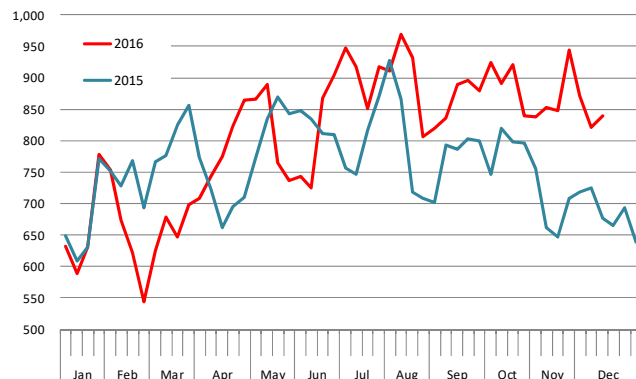


**Fed cattle futures took a bit of a breather yesterday but the upward trend to this point remains intact.** It has been a fairly impressive rally, with the nearby December contract closing yesterday afternoon at \$111.1/cwt, 14% higher than the contract lows established last October. We have spent a lot of time in the last few weeks reviewing the factors that contributed to the extremely weak pricing during early fall and the subsequent recovery. The question for market participants going into 2017, however, is **whether the recent rally reflects a return to a more stable pricing environment or just a temporary reprieve in multi-year bear market.** Those that hold a more bullish view of the market likely will point to few encouraging signs for cattle demand, at least in the very near term (next two months). Lower prices appear to have encouraged enough interest among end users and put more beef in retail and foodservice promos. We have no way of knowing what those promos are but one way to look at what's going on is the volume of sales that packers have made for forward time slots. The number of beef loads sold 22-60 days out has been running consistently higher than a year ago starting in September and likely was a contributing factor for the recent price recovery. After all, if you sell more beef forward, less becomes available for spot sales and helps bolster the cutout. Some seasonal items have performed exceptionally well. There seems to be a lot of interest for those delicious rib roasts as holidays approach, despite eye watering prices. **The rib primal since December 1 has averaged \$389.15/cwt, +3.5% higher than a year ago and just shy of the levels achieved in 2014. This despite fed slaughter averaging 8% higher than last year for the past two weeks.** The rib primal gained almost \$100 since early October, adding about \$11 to the value of the choice cutout. But that rally in ribs is likely out of gas at this point, normally we see a sharp drop off in price in the last two weeks of December. Paying \$50-60 for a rib roast in January is the kind of indulgence only a few will make. So the packer will look to put more money on items for which there is better demand during the cold winter months. Rounds and chucks generally gain because of that but the magnitude of those gains will largely depend on how successful retailers are in marketing beef after the holidays. Those that hold a more bearish view of the market likely will point to the wide availability of other proteins, tight consumer budgets after the holiday spending spree, and the still relatively high price of beef vs. other products. Foodservice weakness also is worrying. The latest National Restaurant Association report showed **customer traffic and current business conditions in contraction territory.** That fat beef trimmings last night closed at just 34 cents per pound is not a good omen for ground beef demand. It looks like ground beef will sell when on promotion, offering short term boosts to fat trim prices. But largely ground beef seems to be struggling when it has to compete head to head with chicken breasts and pork chops. It is tough to maintain cattle values when fat trim goes begging. Cattle weights are slowly declining but, according to our estimates, they are no better than a year ago at this point. Packers remain cautious about the market into spring. They don't have as much forward coverage. This could be a prelude for firm prices if demand surprises to the upside but it could lead to further weakness if those January/February promos disappoint.

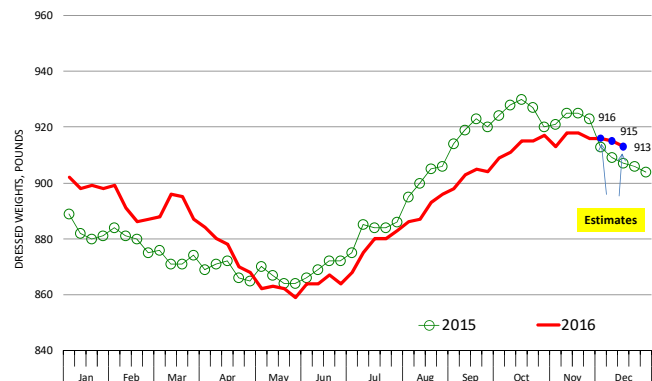
### Beef Loads Sold For Delivery 22 - 60 Days. 4-WK MA

Data Source: USDA Mandatory Price Reporting System



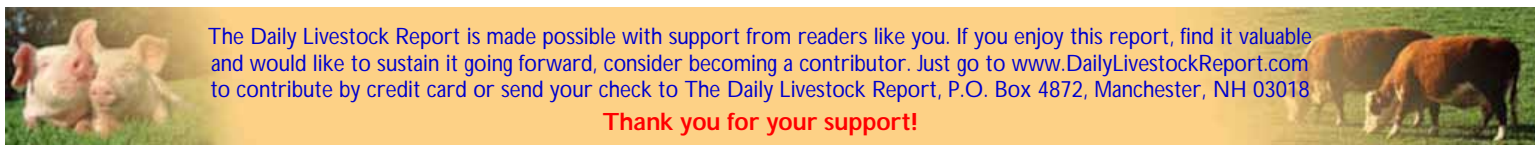
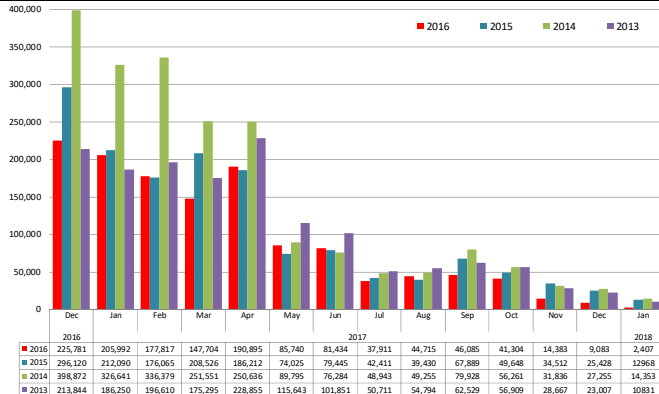
### Actual USDA Weekly Steer Weights. Reported with a Two week lag + Steiner Estimate

Source: USDA & Steiner Consulting Estimates



### Cattle Forward Contracted for Delivery in a Given Month

Supply Cumulative as of December 12, 2016 and Comparable Period in Previous Years. Source: USDA MPR System



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