

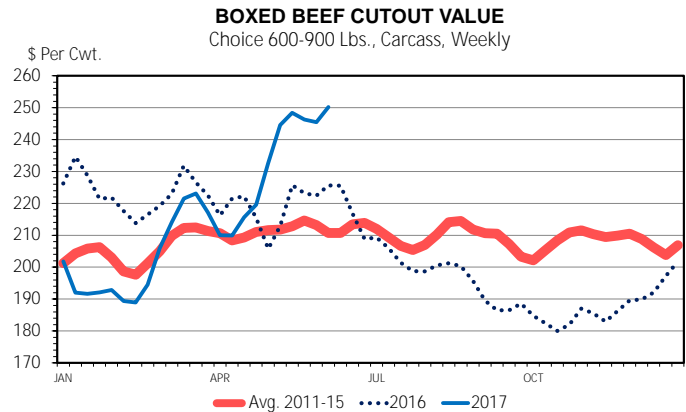
Demand for Choice beef over the last four weeks has been impressive, possibly the best this decade for the weeks surrounding Memorial Day. The Choice Beef Cutout reached its highest value for the year-to-date early this week at \$252.52 per cwt. on Monday. This was up \$4 from the weekly average for the third week in May. Going back to 2010, the beef cutout value declined five years out of seven from mid-May to mid-June. The biggest price appreciation for that set of weeks during the last 7 years was an \$8 gain in 2014.

Looking at weekly price changes in the Choice Beef Cutout from mid-May to mid-June during the last seven years shows last year was the most similar to this year. Last year, the cutout in the week prior to Memorial Day declined \$2 followed by a \$1 drop during the holiday week and then a \$3 increase in the first full week of June. This year, during those same weeks, the cutout declined \$2, then \$1 and finally climbed \$5 last week (rounding error gets you to the \$4 change referred to above). For sake of comparison, the price changes in 2014 for these weeks was up \$3, down \$2 and unchanged.

Slaughter cattle price trends in both the cash and futures markets have been “spooked” this week, even as the Choice Beef Cutout has been resilient. The August Live Cattle contract closed last Friday at \$123.85, but after three days of trading this week had slumped to below \$118.00. USDA-AMS (Agriculture Marketing Service) reported negotiated cash trade last Friday at close to \$136, but this week’s mid-week trade was at \$129. Given this disconnect between finished product and on-the-hoof values, the issue of expectations is definitely in play relative to prospects for finished product values.

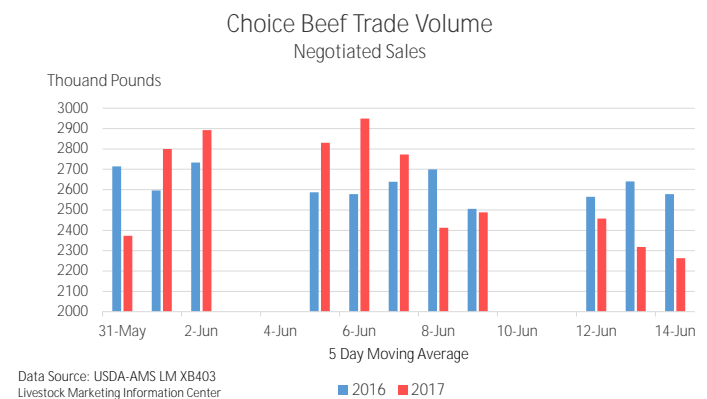
Refocusing back on weekly price trends in the Choice Beef Cutout for the next few weeks provides a better sense for understanding this week’s slaughter cattle price action. With last year’s cutout value mapping closely with this year’s, the concerns about what cutout values did in the second half of June appear to be coming to the fore. Last year, the Choice Beef Cutout was down slightly (close to unchanged) for the current week. This was followed by a \$9 decline in the next week and an \$8 decline for the last week in June. Laying this price template onto this year’s market still puts the Choice Beef Cutout slightly above \$230, which is still a very high price from a historical perspective (see top graph).

Underlying these expectations is the assumption about beef



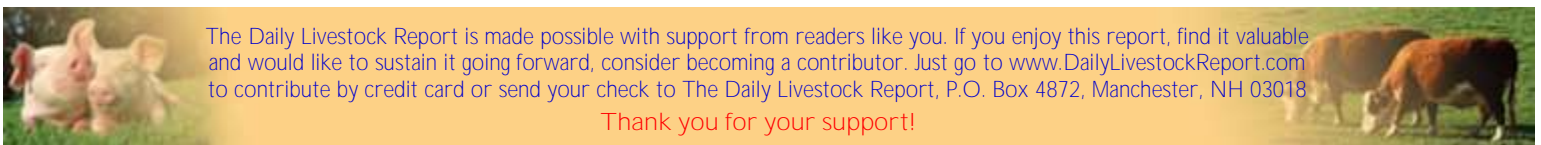
Data Source: USDA-AMS
Livestock Marketing Information Center

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Data Source: USDA-AMS LM XB403
Livestock Marketing Information Center

demand. Running these price changes off the current situation as a base period of some of the highest values in history makes some fairly rosy assumptions about product demand. Choice beef product negotiated cash trade volumes reported to USDA-AMS in the week following Memorial Day were the highest since early April, suggesting that holiday product clearances were favorable. Cutout values were 10% higher than in April, so speculative bargaining hunting is not a likely component of current demand. Choice beef trade volumes were running above a year earlier during the first few days of June, but since then have lagged, an indication that packer demand for cattle may also be receding.



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