Daily Livestock Report

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<u>**USDA will release on Friday the results of its monthly "Cattle on Feed" inventory survey, which provides an indication of the flow of cattle outside of feedlots for the month of March (marketings) as well as the inflow of cattle during the month (placements)**</u>. Market participants generally have a good idea of the outflow side since we get a daily and weekly slaughter estimate from USDA. Slaughter numbers are not the same in absolute terms with marketings, in part due to the lag between selling cattle and getting them processed but more so because the feedlot survey only covers feedlots with a capacity of 1,000 head or more. However, the percentage change in slaughter from one month to the next provides a good indication as to the outflow of cattle from feedlots into processing plants. For the most recent survey, analysts polled by Urner Barry largely agree that March marketings were over 9%, in line with fed cattle slaughter for the month. Of more interest for market participants is the placement number as it offers an updated view of supply availability later this summer. As usual, there is a healthy range in analyst estimates with regard to placement numbers. A number of factors go into estimating this number but it is far from a precise exercise. Some of the analysts polled expect placements to be up as much as 9.5% from a year ago. There are reports pointing to higher placements in the Southern Plains, presumably reflecting higher imports from Mexico, improved feeding returns and transfer of cattle from wheat pastures into feedlots. Cattle imports from Mexico February 26 and April 1 were 154,308 head, 20,861 head (+16%) higher than a year ago. The improvement in feedlot profitability is a critical factor as is the timing of cattle movement from wheat pastures. The larger calf crop in previous years has continued to bolster the supply of cattle outside of feedlots and is expected to drive higher placements this spring.

But not all analysts polled expect a significant increase in March placements. While feeder imports from Mexico increased substantially in March, imports of feeder cattle from Canada were down 14,421 (-33%). Also one needs to consider that last year March placements were almost 1.9 million head, a relatively large number for the month. If analysts are correct, feedlots placed over 2 million cattle on feed in March and one had to go back to 2003 to find a number that large for the month of March. Moisture conditions were notably better during March as well, with accumulated precipitation along key production areas registering well above normal for that time of year (according to NOAA precipitation analysis). Reports on cattle movement in the country also did not show much of an increase compared to a year ago.

Based on the average of analyst estimates the total number of cattle on feed as of April 1 is expected to be down 0.3% from a year ago. However, the front end supply still remains well below year ago levels due to the relatively low level of placements last fall and very aggressive marketings in Q1 of this year. The supply of cattle that have been on feed for +150 days could show a 39% decline from last year while the +120 day supply could be down as much as 15% from last year. A lower level of placements in March and robust marketings would likely be viewed as supportive for the summer markets, especially when we consider the relatively large spread between June and August contracts. Also important will be the structure of placements, especially heavy cattle that could presumably be ready in early summer.

April 2017 COF Pre-Report Estimates. Urner Barry Survey

percent of year ago volumes. 10 analysts surveyed

| | Average of Estimates | Implied Cattle # | Range of Estimates |
|---|---|---|---|
| On Feed Apr 1 | 99.7% | 10,820 | 98.7% - 100.6% |
| Placed on Feed in Mar | 106.0% | 2,006 | 101.0% - 109.5% |
| Marketed in Mar | 109.5% | 1,913 | 102.0% - 110.0% |