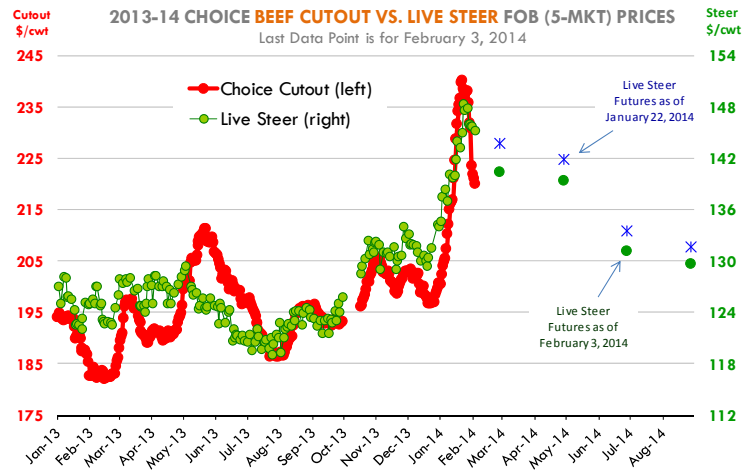
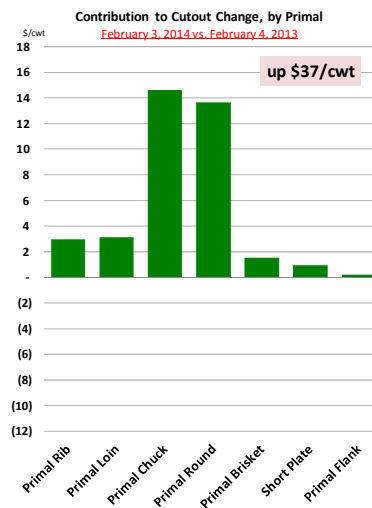


The **beef cutout has now given up about half of the gains it made since the beginning of the year** and market participants remain jittery about the prospect of cattle prices going into the spring. Cattle futures have lost ground in recent trading sessions, with much of the losses focused on the February and April contract. Still, the magnitude of the declines in wholesale beef prices has not been matched by a similar decline in cash fed cattle prices. Indeed, Monday cash fed steer prices were quite firm, with live trade pegged at \$145.23 (live steers, 5-mkt, all grades) while dressed steer prices were quoted at \$231.10, which equates to somewhere around \$145.5. Slumping wholesale beef values and near record cattle prices certainly are weighing on packer margins at this point. The question is: how long do packers continue to chase cattle given the dramatic demand reaction of recent days? Further erosion in cutout values will most certainly increase the pressure on packers to limit throughput. Steer and heifer slaughter in recent weeks has been steadily declining but the approaching Lent period (March 5 - April 17) and the dramatic rise in wholesale beef prices does not bode well for beef features in the next two months. What appears clear from the price action is that packers will continue to play defense, buffeted by near record high cattle prices and eroding seasonal retail demand. And bad news for beef demand does not end there. Slumping equity markets often correlate with poor foodservice sales, especially at white table cloth establishments. Weather also remains a major concern, especially going into Valentine's Day.

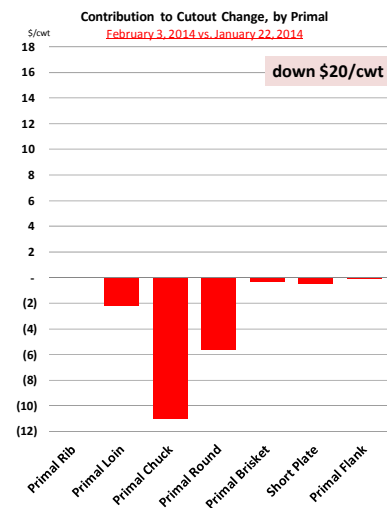
The potential negative impact of softer demand becomes clear when looking at what has helped drive beef prices in recent weeks. The first chart to the right shows how individual primals are doing compared to a year ago. The overall choice beef cutout last night was quoted at \$220.1/cwt, about \$37/cwt higher than a year ago. Higher prices for rounds and chucks accounted for 76% of the overall increase in the value of the cutout. The chuck primal contributed \$14.6/cwt to the overall increase in the cutout while higher round primal values contributed another \$13.7/cwt to the cutout. But these two primals, which continue to drive cutout gains, also have been the ones hit hardest in recent days as retailers tweak their volumes and look to minimize the damage to their beef margins. In the last two weeks, the choice beef cutout has dropped by about \$20/cwt. More than half of the decline is due to a drop in the value of the chuck primal. As far as we know, there are not a lot of chuck steaks being served at your local steakhouse. Rather, much of the chuck primal either is sold in the retail meat case, as ground beef or it goes to export markets. Export sales so far appear to be holding up well but there is a bit of a lag in the export data as shipments in mid January likely were booked a few weeks earlier. It will be interesting to see how week-



Primal Value vs. Last Year



Primal Value vs. Two Weeks Ago



ly beef exports to markets like Korea, Japan, Hong Kong and Taiwan, holdup in February and early March. Lower round cuts also have contributed to the decline in the cutout.

Bottom line: Some of end users that were caught short have now started to adjust. Packer margins have eroded quickly and it remains to be seen how quickly they can adjust as well and when gravity starts pressuring live cattle prices.

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