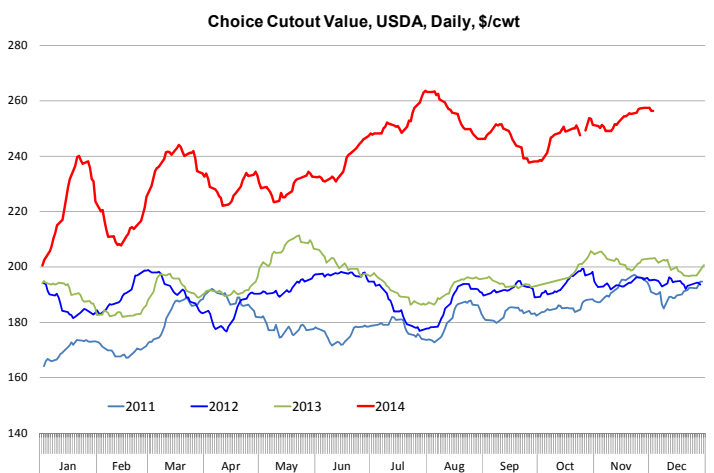
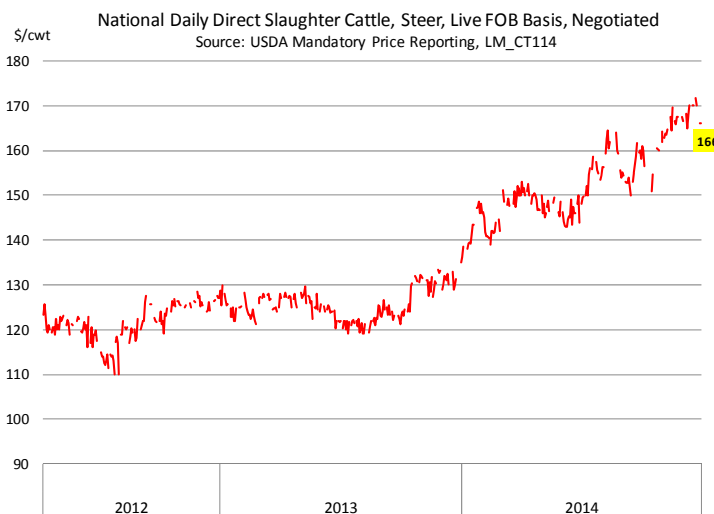


Fed cattle futures dropped sharply yesterday and there was plenty of speculation as to what drove this recent pullback. The biggest decline was in the February 2015 contract, which dropped some 192 points but was down even more earlier in the day. Both the December and February contracts are now below their 50 day moving averages and the last time that happened it was back in August when the drop below technical support levels led to a wave of selling. As to what drove this latest round of selling, we can think of a couple of culprits although there are plenty of our readers that are much more in tune with the day to day vagaries of the futures markets. We would note that some cash trades developed at significantly lower money. The volumes were light but we think it was enough to undermine the confidence that fed cattle prices will hold their firm undertone going into next year. The USDA Mandatory Price Reporting quoted fed steer trades at \$166/cwt while fed heifers were sold at \$167.36. These prices are substantially lower than last week's trades at \$170-172/cwt. The bulk of trades in the cash market will develop in the next couple of days but the prices paid yesterday were substantially lower than what market participants have been expecting. And with overall weakness in commodity markets, it is possible that some long investors decided to get out.

There is some speculation that attributed this latest decline to worries about beef demand going into Q1. While we cannot discount this as a factor, it is too broad and vague a point. One can always attribute market declines to anxiety about demand. But was there anything in particular from the demand front that could have impacted the market yesterday? To us it does not appear so. Chucks and rounds were a bit softer but that is not that unusual for this time of year when retailers have plenty of options in the meat case and are focusing on holiday items. If anything, chucks and rounds have been trading quite a bit stronger than one would expect. Middle meat prices also are holding firm, again in line with their seasonal at this time of year. Lower crude oil prices and higher disposable incomes also remain positive for beef demand and yesterday we highlighted the improvement in foodservice business. We suppose the broader point is that demand factors tend a while to develop and likely are not the reason why futures drop in any given day. They do determine, however, the broader trends that develop over time. One demand factor that is not positive but was not a factor yesterday (data was released today) are exports. The four week moving average of beef exports (through Nov 27) was down 5% from the previous week and it is currently 6% lower than a year ago. Beef exports have held up quite well despite short beef supplies and a strong US dollar, an indication of strong demand. Exports in our view have been one of the pillars behind the strength in US fed cattle prices and if exports start to soften, it would be a negative for cattle values going into spring. One market that was a driver of growth earlier in the year was Hong Kong, with some of that product we think going into Mainland China. Exports to Hong Kong in the last four weeks have averaged 16% below year ago levels. Exports to Mexico in the last four weeks also have been on average 32% below year ago levels. With US pork prices getting cheaper, we can understand Mexican buyers



gravitating towards buying more of that protein and reducing their beef purchases.

Cattle weights continue to run very heavy as producers, faced with short feeder numbers, hold back cattle in an effort to put more pounds on them. This is not likely to change in Q1. Overall fed slaughter is expected to be down and limited cow supplies will further impact the supply picture. The supply picture for beef and cattle remains bullish and long term demand drivers also remain supportive. As for the day to day moves in the futures, we are sure each one of our readers has their own opinion where the market goes next

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