469,000 but even that lower number would represent an 8% increase from year ago levels. Feedlots have been particularly aggressive in marketing cattle so far this year and packers have had little trouble in getting product sold, evidence being the choice cutout climbing above \$220 in late March. **Since February, weekly fed cattle slaughter has averaged 9% above last year.** Front end cattle supplies are current and we will get another indication of that at noon when USDA publishes its weekly update on steer and heifer carcass weights. Last week USDA pegged the average steer carcass weight for week ending March 18 (two week lag) at 872 pounds, a much larger decline than most expected. Our guess is that the number today will be a bit higher than that but still about 10 pounds lighter than what it was a year ago (887). As for the beef cutout, futures are currently pricing a much steeper decline going into the summer. The item to watch in our mind is the loin primal and its performance in May. For now loin prices have been declining and we suspect this has to do with cooler weather in some heavily populated areas in the East Coast (weaker foodservice demand) and retailers focusing on ground beef for post Easter features. Evidence of the latter is the ongoing strength in the value of fat beef trimmings. Last year retailers were quite aggressive in their steak features for Memorial Day and Independence Day and the current pullback in loin values could once again open the door for more such features this year. But there are challenges for the beef market going forward as well. Pork and chicken supplies are plentiful, offering the retailer a lot of protein feature options. This becomes more of a concern for late summer and early fall. And then the outlook for exports is always an issue. We think beef exports were up in double digits in March but based on this mornings report April could be flat.

JUNE FED CATTLE FUTURES IN 2016 & 2017. MARCH 1 = 100%



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