Daily Livestock Report

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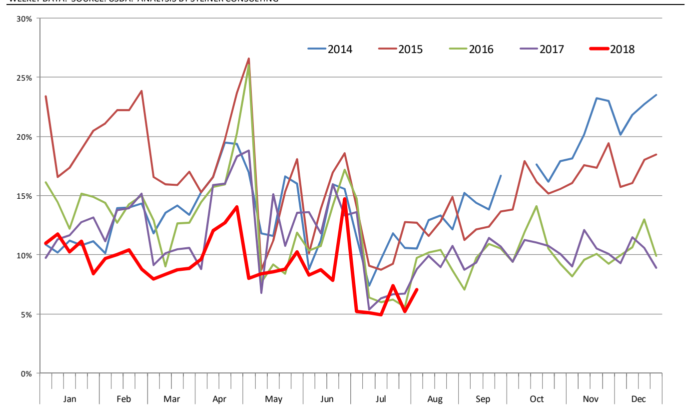
Beef **packers continue to hold a much smaller position in terms of the cattle they have purchased for forward delivery**. It would appear that packers perceive little risk in terms of their ability to source cattle. After all on feed supplies of market ready cattle are ample and will likely remain so in the next two months. Limiting the number of cattle bought on a contract basis offers flexibility. If demand hold up, then packers can go out in the market and buy more on a negotiated or formula basis. However, if demand dries up, be this because exports slow down or retail features change, then they don't have many cattle on the books that they need to take delivery. So far it appears that **the combination of robust beef demand over the summer and the smaller contracted supply has helped bolster overall fed cattle prices**. The data for this analysis comes from the USDA Mandatory Price Reporting system. Not all fed cattle that are slaughtered in the US go through the system but a large percentage does. For the week ending August 13 USDA reported 472,680 cattle slaughtered and reported into the system. Total cattle slaughter for the week was 645,000 head and fed cattle slaughter was 515,000 head. The cattle reported into MPR represented 73% of all cattle slaughtered and 92% of all fed cattle slaughtered. **The number of domestic cattle that were bought on a forward contract basis and slaughtered last week was 33,225 head, 7% of the overall total for the week**. Last year for the same comparable week forward contracted cattle accounted for 9% of the total and in 2016 they were 10% of the total. Packers have forward contracted some 156,083 head of cattle for delivery in April, compared to 226,761 head that they had contracted in August 2017. In September, October and November the supply of forward contracted cattle runs about 24% below year ago levels.

A larger overall fed cattle slaughter and fewer cattle purchased on a forward contract basis imply more cattle are being traded in the negotiated market. Last week negotiated trade represented about 26% of overall cattle slaughtered and reported in the MPR system. This is in line with the share of negotiated trades so far this year. Negotiated trading was as high as 50% of the overall total back in 2009 but then it declined steadily as packers pushed to both price more cattle on a formula basis and also forward contract a larger share of their needs. By late 2012 and early 2013 the share of negotiated cattle dropped to under 20%. Since then, however, negotiated trading appears to have stabilized, running at around 25-27% of total slaughter for the last couple of years.

We thought it was also interesting that **packers last week purchased a few more cattle than the week before for delivery 15-30 days forward**. And the price they paid for those cattle was higher than for cattle purchased for delivery within 14 days. The average dressed value of cattle purchased for delivery within 14 days was $175.1/cwt compared to $175.75 for cattle that will deliver 15-30 days out. On a live basis this is around $111-112, a notable premium to current August futures.

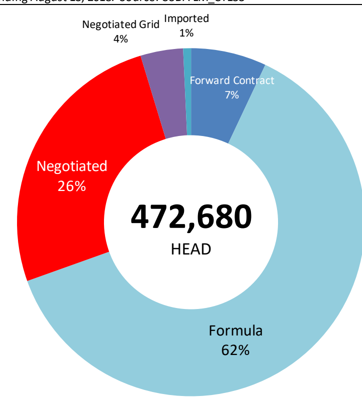
FORWARD CONTRACTED CATTLE AS % OF ALL CATTLE SALES REPORTED IN MPR SYSTEM

WEEKLY DATA. SOURCE: USDA. ANALYSIS BY STEINER CONSULTING



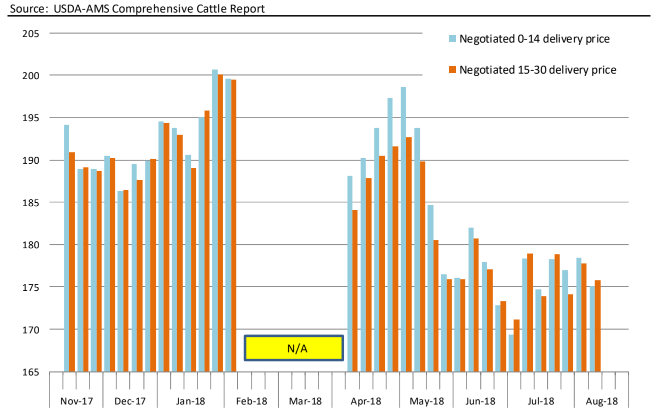
Share of Cattle Slaughtered by Mkting Type

For week ending August 13, 2018. Source: USDA LM_CT153



Fed Cattle Negotiated Prices. **Dressed Carcass Basis**. Weekly. 0-15 & 15-30 day delivery window.

Source: USDA-AMS Comprehensive Cattle Report



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