

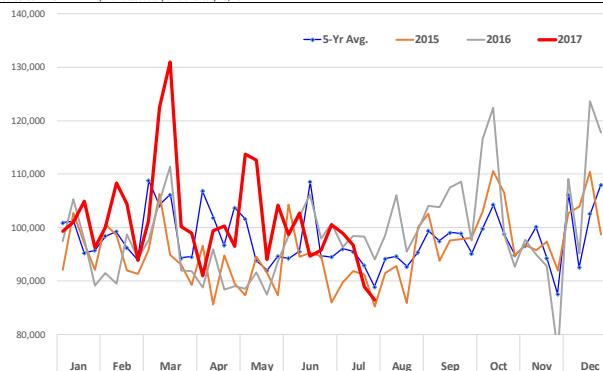
**Predictably retail beef features declined in the second half of July and this likely contributed to the down trend in the value of the cutout.** It is not a particularly surprising occurrence and the sharp rise in beef prices during late spring and early summer probably contributed to retailers pulling beef off features once the peak grilling days were behind us. For week ending July 28 **the retail beef feature activity index is down 8% from the previous year and it has averaged 6% under last year for the last three reported weeks.** While beef features at retail have declined, fed cattle slaughter remains well above year ago levels. The higher slaughter is a function of feedlot placements earlier in the year and increased availability. Feedlot margins were quite robust in Q2 and the current futures market structure continues to incentivize feedlots to maintain a high marketing rate. **Last week fed cattle slaughter was 511,000 head, 7.5% higher than a year ago and near the slaughter highs so far this year.** Expectations are for fed slaughter to once again stay above 500,000 head this week as well compared to 475,000 head a year ago. Fed cattle weights are lower than last year, which has offset some of the increase in slaughter.

The choice beef cutout last week was \$206.96/cwt (average for the week), down \$44/cwt (-17.5%) from mid June levels. Much of the decline was led by the slowdown in retail activity, after all it was higher retail ads that led the rally in April and May. The prime beef cutout during this period is down 3% while the cutout for branded beef (presumably to support retail features) was down 16% during this time. **With very limited features for middle meats, the beef cutout has had trouble finding a floor the last couple of weeks.** While it is true that price erosion has slowed down, the choice cutout value continues to lose ground largely due to lower prices for loins and ribs. The chuck and round primal value remains above year ago levels, we assume because consumers are shifting their purchases to less expensive beef options. We continue to see very robust pricing for grinds, be this lean or fat beef. The price of 90CL boneless beef trimmings is currently near \$233/cwt, a 6% premium over year ago levels. Lean beef prices are up despite double digit increases in cow slaughter. Retailers have lowered ground beef prices in the last couple of years and, we presume, the end of steak features has shifted more beef demand towards ground beef. Normally we would expect ground beef pricing to remain firm through the end of August due to Labor Day demand. The average retail feature price for 80-89% ground beef last week was reported by USDA at \$3.30/lb., 3.2% less than a year ago and 22% lower than it was two years ago. Fat beef trim prices remain firm but the test for this product will come once Labor Day orders have been filled.

Even as retail features have declined in the last few weeks, it appears this may be a short term issue. **Lower cattle and wholesale beef prices have provided an opportunity for retailers and foodservice operators to increase forward buys (see chart).** Export beef sales have also improved in recent weeks. Beef sales for delivery 22-60 days forward have averaged +8% over last year in the last four weeks. Export sales to NAFTA countries in the last four weeks are up 7% while export sales to other markets are flat.

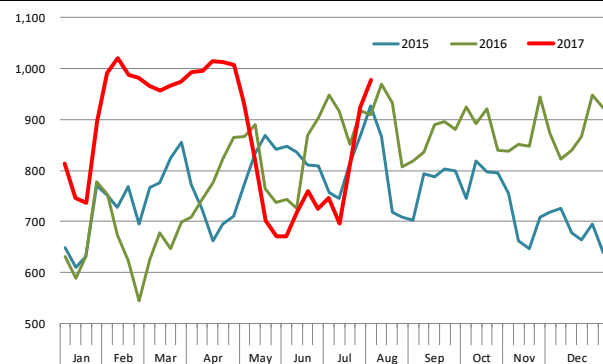
**NATIONAL RETAIL BEEF FEATURE REPORT: ACTIVITY INDEX**

Source: USDA "USWBFRT1" Report. Latest data point is for July 28, 2017



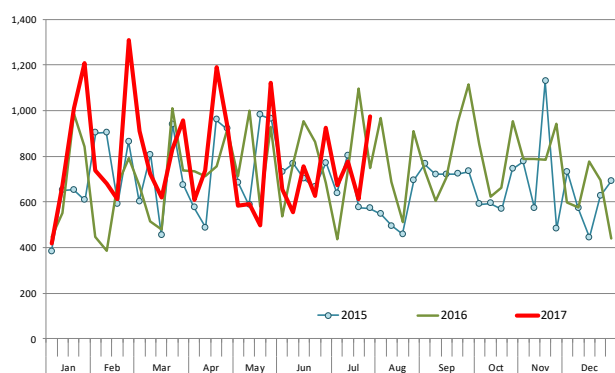
**Beef Loads Sold For Delivery 22 - 60 Days. 4-WK MA**

Data Source: USDA Mandatory Price Reporting System



**# of Beef Loads Sold to Export Market. Weekly Data**

Source: USDA Comprehensive Cutout Report. MPR System. AMS



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