

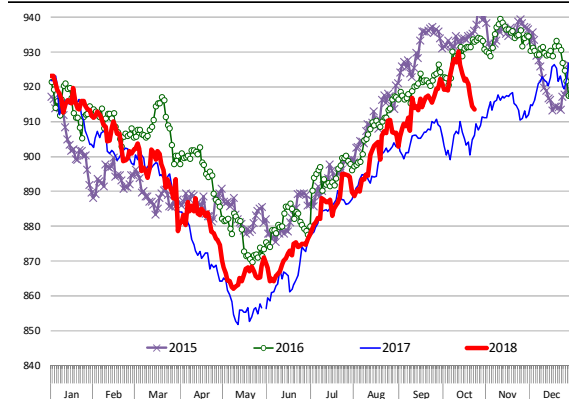
Fed cattle futures were lower yesterday but little seems to have changed in terms of market direction. **Winter and early spring futures have gained considerable ground in the last three months and prices continue to hover not far from contract highs.** There was nothing particularly alarming for the beef market from the last 'Cold Storage' report while COF data was quite supportive. One need only look at what beef rib prices are doing these days to understand why some end users jumped early to put some product away in cold storage. It is clear that during certain times of the year, and especially going into Christmas, there are not enough ribs to satisfy demand. The value of the rib primal last night was calculated by USDA at \$394/cwt, almost \$50/cwt or 14% higher than a year ago. Light boneless ribeyes printed at over \$900/cwt - and it is only October. The choice cutout last night was quoted at \$210/cwt, \$10 higher than a year ago. More than half of that increase is due to the higher value of the rib primal. Loin, thin meats and brisket values also remain above year ago levels. On the other hand, round and chuck values are near or under year ago levels. Increased competition in the retail meat case has helped keep prices for these beef items in check. But **there is no good replacement for a rib roast or steak and in this booming economy middle meats and fatty export items continue to carry the carcass.**

In addition to the robust prices for middle meats, there are other indicators that may support beef and cattle prices in the near term. It appears that some early fall storms may have impacted cattle performance. The latest USDA carcass weight data is for October 6. More recently, however, we have seen fed steer carcass weights plummet. The chart to the right shows a five day average of carcass weights for negotiated and net formula cattle. This is a subset of the cattle that come to market each week but directionally it coincides well with the official weight data. In the last few days the average carcass weight of this subset of cattle is down 1.5%. Other data also suggests that the slowdown in carcass weights is real. The comprehensive cattle report that USDA released yesterday shows, among other things, the average dressed weight of the cattle captured in that report. According to that report, the average weight of both steers and heifers for the week ending October 22 was 868 pounds, down 1% from the previous week. Futures currently maintain a premium going into the winter. In part this reflects expectations for seasonally lower supplies and ongoing strong demand. But it is also a weather risk premium and recent shift in carcass weights highlights precisely such risks.

After holding out for much of the fall it appears some end users have finally decided it is time to take some forward positions. This could be retailers that want to promote beef in January and February or foodservice operators that want to run features and promotions late in the winter or next spring. Last week there were some 660 loads sold for delivery +90 days out. Last time we saw that kind of volume for this window was last April, when end users took advantage of the low prices to cover summer needs. Forward sales for other time slots were higher as well. Export numbers may not be as robust as last summer but they remain solid nonetheless. Packers have also been buying more cattle for delivery 15-30 days out and their forward coverage remains light.

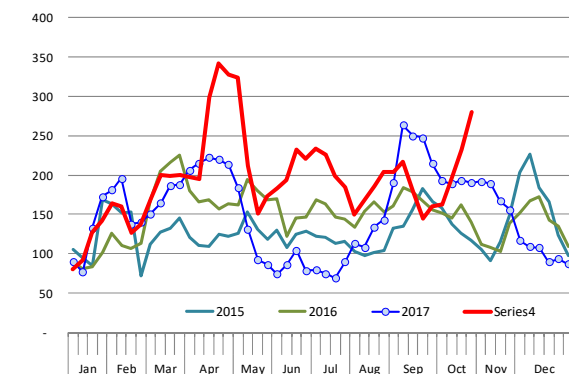
Steer Weights. 5-day WEIGHTED moving average

Calculated Using Mandatory Price Reporting Data for Negotiated and Formulated Net Trades. Steiner Consulting



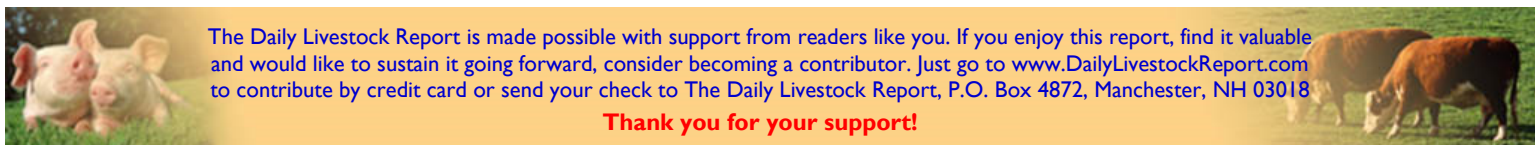
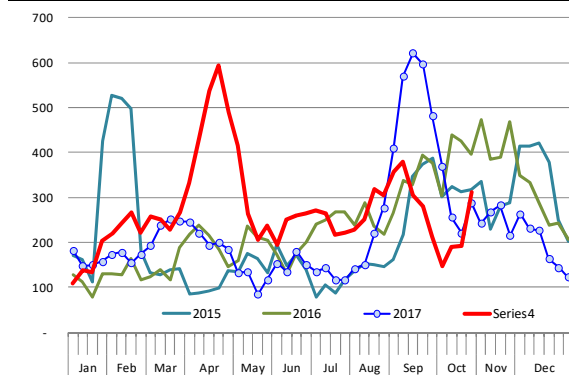
Beef Loads Sold For Delivery 61 - 90 Days. 4-WK MA

Data Source: USDA Mandatory Price Reporting System



Beef Loads Sold For Delivery +90 Days. 4-WK MA

Data Source: USDA Mandatory Price Reporting System



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