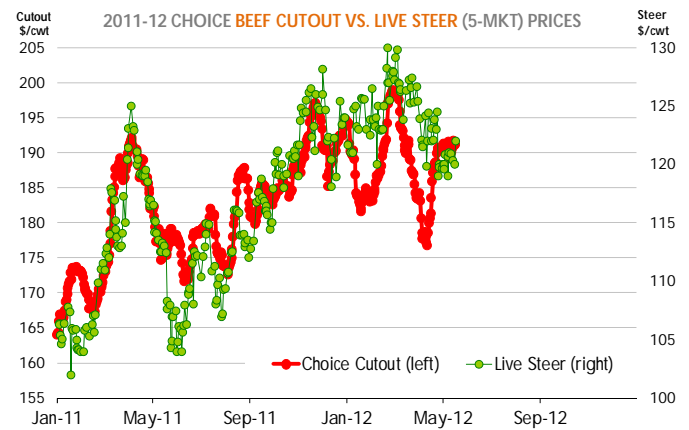
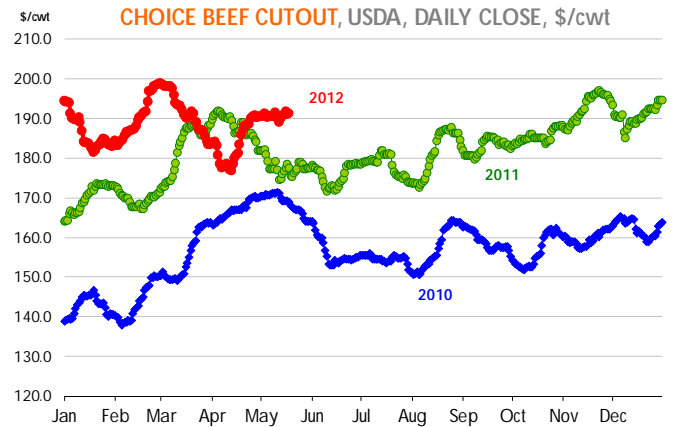


## Market Comments

**Note about 5/17 Report:** Further to our report yesterday about Mexican duties on US leg quarters, USDA analysts (thanks Lazzaro) were able to detail to us the apparent discrepancy between GATS leg quarter numbers and the 250,000 MT figure used in the IA State Report. It appears that the Mexican duty, if imposed, will apply to two categories of product, leg quarters as well as “Legs, Thighs Or Legs And Thighs In One Piece”. This second category is not spelled out specifically in the US GATS data but it is categorized as such in Mexico’s import statistics and both categories combined amount to 250,000 MT.

Live cattle futures have rebounded in recent days as market participants feel more confident about the outlook for beef prices going into the summer. After a counter seasonal break in beef prices for much of March and first half of April, in part due to all the negative stories about LFTB, the beef cutout has recovered and it is currently running above 2011 and 2010 levels. The choice beef cutout on Thursday afternoon closed at \$191.10/cwt, \$15.5 or 9% higher than the same period a year ago. The select beef cutout closed at \$1.8580, \$13.2 or 8% higher than last year. It is particularly impressive that the beef cutout was able to post these kind of year/year increases **despite very weak prices for fat beef trimmings**. On Thursday, fresh 50CL beef trim was quoted below \$50/cwt., half of what it was worth last year. As we have noted in the past (see DLR Apr. 2), fat trim is an important credit for a number of primals and thus feeds directly in the overall cutout calculations. The market for fat beef trim appears to have been permanently changed now that BPI, the largest LFTB producer in the country, has decided to close three of its plants and other FTB producers also appear to be struggling with reduced volume. It appears that our initial estimate that the controversy could remove about 75% of LFTB demand may not be too far from the target, at least for the moment. For fat beef trim, in our opinion, this implies a lot more volatility than in the past and lower prices.

The increase in the price of both the choice and select cutout has been driven largely by improvements in the value of middle meats (steak cuts). The biggest improvement has come from higher loin values. The loin cutout which accounts for 21% of the carcass contributed almost 60% of the overall increase in the choice beef cutout value from a year ago. The increase in the value of the rib primal, which is about 11% of the carcass, contributed another 12%. Thus, higher prices for beef rib and loin cuts account for about 70% of the year over year gains in the cutout.



While recent higher prices are welcome, the fact that the gains have come from higher middle meat values also is an area of concern. Retailers and foodservice operators slowed down their spring purchases in late March and April, partly because of LFTB but also because they were worried that high gasoline prices at the time could eat away at consumer demand. It is possible that some of the recent improvements in the cutout reflect the pent up demand from March and April. It remains to be seen whether demand will be sustained into the summer months and whether other cuts will be able to contribute to the cutout. Last year, higher trim values and strong hamburger demand supported the beef complex through the summer and fall. It remains to be seen whether middle meats will be able to carry the carcass this time around.

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