

CattleFax UPDATE

THE
DECIDING
FACTOR

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Historically Wide Live Cattle Basis Continues

In a period of 45 days the fed cattle market has gone from \$173 to \$157 back to \$170 and now this past week back to \$160. During this period the live cattle basis (cash minus futures) for all of the 2015 live cattle contracts strengthened, which means that the live cattle futures, on average, actually declined more than the cash market has. In fact, over the past couple of weeks the February live cattle basis has traded the strongest levels, on a percent measurement, in 35 years. Evaluating the April through December of 2015 contracts, the basis is in the top three of the most positive ever for this time of the year. The question becomes, why is there such a wide spread between the cash and futures and will it continue going forward?

The live cattle futures has traded more defensively relative to the cash during the last several weeks, which might be a reflection of what is occurring across many commodities. During the last 6 to 12 months, commodity classes like energy and grains are trading lower, in large part due to supply. Others like metals and softs are not trading any higher, in large part due to demand. Proteins like pork and dairy are trading lower, due to both a supply increases and lack of demand (especially global demand). However, the cattle markets, due to relatively tight beef supplies and strong demand has been the last to experience the correction. But across the board, on average, commodities have been trading lower for the last few years, when you look at most any of commodity indices.

More recently it has become clear as to why these commodities have been trading more defensively. Outside of the U.S. there are many concerns related to economic growth and stability and at the same time deflationary pressures are contributing to the concerns – it appears commodity markets have been trading these concerns for some time. Recently, the world is starting to respond to what the market has been trading. As an example, the European Central Bank's 1 trillion dollar quantitative easing, Canada's Central Bank lowering their rates, the Swiss National Bank rate cut to negative levels, and the Danish cutting rates twice in a week, to name a few. Confirming the concerns of the commodity markets, the world's second-largest economy, China, expanded at its slowest pace in 24 years in 2014, albeit still above 7 percent growth in GDP.

The impact from the global economic concerns and related commodity weakness appears to be leading to the declining liquidity in the live cattle futures markets as total open interest has dropped roughly 70,000 contracts in the last 45 days – basically large traders exiting the market. This is a factor that is impacting the live cattle basis. This is likely a short-term phenomenon, but it is difficult to assess the timing of basis convergence. Producers should be conditioned to know that there will continue to be extreme volatility, and understand that supply is supportive to the fed cattle market, which is reflected in how cash is trading. However, there are concerns surrounding demand and that is what the live cattle futures are trading. Don't bet thy whole wad when there remains a lot of uncertainty as to how the cash and futures markets may converge – will cash go to futures or will futures go to cash? *Michael Murphy*

Currentness

Very current

Current

Caution

Uncurrent

Steer carcass weights are down 8 pounds at 889 and are 18 pounds above last year.

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Market Highlights

The fed cattle market in the South was \$159 to \$160 this week, \$4 to \$5.50 lower. Live cattle in the North traded in a range of \$157 to \$160 this week, steady to \$8 lower. On a dressed basis in the North cattle traded at \$255 to \$257, \$3 to \$10 lower compared to last week. The beef complex saw weakness this week as protein supplies are abundant and buyers backed off record high prices last week. Feeder cattle were \$4 to \$12 lower over the week; calves were \$5 to \$15 lower. Market cows ranged from steady to as much as \$10 lower. Corn traded mostly in a sideways trend this week, yet about 30 to 40 cents lower compared to a month ago at this time, basis the spring corn contracts. The U.S. dollar index moved 2 percent higher this week, reaching a new 12-year high.

2015 CATTLEFAX SEMINAR DATES

June 17-18

Risk Management Seminar

July 22-23

Corporate College Seminar

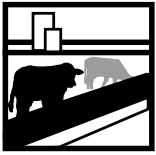
September 16-17

Risk Management Seminar

All meetings held in Denver, CO
Call: 800.825.7525 to register!

Cash Market to Remain Defensive

Fed-Cattle Outlook



With continued large discounts in the futures complex, look for the cash market to remain on the defensive in an attempt to narrow the basis. The fundamentals of the cash market remain positive with very manageable fed cattle supplies and continued strong historical values for beef. The futures market is trading a contra-seasonal pattern – using past contra-seasonal years as a gauge would suggest that the futures markets have continued risk moving forward. With this the case, the cash market has price risk as long as the futures trend is lower. Longer term, continued year over year declines in beef production are projected through the first half of 2015, which will continue to support fed prices at historically strong levels, although increasing supplies of lower priced pork and poultry will be a price limiting factor.

Next Week: Fed supplies will be even to slightly larger. The beef complex will trade lower. Fed cattle prices are expected to trade near \$157.

February: The trend and level of the futures complex will, to a large degree, determine the level of the cash market. Look

for positive packer margins, which will help support fed cattle values. Fundamentals will remain supportive, but cash prices are expected to be on the defensive. Volatility will continue with prices ranging between the mid-\$150's to low \$160's expected.

March-April: Supply and demand fundamentals will continue to support a historically strong fed cattle market. But with record high breakevens, the cattle feeding industry is projected to show negative margins. This could cause the cattle feeder to fight the market and result in a continued loss of currentness. That, combined with the contra-seasonal nature of the futures market, will result in an under performing fed cattle market. *Kevin Good*

Projected Fed-Cattle Marketings (000 Head) 23-Jan-2015

	Placed Against	Pre Mo Carryover	Begin Inv	Mo Shipments	Carry-Over %	Net Weeks	Adj. Wkly Avg Shipments	% of Yr Ago
JAN	757	475	1232	809	38	4.4	128	93
FEB	786	485	1271	781	42	4.2	129	97
MAR	698	554	1251	716	46	4.0	125	95
APR	604	598	1202	783	38	4.4	124	93
MAY	812	480	1291	868	36	4.4	137	99
JUN	839	488	1327	822	41	4.0	143	96

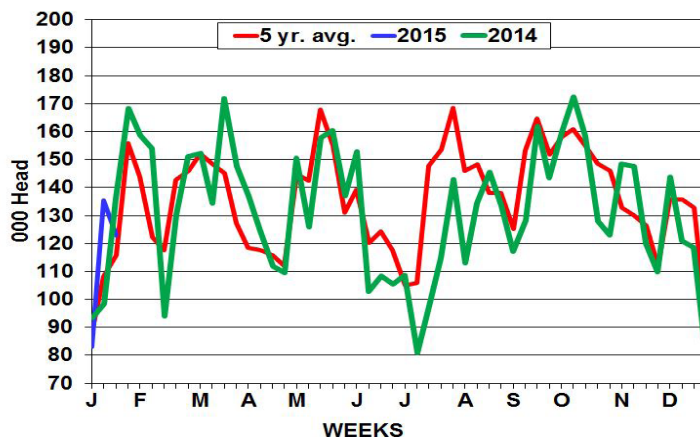
CattleFax Shipments

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Monthly Totals (000 hd)												
2014	605	538	568	541	614	598	705	641	592	597	516	596
2015	407	534	553	589	586	626	597	596	539	560	455	549
Weekly Averages (000 hd)												
2014	137	128	135	123	139	150	160	146	148	130	129	142
2015	127	133	132	134	139	149	136	142	128	122	120	125
15%14	93	104	98	109	100	99	85	97	86	94	93	88
15%5Yr	93	96	103	105	99	101	89	96	89	95	93	86

CattleFax Placements

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Monthly Totals (000 hd)												
2014	605	504	614	532	688	523	599	576	576	702	576	541
2015	353	529	635	542	643	494	495	551	613	679	526	526
Weekly Averages (000 hd)												
2014	138	120	146	121	156	131	136	131	144	153	144	129
2015	110	132	151	123	153	118	113	131	146	148	138	120
15%14	80	110	103	102	98	90	83	100	101	97	96	93
15%5Yr	84	99	108	107	102	97	81	89	91	95	101	92

CattleFax Placements



Contract and Formula Cattle 23-Jan-2015

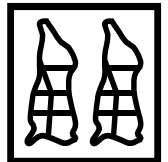
	Scheduled in January	Shipped in January	Scheduled in February	Scheduled in March
Kansas	230,000	180,000	200,000	200,000
Texas	250,000	186,500	240,000	250,000
Colorado	80,000	64,500	75,000	75,000
Nebraska	210,000	165,000	200,000	200,000
Totals	770,000	596,000	715,000	725,000
Basis Bids	March	April	May	
Steers	\$2 to \$3 over	\$2 to \$3 over	\$2 to \$3 over	
Heifers	\$2 to \$3 over	\$2 to \$3 over	\$2 to \$3 over	

Protein Supplies Plentiful

Prices for the Choice boxed beef cutout values declined by \$7.23 this week, while Selects closed the week \$5.18 softer. Buyer interest slowed after beef prices set all-time highs last week and supplies increased.

Now that slaughter plants for all species have returned to normal schedules past the holidays, there are ample supplies of beef, pork and poultry on the market. This enables buyers to pick and choose how they want to fill needs, and in many cases they are going after lower priced alternatives, knowing they can feature these products in the store or on menus at much lower prices than beef and therefore sell more volume of meat.

Next Week: Offerings will be priced steady to lower and packers will seek to keep from building inventories by aggressively selling product. This will result in a lower cutout. Choice boxes are expected to sell from \$248 to \$254, Selects between \$240 and \$247. *Duane Lenz*



Fed Cattle Prices 23-Jan-2015

	Live Steers	Hot-Wgt Prices	Live Heifers	Hot-Wgt Prices	Trade Volume	Contract Formula
PANH	160	N.T.	160	N.T.	56,000	99%
KS	160	256	160	256	59,000	93%
NE	159-160	254-256	159-160	254-256	80,000	70%
CO*	159-160	N.T.	159-160	N.T.	21,500	93%
CB	158-160	255-257	158-160	255-256	11,500	0%
PNW*	N.T.	N.T.	N.T.	N.T.	0	0%
SW	N.T.	N.T.	N.T.	N.T.	0	0%

Price ranges reflect the last best test for average choice to high quality cattle.

*Includes all reported Canadian Imports

May Feeder Basis Currently Record Strong

Feeder Cattle Outlook

Basis levels represent the difference between the cash and futures markets. With the volatility the cattle markets have experienced, we have realized feeder cattle basis levels that ranged from record-weak to record-strong. In 2013 futures traded at a huge premium over the CME Feeder Index, but today futures are trading at a record discount relative to the cash market. From a risk management perspective, these two extremes require different strategies because with a discount futures market the futures will likely price in the lows ahead of the cash market.

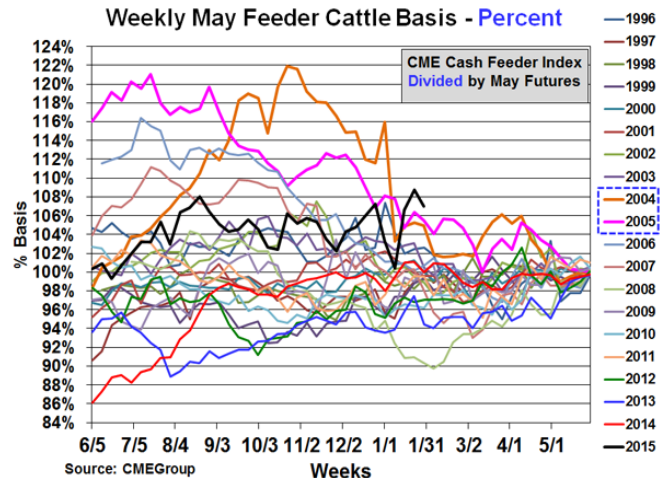
The CME Cash Feeder Index traded mostly at a weekly average premium of \$5 to \$15/cwt over the May 2015 futures contract from October through December, but that premium increased to \$15 to \$18/cwt over the past three weeks. With the sharp price increase realized over the past few years, however, measuring basis on a percentage basis (spot cash price divided by futures price) is the preferred

method because feeder cattle prices have been at record high levels. May feeder cattle percent over the past three weeks has ranged from 106 to 108 percent – or cash prices at a 6 to 8 percent premium over

futures prices. From June through December 2014, May feeder cattle percent basis was not record strong as there were four other years that consistently realized even stronger basis levels. However, over the past three weeks basis has been record strong. From a risk management perspective, sellers of feeder cattle weighing around 750 pounds (like the CME Feeder Index represents) that have managed their risk with a short futures position can likely realize a much better than expected basis if the cattle were contracted for May delivery today.

With basis against the CME Feeder Index, we know for a fact that at expiration cash and futures will converge to \$0/cwt, or 0 percent. The question is how convergence occurs, either cash will break to futures, futures rallies to cash, or they will meet somewhere in between.

Bottom Line: The cash feeder market is trending lower from the highs in the fourth quarter of 2014. However, the futures market is anticipatory and pricing in a sharp decline for the cash market. Now with the spring futures contracts at a significant discount to the cash market, the bulk of the risk into the spring has been transferred to the cash market. Contact your CattleFax analyst for region-specific basis information. *Chad Spearman*



Feeder Cattle and Calves: Representative Direct Sales					
Area	# Hd.	Wt.	Breed Type	Price	Del.
CENTRAL					
IA	100	780	CH Eng X - DEL	202.50	IMM
TX	1,350	770	Choice English X	210.40	MAY
CENTRAL					
OK	250	700	Choice English X	196.30	JUL
TX	200	700	CH Eng X - DEL	205.00	APR
SOUTH					
GA	200	625	Choice English X	227.50	IMM
GA	150	775	Choice English X	201.50	IMM
GA	400	825	Choice English X	198.00	IMM
GA	100	875	Choice English X	192.50	IMM
AL	100	860	Choice English X	196.00	IMM
SOUTH					
GA	150	625	Choice English X	207.00	IMM
GA	150	675	Choice English X	199.50	IMM
GA	200	775	Choice English X	185.50	IMM
Live Cattle Imports, Year-to-Date Totals					
		10-Jan-15	15-YTD	14-YTD	
Canada					
Feeders	843		1,090	1,693	
Slaughter	8,240		13,336	20,262	
		17-Jan-15	15-YTD	14-YTD	
Mexico					
	23,909		27,475	25,709	

Feeder Cattle Price 23-Jan-2015

West & Northwest							Central							Southeast						
CO	MT/WY	CA	NV/UT	AZ/NM	WA/OR	ID	TX	KS/MO	ND/SD	NE	OK	IA	AL	AR	FL	GA	LA/MS	KY/TN		
STEER							STEER							STEER						
9-10	197-202	193-201	189-194	187-193	187-193	185-193	9-10	194-198	194-200	195-200	195-200	197-201	199-204	9-10	188-192	192-196	184-188	188-192	188-192	188-192
8-9	200-205	201-209	199-204	196-203	190-203	194-202	8-9	201-205	201-208	204-209	208-213	206-210	205-210	8-9	197-201	200-204	193-197	197-201	197-201	203-207
7-8	209-215	217-226	210-216	207-215	207-215	205-214	7-8	215-220	217-225	217-223	222-228	217-222	215-221	7-8	201-206	215-220	197-202	201-206	201-206	215-220
6-7	241-250	241-255	235-244	230-243	213-242	228-240	6-7	238-245	245-253	241-250	244-253	246-253	238-247	6-7	223-230	227-234	223-230	226-233	223-230	215-222
5-6	279-290	281-295	265-276	260-275	263-275	258-272	5-6	270-280	272-282	269-280	282-293	270-280	282-293	5-6	260-270	266-276	253-263	255-265	250-260	245-255
4-5	323-335	310-325	308-320	302-319	306-325	299-315	4-5	303-315	298-332	303-315	313-325	321-333	318-330	4-5	303-315	288-300	302-314	303-315	293-305	288-300
HEIFER							HEIFER							HEIFER						
8-9	194-199	192-200	187-192	185-191	184-191	183-191	8-9	186-190	186-191	194-199	196-201	190-194	194-199	8-9	176-180	182-186	172-176	176-180	178-182	184-188
7-8	203-209	199-208	200-206	199-205	193-205	197-206	7-8	194-199	197-202	199-205	200-206	200-205	201-207	7-8	185-190	191-196	181-186	185-190	195-200	185-190
6-7	225-234	221-230	219-228	216-227	211-226	214-226	6-7	208-215	217-225	220-229	217-226	213-220	212-221	6-7	208-215	210-217	202-209	205-212	211-218	205-212
5-6	245-256	244-258	244-255	240-254	235-253	238-252	5-6	232-242	235-245	242-253	244-255	232-242	231-242	5-6	230-240	225-235	223-233	225-235	230-240	225-235
4-5	286-298	280-295	268-280	265-279	266-288	263-278	4-5	268-280	258-285	278-290	273-285	273-285	263-275	4-5	258-270	248-260	247-259	248-260	248-260	240-252
COWS							COWS							COWS						
util	101-111	97-113	103-111	102-111	99-109	98-110	util	104-114	98-109	101-111	104-114	102-111	105-115	util	111-117	100-109	106-116	107-117	102-112	101-106
cn/cut	97-107	90-106	94-102	94-106	89-100	88-104	cn/cut	100-108	91-105	97-107	96-106	95-102	97-107	cn/cut	103-108	99-105	104-111	105-112	97-107	92-100
bulls	122-132	112-128	113-126	112-126	110-124	107-128	bulls	130-135	122-137	119-129	117-127	129-137	119-129	bulls	130-135	127-136	132-139	133-140	125-135	122-132
West — Feeder cattle prices were mostly \$3 to \$5 lower. Calf prices were \$4 to as much as \$15 lower. Cow prices were steady to \$2 lower. — <i>Chad Spearman</i>							Central — Feeder cattle prices ranged from \$4 to \$12 lower for the week. Calves ranged from \$5 to \$15 lower. Market cows were \$2 to as much as \$10 lower. — <i>Troy Applehans</i>							Southeast — Feeder cattle prices ranged from \$6 to \$12 lower for the week. Calf prices ranged from \$6 to \$15 lower. Market cows were steady to \$2 lower. — <i>Troy Applehans</i>						



CattleFax

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Lower Total Placements and Marketings in 2014

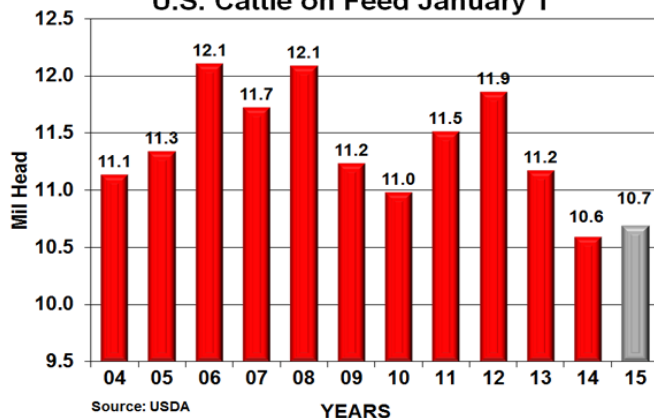
Cattle-on-feed on January 1st was reported 1 percent above 2014. December marketings were down 5 percent from last year, with cattle placed on feed lower by 8 percent. There were 4.4 marketing weeks this December, one day more than 2013. Federally inspected steer and heifer slaughter was lower by 4 percent from December of last year.

U.S. Cattle-on-Feed January 1, 2015 1,000+ capacities

	Average 2010-2014	2013-14	2014-15	% year ago
COF Dec. 1	11405	10724	10873	101
Placed	1649	1679	1544	92
Marketed	1753	1736	1655	95
Other Dis.	76	77	72	94
COF Jan. 1	11225	10590	10690	101

2014 total placements ended up being 98 percent of 2013, while marketings were as low as 95 percent of the 2013 total. Cattle feeders should closely monitor industry currentness as cattle weights and days on feed are both likely to increase in 2015. *Marcus Brix*

U.S. Cattle on Feed January 1



F.I. Slaughter Mix (000 head)

	----- Week Ending -----				----- Year To Date -----			
	10-Jan-2015		11-Jan-2014		2015	2014	Pct Chg	
Total Sltr	542		573		997	1098	DN 9.2	
	Pct	No	Pct	No				
Steers	52.0	282	49.7	285	522	546	DN 4.4	
Heifers	26.0	141	28.4	163	266	320	DN 16.9	
Cows	20.5	111	20.4	117	196	218	DN 10.1	
Bulls	1.5	8	1.4	8	14	14	DN 0.0	

Summary of Activity Sponsored by:



Summary of Activity	This Week 23-Jan-15	Last Week 16-Jan-15	Year Ago 24-Jan-14
CattleFax Data			
Placements	122,748	135,449	168,258
Shipments	118,017	132,595	126,341
Avg In-Weights	755	727	741
USDA Sltr Wgts	1,368	1,368	1,338
USDA Str Carc Wgt*	889	897	871
Days on Feed	147	146	156
Carryover Pct	38	39	27
Weekly Supply	454,400	479,600	318,400
Percent Grade Choice & Higher	73.75	73.70	70.97
Prime Grade Pct	4.75	4.67	3.81
Choice Grade Pct	69.00	69.03	67.16
Select Grade Pct	21.18	21.48	25.01
Live Prices (\$/cwt)			
Slaughter Steers	159.76	163.72	148.00
Steer Calf (450#)	313.94	319.01	226.47
Steer Calf (550#)	274.74	279.42	205.18
Yearling Steer (650#)	240.78	245.72	182.78
Yearling Steer (750#)	215.92	222.20	170.72
Yearling Steer (850#)	203.54	210.87	162.09
Utility and Commercial Cows	106.72	110.56	86.18
Canner and Cutter Cows	100.59	103.70	80.44
Lean Hogs	72.10	73.60	80.24
Omaha Corn (\$/bu)	3.67	3.61	4.19
12-City Broiler	96.76	103.13	95.82
Dollar Index	94.08	92.35	80.55
Meat Prices (\$/cwt)			
Certified Angus Beef Cutout (UB)	261.53	267.68	231.10
Choice Cutout	255.65	262.80	238.55
Select Cutout	248.89	254.07	236.93
Choice/Select Price Spread	6.76	8.73	1.62
Cow Cutout	238.88	238.77	174.76
Hide and Offal	15.21	15.36	14.93
Pork Cutout	84.70	83.89	87.61
Slaughter (000 hd) and Meat Production (Mil lbs)			
Cattle	576.0	546.0	599.0
Hogs	2,316.0	2,276.0	2,214.0
Total Red Meat Production	977.0	943.0	957.4
Beef Production	473.4	449.5	478.6
Pork Production	499.2	489.1	473.8
Poultry Production	N/A	824.6	724.5
	CME AVG FDR PRICE	6 STATE FED STR PRICE**	KS-TX-OK FED STR**
Thu 01/22	N/A	161.55	161.34
Wed 01/21	220.23	162.89	163.79
Tue 01/20	221.08	163.06	163.91
Mon 01/19	221.87	163.67	163.91
Fri 01/16	224.13	163.67	163.91

* USDA steer carcass weights are actual from two weeks ago.

** 5-Day weighted average fed steer price (CO,IA,KS,NE,TX,OK), (KS,TX,OK)