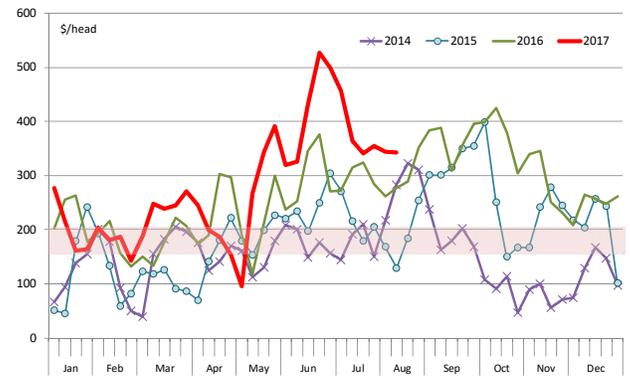


Can beef packers pay a bit more for cattle and still be stay in the black? I think most would agree that the answer to that is yes (see chart). But that does not mean that they should do that, the same way that feedlots should not sell feds at a so called “reasonable” price, or cow-calf operators should not part with their calves at what a buyer likes to think is a “fair” price. What we should want is a market that is as frictionless as possible, free of market distorting influences. **What would it take for beef packers to pay more for cattle than they are today? Better beef demand** surely is a good answer. After all, excellent demand going into the spring caused packers to up their bids for cattle in order to fill large orders from retailers, foodservice operators, and foreign buyers. In the process packer margins were squeezed, albeit only for a few short weeks. In the short term the challenge for the market is that retail feature activity slows down after the 4th of July and it does not get a whole lot better in August either. The retail activity index for the week ending August 11 was down 8% from a year ago but in line with the five year average. Retail activity normally improves in October as retailers tend to promote more beef items before they start to fill the meat case with turkeys, hams and other seasonal items.

Feedlot currentness is also an important factor. It is no big secret that any negotiation, be this for a house, a tract of land or a lot of cattle, hinges on real and perceived leverage. Large slaughter runs in March and April caused feedlots to get extremely current with their marketings. If packers wanted to buy more cattle, they had to open their wallets and pay up enough to encourage feedlots to dig deeper into their on feed supply. Packer margins have declined from the all time record levels established in June but they are still above year ago levels. But before we go more into this, one point of clarification. The calculations in the chart above are simply an approximation. Every packer faces a different cost structure. In addition, not all cattle that come through the door in a given week have the same price tag. When calculating the gross margin number above, we make some generalizing assumptions and it is good to know what those assumptions are. For one, we need to assign a price to the average price the packer paid for cattle. The average feedlot price we used was based on negotiated trade, both live and dressed, calculated at \$182/cwt dressed carcass or around \$115.5 live. On the revenue side, we use the comprehensive cutout value, which last week was \$203.68 plus the by-product credit, last week estimated at \$11/cwt live or around \$151 per head. October fed cattle futures are currently trading around \$109/cwt. All things being equal and assuming packers get a similar margin they are getting today, this would imply market is pricing the October comprehensive cutout at around \$195. Last year the comprehensive cutout traded at about the same level as choice in October. The question at this point is whether cutout values will continue to come under additional pressure in September, which is a function of domestic/export sales after Labor Day. And whether feedlots manage to gain ground in terms of currentness so as to be in a better negotiating position in Q4 when holiday demand for middle meats kicks in.

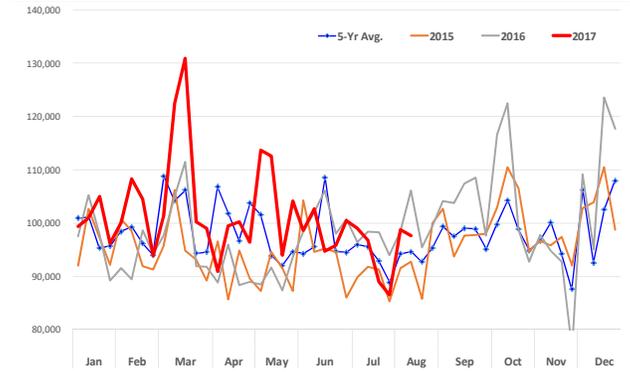
BEEF PACKER CALCULATED GROSS MARGIN. \$/head

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



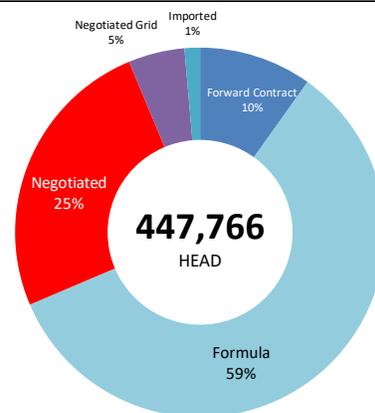
NATIONAL RETAIL BEEF FEATURE REPORT: ACTIVITY INDEX

Source: USDA "LIVESTOCK" Report. Latest data point is for August 11, 2017



Share of Cattle Slaughtered by Mktng Type

For week ending August 13, 2017. Source: USDA LM CT153



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