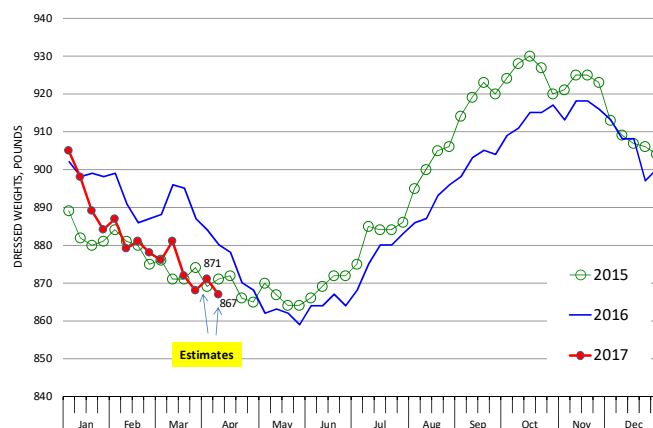


One sign of the improving situation in the cattle feeding sector is the sharp decline in fed steer weights in the past three months and the improvement in yield grade performance. USDA reports on fed and non fed cattle carcass weights on a weekly basis. But the data is delayed due to the time it takes USDA personnel to collect and analyze carcass data from around the country. The latest report is for the week ending March 25 and it shows a significant decline in fed and non fed cattle carcass weights. **Steer weights for the week were pegged at 868 pounds per carcass, 19 pounds (-2.1%) lower than the comparable week a year ago.** Steer weights normally decline into the spring but the slope this year has been steeper than normal. Since the first week of January, steer weights have declined 37 pounds (4.1%). In 2016 steer weights during this 12 week period declined by 1.88% and in 2015 the decline was 2.56%. The last time we have seen fed steer weights decline this much from Jan to end of March was in 2003, when steer weights declined 5.14% during the same 12 week period. Conditions from one year to the next change and there is a number of factors that impact cash cattle prices but for those wondering, cash steer prices in June 2013 averaged \$78/cwt compared to \$79/cwt in April 2013. The point of the discussion, however, is not to try and make price correlations that could be spurious at best. The point is that at this time US feedlot operators are in a better position from an inventory perspective, their stock is current, they are not under the gun to sell and thus should have a bit more leverage than in the past couple of years. This could change of course if packers struggle to get meat sold and are forced to cut back on slaughter. We have seen fed cattle slaughter decline in the last couple of weeks but even this decline is not that unusual for this time of year, all one has to do is take a look at weekly steer/heifer slaughter charts from previous years. What will be more critical in our mind is beef demand going into the grilling season and the ability of retailers to successfully promote beef during this time of year. Beef prices, be this for steaks or ground beef, remain attractive when compared to the last few years but still quite high relative to other proteins.

The decline in weights has also been accompanied by an improvement in yield grade percentages. This is important because the more yield grade 4 and yield grade cattle in the mix, the bigger the financial penalty for feedlots. The data on this is reported with a lag, again because USDA needs time to collect and report. February numbers show that 10.83% of the cattle graded were yield grade 4 and 1.59% were yield grade 5. Yield grades, for those not familiar with them, indicate the relative supply of boneless, closely trimmed retail cuts that the packer is expected to derive from the key primals: round, loin, rib and chuck. The lower the yield grade the higher the supply of high value beef that will be harvested and thus the higher the value to the packer. USDA reports on the premiums and discounts that packers

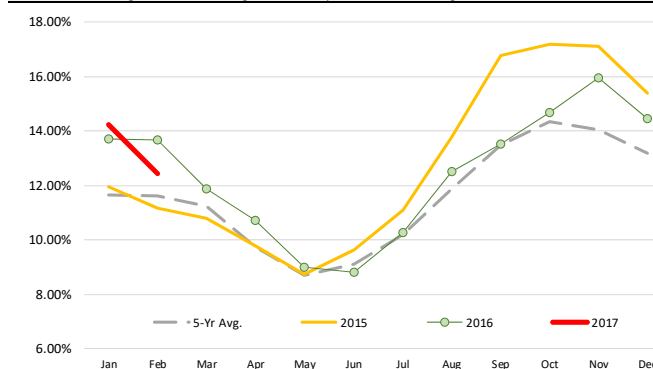
Actual USDA Weekly Steer Weights. Reported with a Two week lag + Steiner Estimate

Source: USDA & Steiner Consulting Estimates



Yield Grade 4 & 5 Cattle as % of All Cattle Graded

Data Source: USDA Agricultural Marketing Service. Analysis: Steiner Consulting



Premiums/Discounts Based on Cutability Yield Grade, Fat/Inches

1.0 - 2.0 < 0.10"	2.0 - 2.5 < 0.20"	2.5 - 3.0 < 0.40"	3.0 - 3.5 < 0.60"	3.5 - 4.0 < 0.80"	4.0 - 5.0 < 1.2"	4.0 - 5.0 < 1.2"
3.69	2.00	1.62	0.00	0.00	-11.92	-17.46

pay depending on yield grade and fat%. The table below the chart above shows that a yield grade 5 carcass will incur a \$17.5/cwt penalty while a yield grade 1 receives a \$3.7/cwt premium. Given the correlation of weights and yield grades, we would expect yield grades to show improvement in March and April. The decline in weights, on the other hand, tends to reduce the overall supply of beef available in the market, including the supply of fat trimmings. The average cattle carcass weight for the reference week was 814 pounds, 15 pounds less than a year ago. This represents a difference of 8.9 million pounds of beef (wk. of 3/25), or almost 11,000 head of cattle. Consider this when looking at the slaughter year/year comparisons.

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