

To explain cattle prices during the first quarter of this year in terms of fundamental market forces, we need to look at both seasonal (e.g. key changes compared to the fourth quarter of 2016) and also year-over-year market supply and demand aspects. From January into late March of this year cattle prices generally increased, which is a rather normal seasonal occurrence. Still, cattle prices for the first quarter were the lowest for the first three months of any year since 2011.

Two key seasonal factors came together to raise fed cattle prices during the first quarter of this year.

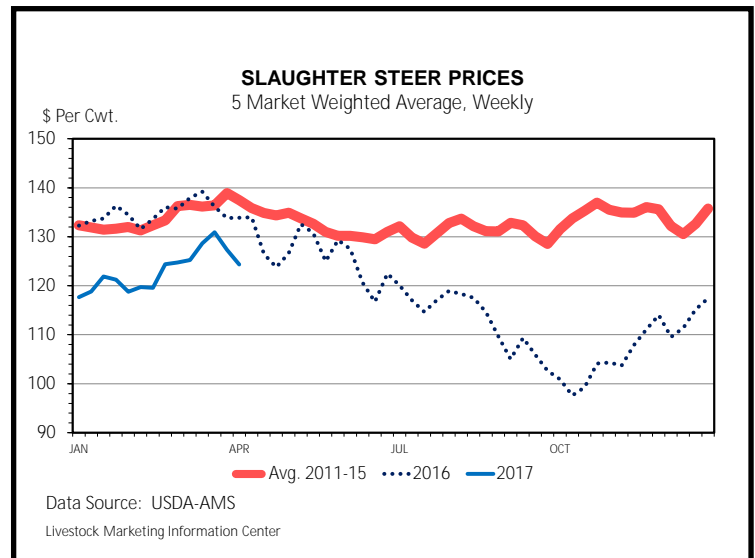
1) Seasonally smaller beef production (data are reported by USDA's National Agricultural Statistics Service). Comparing 2017's first quarter commercial beef production with the fourth quarter of 2016 the drop was a rather normal 4.9%. That same comparison for a year ago (first quarter of 2016 versus 2015's fourth quarter) the decline was only 2.9%. As a baseline, the prior 10-year average was down 4.5%.

2) Seasonally lower packer gross margins. From setting record high monthly levels in much of 2016, the calculated margin, that is the live-to-cutout price spread (including the byproduct value), declined significantly quarter-over-quarter. That margin returned to historical levels in early 2017.

On a year-over-year basis, the change in U.S. net trade balance was a key market factor. That is, U.S. beef exports were higher year-over-year and imports dropped. The exact numbers were not available at the time this article was written. Actual data compiled and released by the USDA's Foreign Agriculture Service were available through February. For the January-February timeframe, compared to a year earlier, beef export tonnage increased 20%, while imports fell by 17%.

Projected U.S. commercial cattle slaughter for the first quarter was 7.7 million head, the largest for the quarter since 2012's. That was a 7.3% increase compared to January-March of 2016. Compared to a year ago, average dressed weight was down 1.1%. So, U.S. beef production was 6.1% above a year earlier. Importantly, due to a year-over-year increase in beef export tonnage and a decline in imports, U.S. per capita beef disappearance (based on preliminary data) only increased about 1.2% for the first quarter.

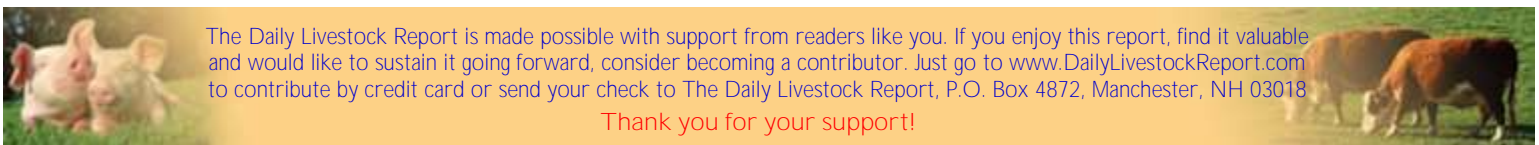
Fed steers, using the 5-market average price reported by



USDA's Market News Division of the Agricultural Marketing Service (USDA-AMS) averaged \$122.97 per cwt. in this year's first quarter. That was, down 8.8% from a year ago. However, compared to the depressed levels of the 2016's fourth quarter, of 2016, fed cattle prices during January-March averaged were over \$15.00 per cwt. higher (up 14.2%).

Yearling and calf prices were supported by higher fed cattle prices and the associated rebound, finally, of cattle feeding returns back into the black. For the first quarter of 2017, the Livestock Marketing Information Center (LMIC) calculations put estimated cattle feeding returns at the highest average for any calendar year since the last quarter of 2003.

In the Southern Plains, for 2017's first quarter, USDA-AMS reports showed that steers weighing 700-to 800-pounds and 500-to 600-pounds averaged \$132.88 per cwt. and \$157.38, respectively. Yearling and calf prices were below a year ago (down \$27.18 per cwt. for 700-to 800-pound steers and dropping \$38.35 for 500-to 600-pound steer calves). As with fed cattle, yearling and calf prices increased compared to late 2016's, rising quarter-over-quarter by \$3.81 (up 3.0%) for steers weighing 700-to 800-pounds and up \$18.94 per cwt. (increasing 13.7%) for 500-to 600-pound animals.



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