

There are 25 trading days left until the April Live Cattle contract will settle. The 5-area live steer daily price has been trading lightly this week. Monday averaged \$114.03 per cwt across all grades, a \$4.75 discount to the April Live cattle contract that closed on Monday at \$118.78 per cwt.

Similarly, roughly 25 trading sessions before the February contract expired, cash was trading about \$7 per cwt lower than the February contract. Convergence ended with a \$3.90 move lower the last day of the contract. Daily trade, both in cash and on the board, was a steady increase in the February contract through the middle of February, which then leveled around \$117. At the same time cash trade increased from \$109 at the end of January and rose to \$114 by mid-February. The end of February showed very little movement in the cash trade, hovering around \$114 per cwt while the February contract lost ground. Importantly, during this time daily choice boxed beef rallied from the end of January to the end of February by about 6%.

Should we expect to see April convergence behave in the same way? An important note is that March and April generally speaking have wider basis averages than January and February, so it would be less unusual for cash and futures to be further apart. For example, the March and April average basis for the last 5 years for Texas-Oklahoma steers is over \$4 per cwt compared to a January and February value of less than \$0.60 per cwt.

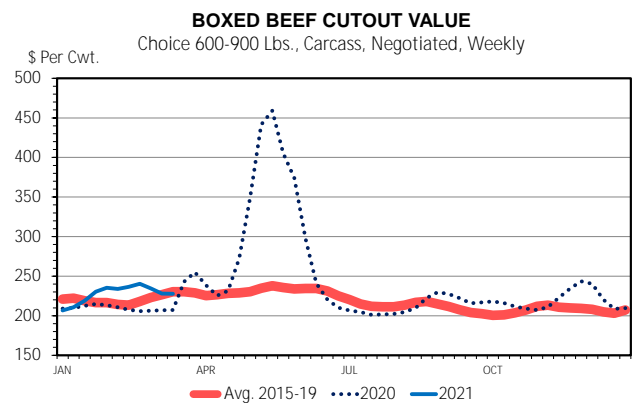
Cattle trade has moved very little since the end of February. Live negotiated steers have moved between \$113.13-\$114.30 per cwt, compared to the April contract range of \$118.53-\$119.65. The daily spot choice boxed beef cutout has worked to move past the snow disruptions in late February losing ground through most of March. There have been very big gains this week: on Tuesday +\$3 higher than Monday's level. Yesterday's cutout added to that level, up \$0.85. The volume of meat in Choice cuts has remained relatively flat during this time, indicating that total volume has not been the trigger to moving cutout values on a daily basis. The comprehensive cutout report is a similar story. Load breakdowns for 0-21 days have been down through March. The last two weeks have shown small increases in 61-90 day windows, and 91 days and higher.

The February weather disruption is also likely a factor inhibiting sharp increases in negotiated cattle prices. In [Tuesday's DLR](#) we estimated as much as one full week of placements were pushed to March. Cattle that were destined for slaughter plants that week were pushed back as well. Harvest levels in early March are well above a year ago, aided by high Saturday kill levels. Although a short term issue, there are likely plenty of slaughter ready cattle available.

Another factor that was discussed extensively last year was what would a normal level of slaughter look like even after the pandemic. The highest daily slaughter level achieved since the beginning of April last

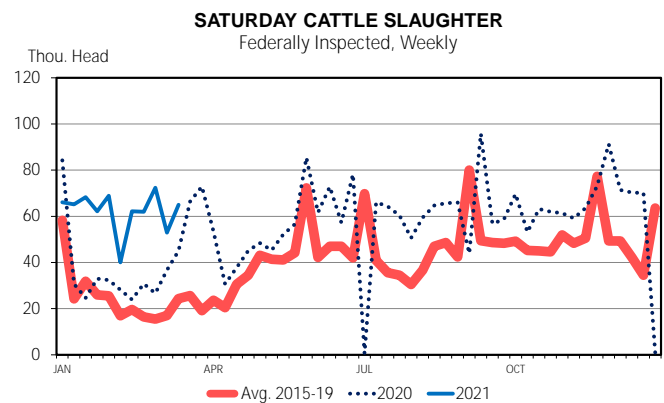
year was 123,197 head. Prior to the pandemic, the daily level had reached 125,480 head. The restrictions of personal protective equipment, new sanitary protocols, and social distancing still is effecting packing capacity and that is with running very large Saturdays week after week. Vaccine rollouts are underway but when does the industry reach the point of decreasing social distancing. That would go a long way to increase the carcass fabrication capacity.

The supply side may be weighing more on the cash market than we would like to admit one year after the pandemic is over. Even if boxed beef staged a strong rally, do packers have the capacity to pull through more cattle, and thereby increasing cash bids to get those available cattle?



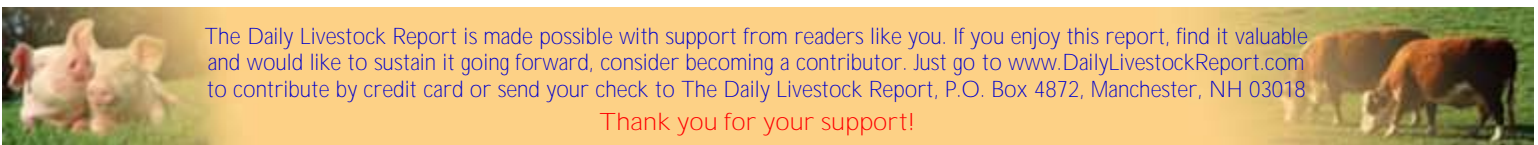
Data Source: USDA-AMS
Livestock Marketing Information Center

C-P-62
03/22/21



Data Source: USDA-AMS & USDA-NASS
Livestock Marketing Information Center

C-S-03
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