

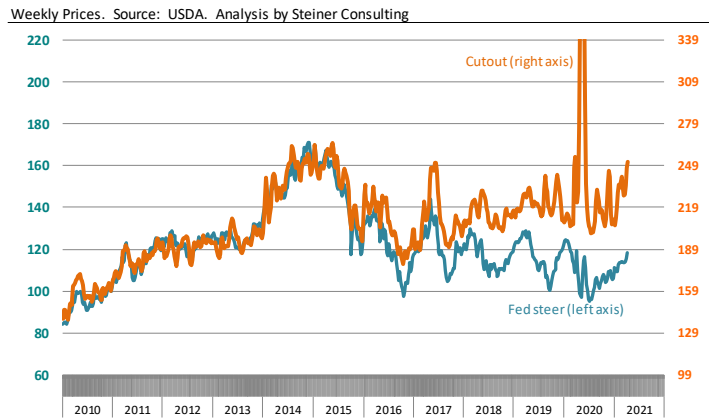
Cash prices for fed cattle were as high as \$121 last week but the weighted average price for the last five days is still hovering at around \$118/cwt. CME reported some deliveries, which makes sense given current basis. Going forward, market participants will clearly pay attention to the trend in the wholesale complex but, more importantly, the ability of feedlots to get current and thus gain a bit more leverage. June fed cattle futures currently hold a premium to cash, which is unusual but not unprecedented. **Ample supplies of market ready cattle and capacity constraints remain a key factor for the current market.**

Different from hogs, where a sizable portion of the supply is priced off the cutout, cattle prices do not have as strong a relationship to beef values. In recent years we have seen fed cattle values and wholesale beef prices diverge. COVID disruptions have only served to highlight issues that were brewing for some time.

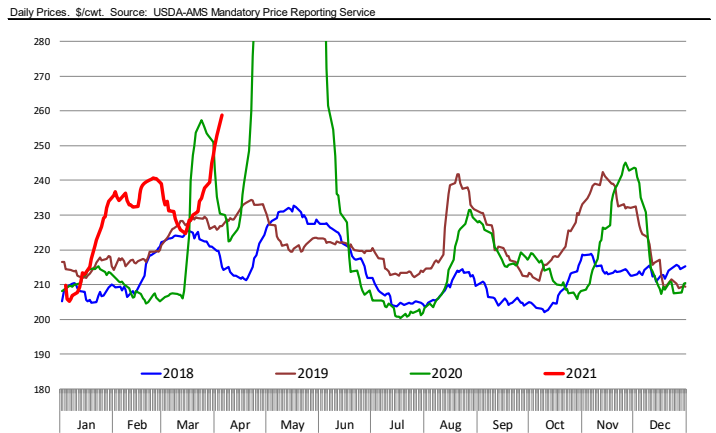
The chart to the right is not prescriptive, it does not tell you where cattle prices should trade relative to the wholesale beef market. The chart simply reflects the broader trends affecting the market (**labor constraints, higher processor costs, limited processing capacity and the loss of producer leverage, need for novel pricing mechanisms**). Between 2010 and 2016, fed cattle and choice cutout were extremely well correlated. The price ratio of fed cattle to choice cutout during those six years was 1.61. That ratio today would give you \$161 cattle. But clearly that price relationship was not sustainable, over time it resulted in a reduction in processing capacity. Packers do not close plants lightly and the margin pressures during that period were significant. Starting in 2018, the relationship between the cutout and fed cattle values shifted. Fed cattle supplies slowly started to increase at a time when beef demand was also on the upswing and packers started to bump up against capacity constraints. In 2019, the ratio of fed cattle to the cutout was 1.91, which would imply fed cattle prices at around \$136/cwt today. Last year, the ratio jumped to 2.20 but that was inflated by the disruptions in slaughter during April and May. In Q4 the ratio was around 2.0.

Wholesale beef prices have surged higher, injecting a lot of optimism in the cattle complex. The choice cutout at \$260 in early April is not something you normally see. In the short term packers are well covered and there are still some feedlots with long fed cattle that they need to move. However, packer forward position for the summer is not that impressive. Cattle placements during Oct-Feb were down 414k head lower than the previous year and some 180k head lower than the same period in 2019. If fed cattle slaughter picks up and follows the trajectory of 2019, it could go a long way towards narrowing the fed cattle / cutout gap.

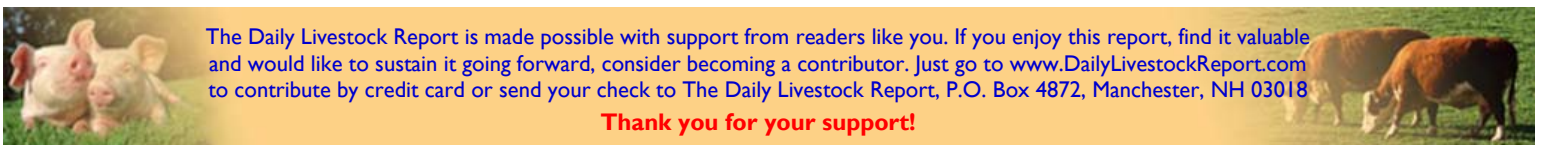
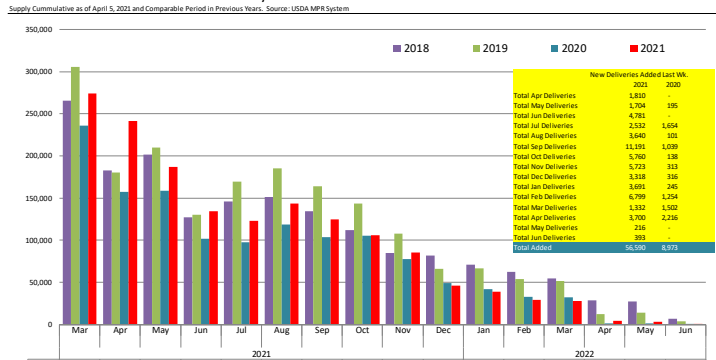
Fed Steer Prices vs. Choice Beef Cutout. USD/cwt.



CHOICE BEEF CUTOUT VALUE



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