Daily Livestock Report

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<u>Analysts polled by Urner Barry ahead of the USDA "Cattle on Feed" report expect modestly higher cattle on feed compared to last year but an ongoing reduction in the flow of cattle entering feedlots (i.e. future supply).</u> On average, the 10 analysts polled expect June 1 feedlot inventories to be up 0.9% compared to a year ago. A Bloomberg survey of 12 analysts also came up with a similar average of estimates. There is a somewhat wide range of estimates of the total on feed supply and we are not quite sure why since there is a fairly tight range both in terms of placement and marketing estimates. Maybe the cattle loss factors used are different but they cannot be that different to produce an almost 3% spread between the high and the low. Our view is that the number to focus on is the average of placement estimates (91.4%) and the average of marketings (91.6%). If those numbers are close to correct, it would roughly produce an implied on feed total of about 10.612 million head, or 1.1% higher than a year ago.

<u>Placements are always a key number to watch in the report, offering an indication of expected future supplies</u>. The weight breakdown of those placements helps market participants refine their view as to when those cattle are likely to come to market. On average analysts polled expect **<u>May placements to be down 8.6% compared to a year ago</u>**. Some analysts show placements down as much as 14%, which is possible given placements last year were quite large. However, one thing to consider is that imports of feeder cattle from Canada and Mexico were up almost 34,000 head in May. Still, total placements are down, which if correct, would mean that placements of cattle on feed have declined in 13 of the last 15 months. And that helps explain why the 6-year rally in the cattle market accelerated in 2014 and 2015. Faced with ever shrinking cattle supplies and a fixed processing capacity packers have had little choice but to pay up for cattle. A few plants have closed in the face of this shortage while consumers have had to pay all time record prices for the beef they consume. There is little question that packer margins have shrunk in the process, one only needs to run a ratio of fed cattle prices to the value of the cutout to understand that. Exports and by-product values are key components in the margin calculations but which do not get much attention. In the case of exports, we really do not know how much packers are making on products they sell. And this can be significant when overseas suppliers are willing to pay much higher prices for items that have limited value in the domestic market. The continued reduction in placements means that packer margins are not going to get better any time soon. The only way they improve is if exports somehow rebound, and Chinese buyers that last year were chasing briskets and plates return. As for by-products, they are not faring well recently. The steer drop credit as calculated by the Livestock Marketing Information Center (LMIC) currently is running at around $13.55/cwt compared to $15.66/cwt a year ago. The 30/head reduction compared to last year can make the difference between eking out a small profit or dipping into the red. Fed cattle supplies on feed are larger than a year ago and the supply of cattle that have been on feed more than 120 days currently is 13% higher than a year ago (using analyst estimates above). In the very near term, this should make a few more cattle available while packers likely will continue to run light slaughter given the beef demand seasonally declines after July 4th.

<u>Cattle marketings in May were estimated by analysts to be down 8.4% compared to a year ago</u>. USDA daily fed slaughter numbers in May were down 9.1% compared to a year ago so the analyst estimates are fairly close to what was reported. Keep in mind, however, there was one less marketing day in May compared to a year ago.

June 2015 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 Jun 1	100.9%	10,591	99.2% - 102.0%
Placed on Feed in May	91.4%	1,745	86.5% - 96.9%
Marketed in May	91.6%	1,708	90.0% - 92.4%