

TO: MEAT BUYERS
FROM: TOPCO MEAT DEPARTMENT

BUYER'S NOTES for Tuesday May 21, 2013

***Tuesday Quick Ship Prompts: Ch/Sel/Nr Chuck N/O Rolls; Sel/Nr Insides; Sel XT Insides; Ch/Sel/Nr Eye Rounds; Ch/Sel/Nr Round Flats; Sel XT Top Butts; Ch Special Trim.

***Summary of May's Cattle On Feed Report:

- COF May 1: 10.735 Million Head, Down 3% From a Year Ago
- Placed in April: 1.750 Million Head, Up 15% From a Year Ago
- Marketed in April: 1.855 Million Head, Up 2% From a Year Ago

***Cattle placements were up 15% from April of last year, well above the average of pre-release expectations which called for a 12% increase. The number looks extremely large at first glance. However, it is important to note that last April's cattle placements were the smallest since 2002. That said, this April's placements were still the 2nd largest for the month since 2003, and placements over the last two months have been up nearly 11% from a year ago. Also of note is the increased amount of heavyweight cattle placed last month. Approximately 37% of overall cattle placements exceed 800 pounds, and the average placement weight was the heaviest for the month of April since 2005. Given elevated corn futures (and a strong basis during April), cattle feeders have incentive for cattle to gain weight prior to being placed on feed. The bottom line to take from the report is that we are going to see increased supplies come the 3rd quarter

***Cattle marketings were up approximately 2% from a year ago, slightly lower than pre-release expectations. The report showed that cattle feeders remained current in their marketings throughout the month of April despite cash cattle prices hovering only slightly below all time record highs. This was due to wholesale beef prices increasing to a much more significant degree, which padded packer margins and resulted in increased demand for cattle. There is little reason to suspect that this scenario has changed given choice beef prices currently residing at record highs.

***The total number of cattle on feed was down by approximately 3% from a year ago, which was near even with pre-release estimates. Overall, the report was viewed as bearish to the August and October live cattle futures contracts, as we are going to be facing increased cattle/beef supplies at that time compared to a year ago. Both contracts traded sharply lower yesterday, achieving new contract lows by the close. At the close, the August and October contracts were trading at \$119.15/cwt and \$122.475/cwt, sharp discounts to recent cash trade. With increased cattle supplies and heavier weights, beef supplies in the 3rd quarter will be above year prior levels. However, supply is only one side of the equation, and demand moving forward is a major question mark. Will consumer demand remain strong at what are record high beef prices? We are of the opinion that it will not, and weakening demand will coincide with increased supplies; a very bearish combination that leads us to anticipate sharply lower beef prices in the months ahead.