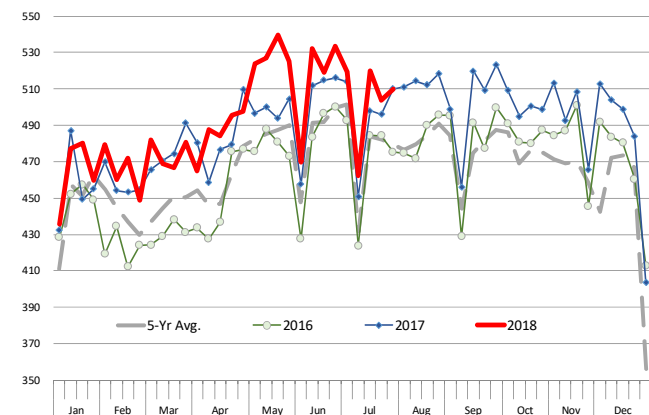


While overall cattle slaughter last week was higher than a year ago, the increase was largely due to more cows coming to market. Non-fed slaughter, which includes both cows and bulls, last week was estimated at 130,000 head, 11.6% higher than a year ago. Fed cattle slaughter, on the other hand, was 510,000 head, unchanged from a year ago. Fed slaughter remains notably higher than the five year average but that is to be expected considering the supply of cattle on feed. According to the latest USDA cattle on feed inventory count, the supply of cattle that have been on feed for more than 120 days is up some 28% from last year. What concerns market participants in the short term is the ability of feedlots to market cattle in a timely fashion. Packer margins have been excellent for much of this year and robust beef demand, both in domestic and export channels. Calculated gross packing margins, while still quite robust, have been trending lower and packers will look to keep their margins under control. Cattle trade has been slow to develop in the last two weeks and it appears cattle buyers are waiting until the last moment before they pull the trigger and cover their needs. Two weeks ago we saw a big increase in the number of cattle traded in the spot market. Last week numbers declined. According to the USDA comprehensive cattle report, the number of cattle traded in the negotiated market for delivery in the next two weeks was 71,910 head, down from 129,178 the week prior. Packers paid almost \$177 dressed for those cattle, about \$1.50 less than they had paid the previous week. Sales for cattle for delivery 15-30 days out were quite light and prices paid were almost \$3/cwt (dressed) lower than for those delivering in the first half of August. Will we see a big increase this week? For now futures participants have opted to sell the market until they see how cattle trade for the week will develop.

From the feedlot's perspective the extra marketing day in July has certainly been a big plus. While we will likely see a slight revision when the actual weekly numbers become available, our early estimate for steer and heifer slaughter in July shows a 4.7% increase compared to a year ago. If correct, this would put the marketing rate for the month at 16.6% (ratio of marketings/inventory). This is comparable to the marketing rate in the last two years but lower than the levels we saw in 2012 when inventories were near the level we saw today. **August marketings will be critical.** Last year the marketing rate in August was 18.7% and the previous year the marketing rate was 18.4%. In 2015 feedlots struggled to market cattle in a timely fashion and were left with inventory that they then had to discount in September and October. Demand for Labor Day will be critical. Packers certainly have fewer cattle purchased on a contract basis for August delivery. **The latest data shows 154,300 cattle contracted for delivery in August. At the end of July in 2017 packers had contracted for 226,153 cattle to be delivered in August.** Additionally, we can see that packers sold a fair amount of beef to support Labor Day features. Everything points to robust beef sales and good demand for cattle in the next three weeks. Now we wait for cattle trade to develop later in the week.

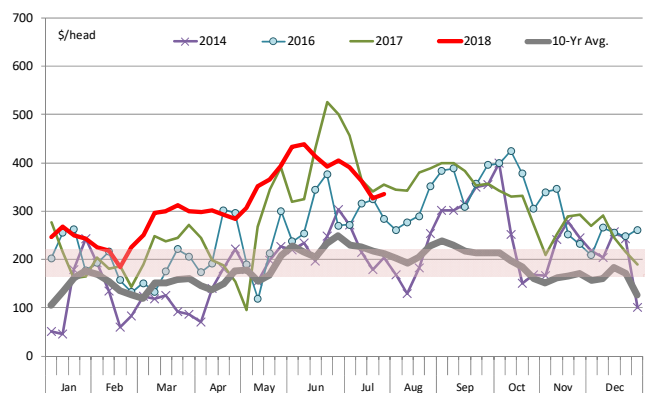
WEEKLY STEER AND HEIFER SLAUGHTER, '000 HEAD

Source: USDA



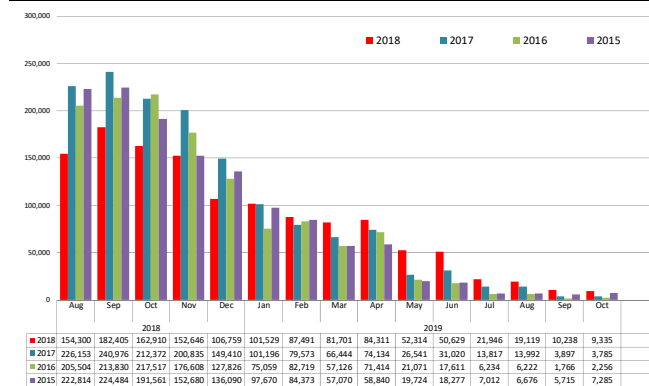
BEEF PACKER CALCULATED GROSS MARGIN, \$/head

Calculated using the Comprehensive Cutout, Drop Credit and Negotiated Fed Cattle Prices



Cattle Forward Contracted for Delivery in a Given Month

Supply Committee as of July 26, 2018 and Comparable Period in Previous Years. Source: USDA wire system



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