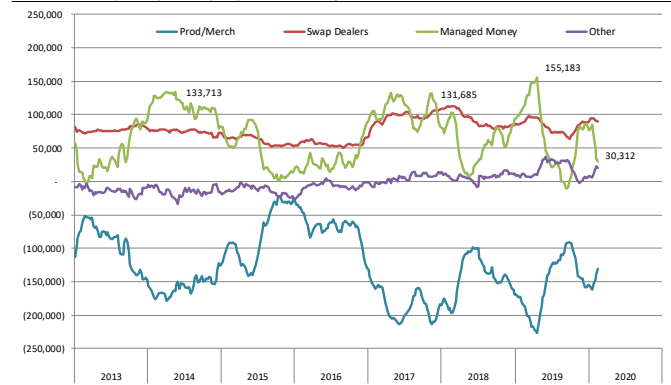


Cattle futures largely shrugged off the somewhat bullish implications of the latest 'Cattle on Feed' report, instead focusing on broader macro events as well as disappointing prices for both cash cattle and wholesale beef. Some key factors driving futures action at this time:

- The Commitment of Traders report for week ending January 21 showed managed money held a big net long position. The outbreak of Coronavirus in China and rising risks for beef demand have **caused many spec funds to quickly pivot and managed money net longs for the week ending February 18 were 30,312 contracts, down from 85,312 contracts on January 21**. It would not be a big stretch to think that the net long position has been reduced further since then, especially following the selloff in equities the past two days.
- **There has not been much positive (other than the COF report) to underpin fed cattle prices and the result has been a 6% to 11% decline across the curve.** The February contract is down 9% compared to January 21 while April and June have lost 11%. The declines in the back of the futures curve have not been as significant, in part due to expectations of tighter supplies later this year and hopes that Coronavirus impact may start to fade by then.
- **Beef supplies have been quite large compared to a year ago, both due to more fed cattle coming to market but also because fed cattle carcasses are running well above year ago levels.** Fed cattle slaughter for the week ending February 22 was estimated at 492,000 head, 10.2% higher than a year ago (last year weather caused kills to be lower than normal for that week). Since the first week of January, weekly fed cattle has averaged 486,000 head per week, 3.4% higher than a year ago. We think that this week fed cattle slaughter may be as much as 5% higher than last year as well. Fed cattle weights are significantly higher than last year. Official USDA data (through Feb 8) show steer weights so far this year are up 17.5 pounds or 2% compared to a year ago. Heifer weights during this period averaged 9.7 pounds or 1.2% higher than the same period a year ago. The weighted average of steer and heifer carcass weights so far this year is up 1.6% and when combined with the 3.4% increase in slaughter results in weekly beef production that is about 5% higher than the previous year. The increase in beef production has come at a time when supplies of other proteins have been quite large as well. Pork production on a weekly basis has been running around 6% higher than last year and broiler production is up similarly as well.
- The increase in supply has resulted in lower prices although the price decline has been smaller than would be expected, indicating that beef demand remains in good shape for the moment. The choice beef cutout yesterday was \$207.47/cwt, 5.6% lower than last year. Even more importantly, the comprehensive beef cutout (it includes domestic and export sales) was quoted at \$210.86 last week, down only 2.8% from a year ago. But futures trade expectations of future demand not what's happening today. **The potential spread of Coronavirus in the US has especially negative implications for beef demand. Beef is by far the most important meat protein at foodservice.**

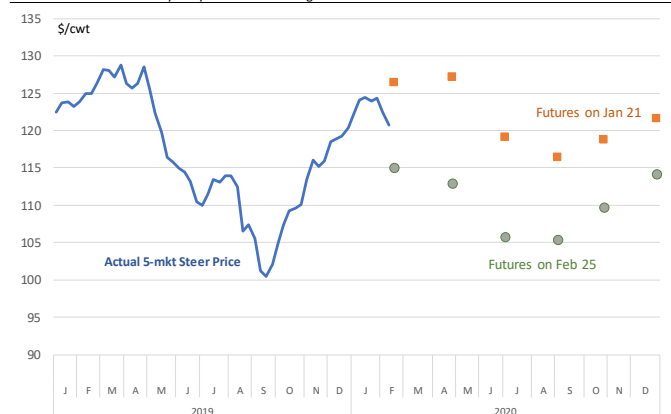
CME Fed Cattle Futures - Disaggregated CFTC Net Positions

Source: CFTC Weekly COT Report. Analysis by: Steiner Consulting



Change in Fed Cattle Futures Prices from Jan. 21 to Feb 25

Source: USDA & CME. Analysis by Steiner Consulting



Beef has a 99% penetration at foodservice and represents 16% of total food purchases made by restaurant operators (source NCBA). In China the spread of Coronavirus has resulted in a dramatic decline in restaurant foot traffic and the fear is a similar situation could develop in North America. There are areas in Northern Italy that have turned into ghost towns as people stay indoors for fear of contagion. Again, futures markets are forward looking and they trade daily based on the information available. It does not help that forward beef sales for delivery +61 days out are running 38% lower than a year ago (last four week avg.). Grilling season is around the corner but so is a big pile of protein that we will have to consume here if exports dry up. Tomorrow we'll talk about another source of additional supply - imports. Brazil was recently granted access and Australia/NZ are finding that China buyers have gone into hiding. The US market is in vogue again for imports.

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