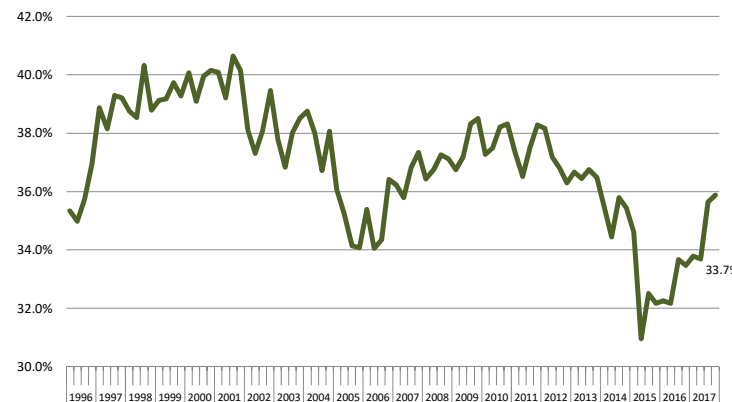


In addition to the regular monthly inventory/placement update, the latest USDA "Cattle on Feed" report also detailed **the number of steers and heifers placed on feed in the last three months**. USDA provides this information on a quarterly basis and the data serves as an indicator of herd rebuilding or liquidation. Roughly two thirds of US calves are born in the spring and the rest are born in the fall. Following each crop, cow-calf operators need to decide how many female calves they will retain to replace cows with declining productivity and how many will be retained in order to expand the herd. When profits are thin and grass supplies limited, producers will send more female calves to the feedlot and thus bolster the beef supply. However, strong profits and conducive weather conditions will tend to divert more heifers into the beef cow herd and fewer will be available for marketing. Because of the natural fluctuation in the calf crop and thus the number of cattle placed on feed, one needs to view the placement of heifers on feed in the context of overall placements. As the chart to the right shows, that ratio will track fairly well with periods of herd rebuilding and liquidation.

**The latest data showed that heifer placements have increased substantially in recent months, bolstering the supply of cattle that will be available for marketing later this year and in the first half of 2018.** During the period Jul-Sep feedlots placed 3.879 million heifers on feed, 447,000 head (+13%) more than the same period a year ago. Steer placements during this period were 6.934 million head, 110,000 head (+1.6%) higher than last year. Total placements in the last three months have increased by more than half a million head and **the increase in heifer placements has accounted for about 80% of the overall increase in placements.** The ratio of heifer placements to total placements now stands at 35.9%, the highest since October 2013. The data suggests that cow herd expansion has slowed down dramatically and it may come to an end by next year if current trends persist. The process of sending more heifers to the feedlot rather than using them to expand the beef cow herd has not been uniform. A handful of states account for the bulk of cattle placed on feed, a function of where feedlots are located and how the cattle herd is dispersed to supply those operations. Heifer placements in NE, KS and IA were a combined 2.060 million head in the last three months, 130,000 head (+6.7%) higher than last year. Heifer placements in these three states a year ago accounted for 39% of total placements compared to 39.7% this year. Heifer placements in Colorado alone in the last three months were 380,000 head, 95,000 head (+33%) higher than a year ago. So while Colorado accounted for less than 9% of total US cattle placements during this period, it

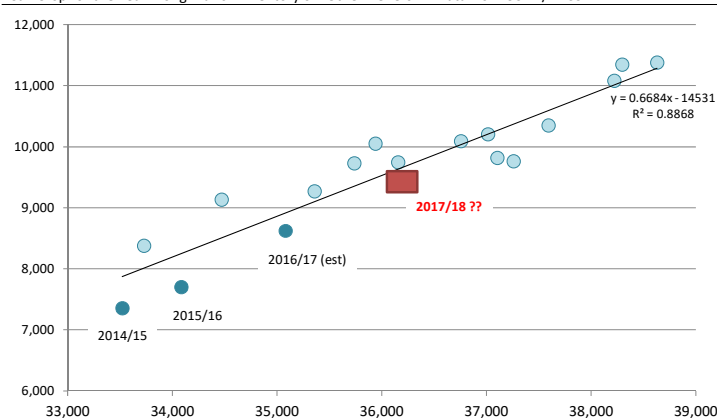
### Placements of Heifers as % of Total Placements on Feed, Quarterly

Source: USDA/NASS "Cattle on Feed" Survey, Quarterly Report

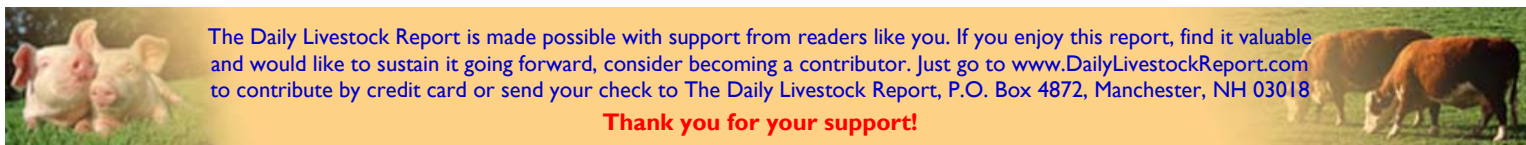


### Relationship of Calf Crop in Year 1 and Heifer Slaughter in Year 2

Calf Crop for the Year Along X-axis. Inventory of "Other Heifers". Data from USDA/NASS



accounted for more than 20% of the increase in heifer placements. The bulk of the increase in heifer placements came from the Southern Plains. And this makes sense since the region also led the country in terms of herd expansion. Heifer placements in Texas/Oklahoma in the last three months were 1.035 million head, 210,000 head (+25.5%) higher than a year ago. In its July report USDA estimated the calf crop for 2017 at 36.3 million head, 1.2 million head (+3.5%) higher than a year ago. If confirmed in the January report, this would be the biggest y/y increase in the calf crop in decades. Combined with a larger percentage of heifers going into feedlots, this could imply +1 million additional heifers coming to market in 2018 vs. 2017 levels (see chart above).



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