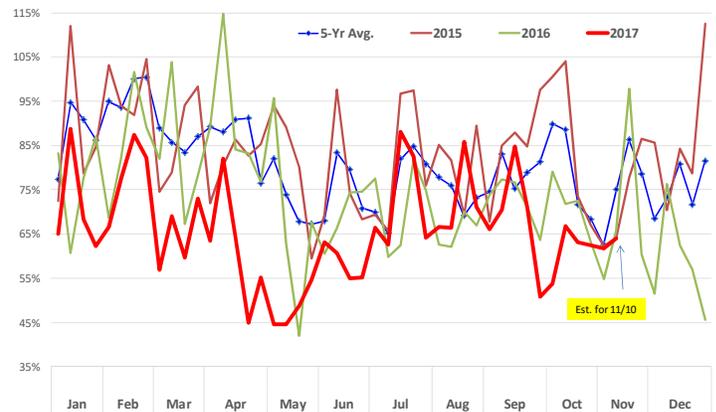


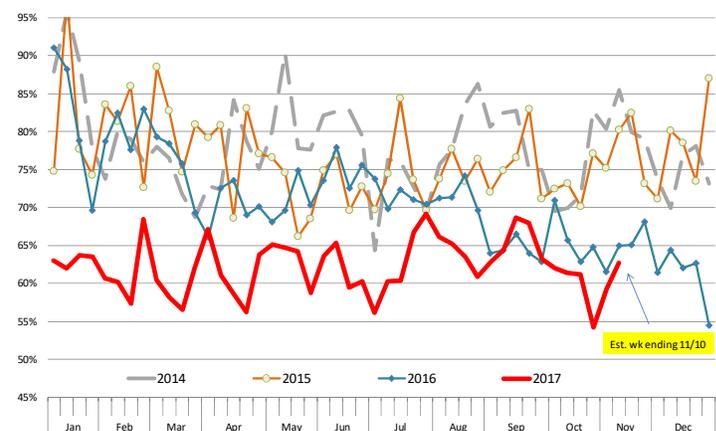
Meat prices have been higher than a year ago for much of this past summer and fall despite a net increase in the amount of protein flowing into domestic channels. **Futures have responded by bolstering forward prices to account for the improvement consumer demand.** We will discuss demand a bit more in detail later in the week by looking at per capita expenditures. But there is one point in this discussion that should be highlighted. To understand product flow in the domestic market, and potential shifts in demand, we **track the volume of beef and pork trading in the open (negotiated) market.** This is possible thanks to the transparency offered by the Mandatory Price Reporting system and the data is reported daily by the USDA Agricultural Marketing Service. This makes for particularly **timely information flow.** In addition to tracking the absolute number of loads trading in a given day or week, we also look at the relationship of the volume traded in the open market relative to the number of cattle or hogs slaughtered. But **why track the volume?** The short answer is that the negotiated market is where price discovery happens and it makes sense to know whether packers and buyers negotiated over 5 or 50 loads of beef or pork. Over the years the system has evolved where a number of regular users will pull a certain amount of product through either formula or forward orders. While some orders are firm, i.e. a buyer has committed to take a specific number of loads, others are simple agreements on how to price the product with the understanding of a general range of volume that will be needed. This range depends on domestic demand, business growth and seasonal needs. When demand is good, the end user may buy a little more than anticipated. And when demand starts to founder, the packer may be left with a few more loads than earlier expected. If that happens, suddenly the volume offered in the open market increases and lower prices are required in order to either get some users to buy and put in inventory or get traders to buy it and sell later in the year. The reverse is also the case.

The top chart shows the ratio of beef loads traded in the negotiated market vs. fed cattle slaughter. The ratio declined sharply in April/May and then again in late Sep/early Oct, periods when we saw a notable runup in wholesale prices. With less meat available in the open market, users that normally buy spot had little choice but to compete more vigorously and run up the price. We have yet to see the ratio improve and with limited spot meat availability it seems likely that, in the short term, wholesale beef prices remain well supported. Last week there were 319 loads of choice beef traded in the negotiated market vs. fed slaughter of around 517,000 head - a ratio of 62%. For this week we estimate the ratio at around 64%, which is similar to what we saw a year ago. But at a significantly higher price. The low beef prices in the fall of 2016 provided retailers an opportunity to book beef features for after the holidays. This limited the supply of product trading

RATIO OF CHOICE BEEF LOADS SOLD IN THE SPOT NEG. MARKET VS. FED CATTLE SLAUGHTER
Ratio Calculated by Steiner Consulting. Based on Weekly Data from USDA Mandatory Price Reporting System and USDA/AMS Slaughter



RATIO OF WEEKLY PORK VOLUME (LOADS) SOLD IN THE NEGOTIATED MARKET VS. HOG SLAUGHTER
Ratio Calculated by Steiner Consulting. Based on Weekly Data from USDA Mandatory Price Reporting System and USDA/AMS Slaughter



in the opening market later that year (see 2016 ratio for Dec above) and helped support prices. Beef prices have increased sharply recently, however, and it remains to be seen how this will impact retail features post year-end holidays. The situation in the pork market is similar. Robust pork export business and strong domestic demand have kept the flow moving. The only times when spot availability increased was in late July and September, periods when product prices came under pressure. The ratio of pork spot loads vs. slaughter remains under year ago levels helping underpin the pork cutout. Pork packers may be slaughtering more hogs, but the this has not (at least not yet) pushed more pork in the open market.



The Daily Livestock Report is made possible with support from readers like you. If you enjoy this report, find it valuable and would like to sustain it going forward, consider becoming a contributor. Just go to www.DailyLivestockReport.com to contribute by credit card or send your check to The Daily Livestock Report, P.O. Box 4872, Manchester, NH 03018

Thank you for your support!

The **Daily Livestock Report** is published by Steiner Consulting Group, DLR Division, Inc.. To subscribe, support or unsubscribe please visit www.dailylivestockreport.com.

The Daily Livestock Report is not owned, controlled, endorsed or sold by CME Group Inc. or its affiliates and CME Group Inc. and its affiliates disclaim any and all responsibility for the information contained herein. CME Group®, CME® and the Globe logo are trademarks of Chicago Mercantile Exchange, Inc.

Disclaimer: The *Daily Livestock Report* is intended solely for information purposes and is not to be construed, under any circumstances, by implication or otherwise, as an offer to sell or a solicitation to buy or trade any commodities or securities whatsoever. Information is obtained from sources believed to be reliable, but is in no way guaranteed. No guarantee of any kind is implied or possible where projections of future conditions are attempted. Futures trading is not suitable for all investors, and involves the risk of loss. Past results are no indication of future performance. Futures are a leveraged investment, and because only a percentage of a contract's value is required to trade, it is possible to lose more than the amount of money initially deposited for a futures position. Therefore, traders should only use funds that they can afford to lose without affecting their lifestyle. And only a portion of those funds should be devoted to any one trade because a trader cannot expect to profit on every trade.