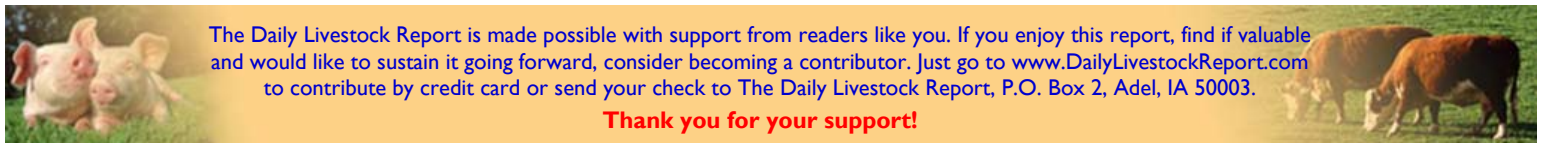


Cattle and beef prices have moved sharply higher in recent weeks. Last night, the USDA choice beef cutout was quoted at a baffling \$236.56/cwt, \$37.94/cwt or 18.9% higher than the previous year. What makes the number baffling is that in just about 20 days the **cutout has gained about \$36/cwt, with half of the increase coming in just the last week.** Cattle prices have been just as strong and USDA reported that \$144/cwt was paid for cash live steers on Friday. The rally has caught even the most bullish market participants by surprise and just about everyone we have spoken to seems to think that the market is overdone and it will not be able to sustain these gains. And this in itself is part of the problem. Beef buyers were caught flat footed in this market and, **when you don't believe the rally, you tend to wait and hope for the break.** What that does is that, in the short term, it tends to further fuel the spike. If last week you had to buy one load and you waited, this week you have to buy two and are even more desperate than the week before. Yes, cattle supplies are lower but there is no surprise there. Just about everyone knew that cattle supplies would be tight in Q1 given the peculiar placement levels last summer (they were low and skewed heavy). Cold weather in early January further compounded the problem and set back some cattle but we have had cold weather before and this time of year it should not surprise people. Rather, we think this is a classic case of **inelastic demand meeting a shrinking supply, with a dose of short covering panic thrown in for good measure.** We think demand is inelastic in the short term because this is the time of year when retailers tend to transition from holiday items, such as hams, turkeys and rib roasts, to more normal fare. There is also the tendency to plan based on last year's performance and retailers remembered when beef prices dropped sharply between January and March of 2013.

It also appears that this year packers have done a better job of putting on their books more formula sales. **This is important.** With a large portion of the wholesale beef supply already committed, packers tend to gain more leverage in their negotiations. And remember that many of those formula sales will be priced either off the negotiated sheet or the futures board that reflects, to some degree, the negotiated sheet. **In the first four weeks of 2013, formulated sales accounted for 58% of total sales (this does not include forward sales or prime beef). This year, formulated sales have accounted for about 70% of the total volume.** For those retailers that already have committed to buy off the sheet through a certain period, there is little choice but to take the price hit and, likely plan on featuring something else in the spring. Futures already reflect some of this concern, with summer cattle trading at a big discount to current levels. Part of the discount is the normal seasonal. However, there is



worry that the recent spike will negatively impact future offers from retailers. Foodservice operators, especially those that rely on formula sales, are limited in what they can do in the short term. But the current spike will likely affect their plants as they look to feature products in the summer and fall. Finally there is the export market. Spiking US beef prices and a strong US dollar are a bad combination that does not bode well for exports. For now, everyone is looking to see how high is high in the beef complex but markets are nervous about spring and summer demand.,



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PRODUCTION & PRICE SUMMARY

Week Ending **1/18/2014**

Source: Various USDA Agricultural Marketing Service reports. Some data are preliminary.

Item	Units	Current Week	Last Week	Pct. Change	Last Year	Pct. Change	YTD	Y/Y % Change
		18-Jan-14	11-Jan-14		19-Jan-13			
Total Red Meat & Poultry	mil lbs., cwe	1,771	1,536	15.34%	1,770	0.10%	3,800	-7.4%
C FI Slaughter	Thou. Head	598	569	5.10%	612	-2.22%	1,456	-13.1%
A FI Cow Slaughter **	Thou. Head	101	90	12.23%	102	-0.19%	101	-0.2%
T Avg. Live Weight	Lbs.	1339	1336	0.22%	1331	0.60%	1,338	0.5%
T Avg. Dressed Weight	Lbs.	804	803	0.12%	798	0.75%	804	0.5%
T Beef Production	Million Lbs.	479.8	455.9	5.24%	486.9	-1.46%	1,174	-12.7%
L Live Fed Steer Price	\$ per cwt	142.45	139.68	1.98%	123.93	14.94%		
E Dressed Fed Steer Price	\$ per cwt	227.27	221.03	2.82%	197.19	15.25%		
& OKC Feeder Steer, 600-700	\$ per cwt	178.80	180.34	-0.85%	154.47	15.75%		
& Choice Beef Cutout	\$ per cwt	224.62	210.00	6.96%	192.68	16.58%		
B Hide/Offal	\$ per cwt, live wt	14.75	14.81	-0.41%	13.53	9.02%		
B Rib, Choice	\$ per cwt	291.78	284.79	2.45%	270.37	7.92%		
E Round, Choice	\$ per cwt	220.78	202.65	8.95%	173.31	27.39%		
E Chuck, Choice	\$ per cwt	217.02	193.81	11.98%	165.39	31.22%		
F Trimmings, 50%	\$ per cwt	117.40	99.89	17.53%	71.91	63.26%		
F Trimmings, 90%	\$ per cwt	220.30	216.67	1.68%	211.31	4.25%		
H FI Slaughter	Thou. Head	2,263	2,075	9.06%	2,206	2.58%	5,520	-9.7%
H FI Sow Slaughter **	Thou. Head	43.0	38.4	12.09%	46.6	-7.67%	43	-7.7%
O Avg. Dressed Weight	Lbs.	213.0	213.0	0.00%	208.0	2.40%	213	2.4%
O Pork Production	Million Lbs.	481	440.5	9.19%	458.1	5.00%	1,177	-7.2%
G Iowa-S. Minn. Direct	Wtd. Avg.	78.37	78.41	-0.05%	85.27	-8.09%		
S Natl. Base Carcass Price	Wtd. Avg.	79.12	79.52	-0.50%	83.26	-4.97%		
S Natl. Net Carcass Price	Wtd. Avg.	80.88	81.47	-0.72%	85.69	-5.61%		
S Pork Cutout	205 Lbs.	85.54	84.04	1.78%	86.96			
S Hams	\$ per cwt	71.96	70.37	2.26%	69.31			
S Loins	\$ per cwt	93.07	90.97	2.31%	91.89			
S Bellies	\$ per cwt	111.32	104.83	6.19%	138.45			
S 72CL Pork Trim	\$ per cwt	71.21	66.44	7.18%	62.50	13.94%		
C Young Chicken Slaughter *	Million Head	156.3	128.7	21.42%	158.9	-1.62%	285	-1.5%
H Avg. Weight (Live)	Lbs.	6.00	5.79	3.63%	5.93	1.18%	5.90	0.2%
I Chicken Production (RTC)	Million Lbs.	712.7	566.4	25.83%	715.9	-0.46%	1,279	-1.3%
C Eggs Set	Million	201.1	199.4	0.85%	196.0	2.57%	400	2.1%
K Chicks Placed	Million Head	164.2	164.8	-0.36%	163.8	0.24%	329	0.5%
E 12-City Broiler Price	Composite	97.14	98.36	-1.24%	101.23	-4.04%		
N Georgia Dock Broiler Price	2.5-3 Lbs.	104.47	104.14	0.32%	99.21	5.30%		
N Northeast Breast, B/S	\$/cwt	124.4	125.69	-1.03%	137.15	-9.30%		
N Northeast Legs	\$/cwt	59.88	58.45	2.45%	68.03	-11.98%		
T Young Turkey Slaughter *	Million Head	3.818	2.728	39.96%	4.307	-11.35%	6.546	-15.1%
U Avg. Live Weight	Lbs.	32.04	33.45	-4.22%	31.53	1.62%	32.75	2.2%
R Turkey Production (RTC)	Million Lbs.	97.9	73.0	34.09%	108.6	-9.88%	171	-13.4%
K Eastern Region Hen Price	8-16 Lbs.	98.80	99.90	-1.10%	98.00	0.82%		
G Corn, Omaha	\$ per Bushel	4.18	4.07	2.70%	7.48	-44.12%		
R DDGs, Minnesota	\$ per Ton	162.50	162.50	0.00%	248.00	-34.48%		
A Wheat, Kansas City	\$ per Bushel	6.21	6.24	-0.48%	8.06	-22.95%		
I Soybeans, S. Iowa	\$ per Bushel	13.35	12.94	3.17%	14.69	-9.12%		
N Soybn Meal, 48% Decatur	\$ per Ton	490.00	473.30	3.53%	431.00	13.69%		

* Chicken & turkey slaughter & production are 1 week earlier than the date at the top of this sheet.

** Cow and sow slaughter reflect levels from two weeks ago due to reporting lag.

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