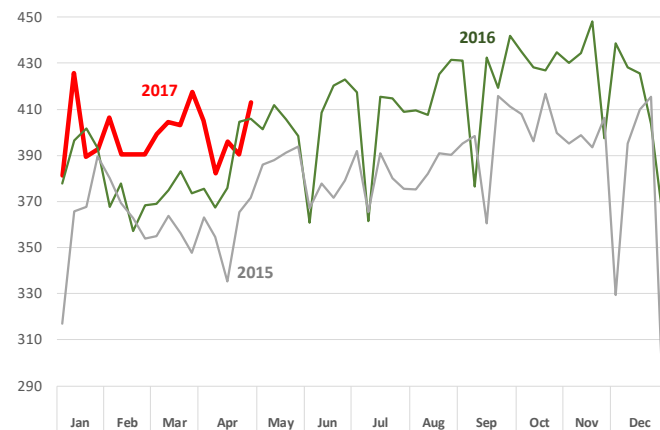


The June fed cattle futures contract closed yesterday at \$127.05/cwt., a whopping \$17 (+15%) higher than where it was priced about a month ago. Much of those gains have been realized in the last few days as packers struggle to maintain slaughter schedules in light of extremely current feedlot inventories. Extreme weather events in cattle country in recent days further compounded the issue and they are expected to cause short term disruptions and further impact cattle weights. While often the focus is on the number of cattle coming to market, market participants would do well to pay more attention to the actual pounds available in the market at a given time. Cattle slaughter last week was 624,000 head, 5.5% higher than a year ago. That's a relatively big number. But how many pounds of beef did we actually harvest and how many pounds were available to market participants in the spot market. It is a good question and one needs to look a little behind the headline USDA numbers to try and answer. USDA pegged total beef production for last week at 501.2 million pounds, 4.4% higher than last year. This number is calculated as the product of estimated slaughter and estimated weights. It includes both beef from fed cattle as well as beef from cows and bulls. Fed beef production last week likely did not show the same kind of increase as what the total slaughter would indicate but we do not have actual data from USDA to calculate it. Here's what our estimates show. Steer and heifer slaughter for the week likely was around 500,000 head. Out of this number, around 335,000 head were steers and around 165,000 head were heifers. We think steer weights for the week were likely around 844 pounds compared to 848 pounds two weeks ago and we may be a bit high on this. Heifer weights are estimated at 790 pounds. Based on these estimates, steer/heifer (fed) beef output for the week was 413.1 million pounds, only 1.7% higher than the previous year. Subtract from this the positive trade balance (more exports than imports) and the supply of fed beef in the market today may not be much higher than it was last year

Beef production may have not increased compared to last year but does that justify some of the big price tags currently on cattle and boxes. Probably not but in the short term it does not matter. End users coming into the spot market to fill Memorial Day needs are finding that a significant portion of the supply is spoken for. This is in part due to packers having sold more beef on a forward basis than before (see second chart to the right) and also because retailers and foodservice operators likely budgeted for lower prices and adjusted retail promos and menu prices accordingly. Short term demand for beef tends to be fairly inelastic as packers have orders they have to fill and retailers/foodservice operators need to deliver on what printed in menus and retail circulars. Here's an anecdote that makes the point. Last night walking around the meat case in the local supermarket I noticed sirloin tips offered at \$5.99 if you bought three pounds or more. The price quoted by USDA for sirloin flap meat (the product for this retail cut) was \$6.14. Not only was the

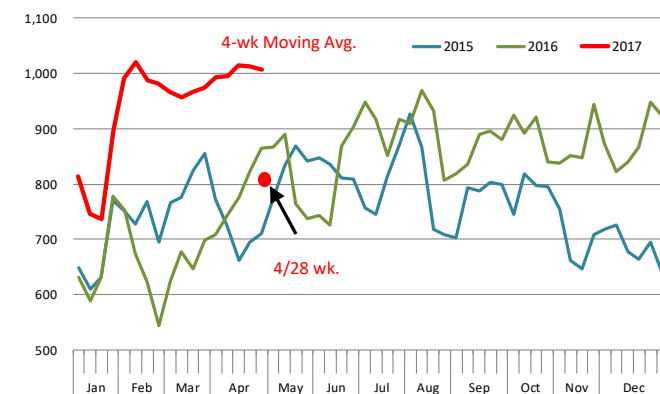
STEER AND HEIFER BEEF PRODUCTION, MILLION POUNDS

Data Source: USDA. Calculated as Product of Steer/Heifer Slaughter and Steer/Heifer Weights. Analysis by Steiner Consulting



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

Data Source: USDA Mandatory Price Reporting System



retail price under wholesale, it was priced in such a way as to move volume. The product likely was booked early and the packer now needs to find the cattle to meet this commitment. Faced with escalating cattle prices packers have been steadily rising asking prices for spot meat as well as for forward bookings. In the last USDA weekly report we saw a sharp pullback in the number of loads booked 22-60 days out (see chart) and product booked for further out also was down substantially. The number of loads traded in the spot market has been quite low in recent weeks. For the week ending April 28, 281 choice beef loads were traded in the negotiated market compared to 396 the previous year. Tight spot supplies have forced users to bid up prices. What market participants will debate in the coming weeks is how quickly the sharply higher prices ration out demand.

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