The Beef Supply Balance Sheet

The industry remains concerned about the additional beef production expected to reach the market throughout 2017 and beyond. The reasons for concern are well understood, but the recent rally in cattle prices and boxed beef values show production is not the same as supply.

In 2016, beef production was up 1.5 bil. lbs. (+6.4%) compared to the previous year, and year-over-year increases are expected again in 2017. This year’s increase is expected to be smaller, at nearly 1 bil. lbs. (+3.7%), but an additional 2.5 bil. lbs. over two years remains a significant increase for the market to absorb. CattleFax expects the biggest year-over-year gains in first half 2017, but seasonally larger summer beef production could pressure prices across all classes of cattle and beef.

Another important consideration is the influence of declining U.S. beef imports and increasing U.S. beef exports on total beef supplies. The trends started in 2016, and CattleFax expects them to mostly continue over the next few years. U.S. beef exports finished 2016 up 12.6 percent compared the previous year, while U.S. beef imports ended 2016 down 10.5 percent. January 2017 beef exports were 21 percent higher and imports were 24 percent lower than a year ago.

Australia is one to two years behind the United States in its cattle cycle, experiencing smaller slaughter levels and higher prices as expansion intensifies. As one of the main U.S. competitors in the global markets and a major supplier for U.S. beef imports, the decreasing production and higher Australian beef prices have been a major factor in CattleFax forecasting 2017 U.S. beef imports to decrease 7 percent and exports to increase 6 percent – a trend that will likely continue in 2018.

Looking at beef production aside from beef trade can cause market participants to overstate the negative affect supply can have on market prices. A balance sheet approach shows a more accurate picture of the supply picture facing U.S. consumers. As the accompanying chart shows, the change in net supply has been consistently less than the change in beef production throughout the last year. Beef production has increased. However, trade effects have lessened the overall influence – deflected beef production away from U.S. consumers by altering the mix of product going to and coming from the global market.

Bottom Line: Compared to the 2015 annual lows, U.S. beef production will increase 2.5 bil. lbs. This production increase can weigh heavily on prices from the retailer to cattle producer. However, increasing exports and decreasing imports have allowed U.S. net beef supplies to grow at a smaller rate in the first quarter, lessening the burden on U.S. consumers to utilize all of the production increase and offering support to the recent rally.

Troy Bockelmann
Best of the Seasonal Noted

Front-end fed cattle supplies are manageable, although the tightest point has passed. The beef complex has rallied $30/cwt. in the last five weeks, much larger than normal. Both of these factors suggest the market is experiencing the best of the fundamental seasonal factors that normally line up with the spring highs. As the cash fed cattle and beef markets rallied, the futures complex continues to trade at a deep discount resulting in record-wide live cattle basis. This combined with the cattle feeder making money, and the opportunity to buy a positive swap on feeders, has allowed the industry to pull cattle forward – keeping carcass weights below year-ago levels and improving the feeders bargaining position compared to the packer. The beef rally has also meant the packer has ample profit incentive to keep slaughter levels at an adequate pace. Longer term increasing supplies of all animal proteins will keep a lid on values.

Next Week: Fed cattle supplies will remain manageable. Look for the beef complex to stall after the recent rally. Historically wide basis will continue. The market is expected to trade in the upper $120s in the Plains, with continued premiums noted in the North.

Late March-April: Although placed-against fed cattle supplies are manageable, increasing supplies will be noted moving forward. Continued feedyard profitability, strong basis and positive packer margins will result in cattle being pulled forward and increased harvest levels. Look for the strongest prices early with a pullback later ranging between $122 and $128.

May-June: With an additional 700,000 head of placements from November to January, the seasonal increase in fed cattle supplies will be larger than normal. Continued currentness will be critical to keeping the front-end supply manageable. Seasonally, beef usage increases through the spring. Strong basis levels will keep cattle feeders willing sellers and could accelerate the pullback later ranging between $122 and $128.

July-August: Supplies are projected to be above year-ago levels through summer – testing packing capacity. Seasonally, beef usage slows through the summer. Larger total protein supplies will be noted. Prices are expected to be on the defensive. Kevin Good

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CattleFax Placements

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Buyer Interest Wanes after Rapid Advance

Prices for the Choice boxed beef cutout closed the week $6.80 higher. Select closed the week $4.87 firmer. With slaughter levels slowly increasing, and profitability at the wholesale level slipping away, buyer are beginning to look at other proteins for spring needs.

A cold snap on the East coast reminded buyers that true grilling demand is still a further down the road. With asking prices still higher on many grilling items, buyers have decided to focus on pork and poultry for late April and early May features, leaving beef alone for a little while. This could result in a softer cutout for a few weeks, yet leave packers in a still profitable position.

Next Week: Asking prices will be steady to higher. Supplies will be modestly larger. Look for Choice boxes to sell from $219 to $224, Selects between $210 and $214. Duane Long

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Fed Cattle Prices 17-Mar-2017

<table>
<thead>
<tr>
<th>Live Steers</th>
<th>Hot-Wgt Prices</th>
<th>Live Heifers</th>
<th>Hot-Wgt Trade Contract Formula</th>
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<tr>
<td>SW N.T</td>
<td>N.T</td>
<td>0 0%</td>
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</tr>
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</table>

Price ranges reflect the last best test for average choice to high quality cattle. *Includes all reported Canadian Imports
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Feeder to New Highs?

The fed cattle market spent three weeks trading at basically $125/cwt., on average. Then, it jumped higher this week. The fed market is now several dollars higher than where it was in January. Stocker producers might be asking, “How have feeder cattle not pushed into new highs?”

There are a handful of reasons. First, the deferred live cattle futures contracts just moved into levels above the January highs, literally in the last few days. And cattle feeders are looking at the deferred live cattle futures as a barometer for how much they can pay for feeder cattle. Second, during January, the cattle feeder was looking 150 to 170 days out front and placing cattle against the June live cattle futures contract. There were eight-consecutive days the June live cattle futures closed above $108/cwt. Therefore, it was supportive to feeder cattle values at that time. Currently, cattle feeders are looking 150 to 170 days in front and seeing second half 2017 futures contracts capped at $105/cwt. up to this point in time.

Using simple math, the difference between a cattle feeder buying a $105 and $108/cwt. breakeven on a 1,300-lb. fed steer is the difference of $39 per head, which is worth $4.87/cwt. for an 800-lb. feeder steer (CME feeder cattle index base weight). The feeder index had 11 days in January where it closed above $133. Recently, the feeder index moved above $128/cwt. The difference between $128 and $133 is about $40/head for an 800-lb. feeder steer. Will the August and/or October live cattle futures push to levels near $108/cwt.? That would provide greater support for the CME feeder cattle index to push to $133/cwt. As the chart shows, basis trends will get stronger into late April. Assuming this trend holds, it will be difficult to push August live cattle toward $110/cwt., which would support feeder cattle into new highs. However, cattle feeders are making money once again. So, this may create a push in the feeder cattle market despite the basis. All of this points to feeder cattle finding resistance in the low $130s relative to the CME feeder cattle index.

**Bottom Line:** Feeder cattle values should find resistance in the low $130s as long as fed cattle values remain in the upper $120s. A rally above $133/cwt. would require a stronger deferred live cattle futures market or cattle feeders betting on the come more than they have during the last several months. —Michael Murphy

### Feeder Cattle Prices 17-Mar-2017

#### West & Northwest

<table>
<thead>
<tr>
<th>Area</th>
<th>State</th>
<th>Breed Type</th>
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<td>112-127</td>
<td>67-74</td>
<td>122-128</td>
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**Ethan Oberst—** Feeder cattle were $1 to $2 higher this week. Calves were steady. Market cows were $2 higher this week.

### Central

<table>
<thead>
<tr>
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<th>Weight</th>
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<tbody>
<tr>
<td><strong>COWS</strong></td>
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<td>68-74</td>
<td>74-79</td>
<td>115-121</td>
</tr>
<tr>
<td><strong>STEER</strong></td>
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<td>114-120</td>
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<tr>
<td><strong>HEIFER</strong></td>
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<td>112-127</td>
<td>74-79</td>
<td>122-128</td>
</tr>
</tbody>
</table>

**Ethan Oberst—** Feeder cattle were $3 higher this week. Calves were $3 higher this week. Market cows were $2 higher this week.

### Southeast

<table>
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<tr>
<th>Area</th>
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<th>Breed Type</th>
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<tbody>
<tr>
<td><strong>COWS</strong></td>
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<td>67-74</td>
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</table>

**Ethan Oberst—** Feeder cattle were mixed from $2 lower to $2 higher this week. Calves were steady to $1 lower. Market cows were $1 higher this week.
Carcass Weight Freefall

Cattle carcass weights have trended below year-ago levels since May 2016, but some of the biggest year-over-year weight declines could be in March. CattleFax expects cold carcass weights to average around 814 lbs. this month (-1.7%), and the earliest March slaughter data supports that projection with weekly steer carcass weights running 15 lbs. below last year.

March could present the largest year-over-year weight decline since September 2010. However, some perspective is necessary. The March projection is comparing against a year-ago period where carcass weights increased from February into March. That has only happened five times in the last 30 years. So, the decline may be exaggerated short term.

The key takeaway is CattleFax expects carcass weights to continue trending below year-ago levels in 2017, but not at the extreme levels likely to be seen over the next few weeks. Cold carcass weights will likely end the year around 821 lbs. That is an annual decline of 4 lbs. (-0.5%).

Bottom Line: Every pound of carcass weight matters in a cowherd-expansion market where year-over-year slaughter increases are common. Cattle slaughter is forecast to increase 940,000 head in 2017, but every one-pound reduction in carcass weight is worth 39,000 cattle slaughtered, when all else is equal. So, the net effect of the slaughter increase and carcass weight decline create a fed cattle increase in 2017 that is closer to 785,000 head in market influence when compared to last year.

Lance Zimmerman

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