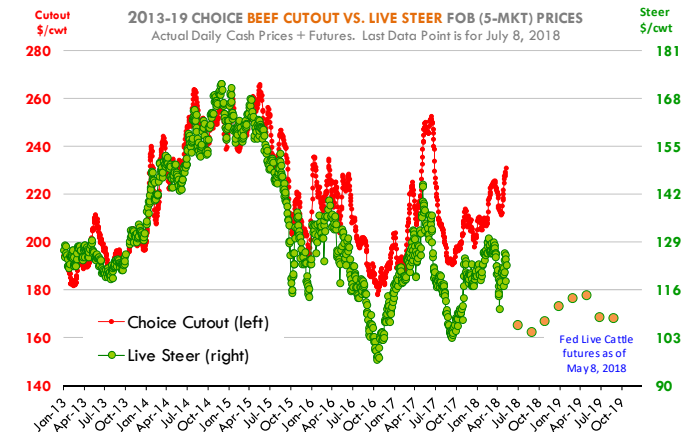


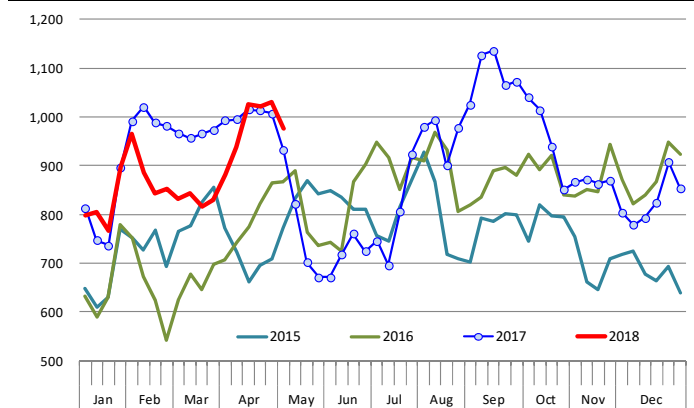
With big supplies of fed cattle scheduled to come to market in Q2 futures participants have adopted a shoot first and ask questions later kind of mentality. April fed cattle were sold quite aggressively at the end of March only to recover all the lost ground by the end of April when the contract came into expiration. With the choice cutout hovering in the \$230/cwt area, a few more questions are now bubbling up to the surface with regard to the June contract. June fed cattle dropped under \$100/cwt at the end of March but have been slowly trending higher since then as spot fed cattle prices remain stubbornly high. Packers ended up paying significantly more for cattle in the first week of May than many thought possible. And they still made a lot of money despite the higher prices. The comprehensive cattle report published yesterday showed the average price of cattle sold on a dressed basis was \$195.5/cwt, \$2.49 higher than the previous week while the price of cattle sold on a live basis was \$124.92/cwt, \$1.32/cwt higher than the week before. Early calls are for fed cattle to be lower this week but one needs to consider that with an \$18 basis in place the expected declines already have been priced in this market, and then some. Packers paying for cattle last week offered some insights into their thinking as they purchased some 49,000 cattle for delivery in the second half of May. The average price on those cattle was \$193/cwt or \$122/cwt on a live basis. That's still quite a premium to the June contract, which closed yesterday at 106.3.

Beef demand will be critical and participants will pay close attention to beef sales not just during the key Memorial Day week end but also Mother's Day weekend (don't forget its this weekend) and Father's Day in mid-June. The choice beef cutout has rocketed higher and we think the first chart to the right illustrates the huge gap between the reality of high beef prices paid by end users vs. the extreme bearishness of futures participants pricing cattle for June, August and the rest of the year. Gains have been broad based. Middle meats continue to drive the cutout, with both ribs and loins trading higher than many expected. Robust exports also have played a role, best evidenced in the high price of chucks and short plates. Packers are short for the moment and the large number of cattle sold in the negotiated market last week reflects some of that. Forward beef sales made for delivery 22-60 days out was as big or bigger than a year ago in April. These are sales that will cover retail promotions for Memorial Day. Beef sales for 61-90days out have been far bigger than they were a year ago, possibly indicating that retailers and other end users took advantage of the sale sign back in April to get summer needs covered. Despite these big beef forward sales, packers have fewer cattle bought on a forward basis for delivery in May and June. For the week ending May 7 packers had purchased 201,647 cattle for delivery in May, 40,109 head (-17%) less than a year ago and June deliveries were also down by a similar amount.



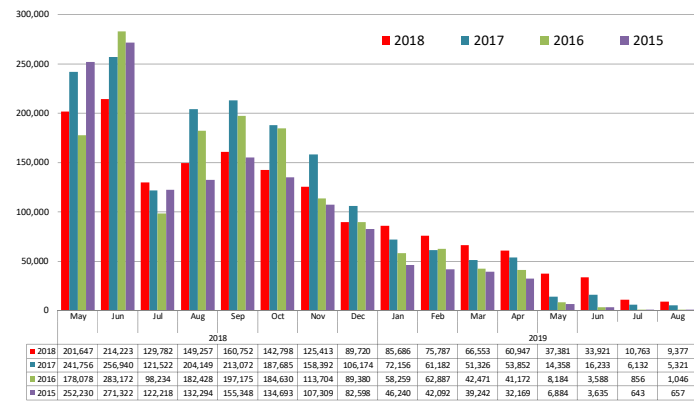
Beef Loads Sold For Delivery 22 - 60 Days. 4-WK MA

Data Source: USDA Mandatory Price Reporting System



Cattle Forward Contracted for Delivery in a Given Month

Supply Cumulative as of May 7, 2018 and Comparable Period in Previous Years. Source: USDA MPR System



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