

# Beef Margin Watch: August



Beef margins have deteriorated since the middle of August, following a sharp decline in cattle prices that more than offset the savings from a similar drop in feed costs. Cattle prices dropped to fresh contract lows as the market remains under pressure from weakness in cutout values, large supplies of beef in cold storage, and slightly higher monthly cattle placements relative to market expectations. With Labor Day and the unofficial end of the summer grilling season now upon us, retailers will shift their features away from burgers and steaks in the meat case. The price of 50CL beef, which accounts for about 10% of the carcass cutout, has dropped from around 90 cents/lb. in late June and early July to below 50 cents, which alone accounted for about a \$4.00/cwt. loss in cutout value recently. Meanwhile, the total supply of beef in cold storage at the end of July was 469.3 million pounds, 2% higher than a year ago and up 8.3% from the five-year average. Moreover, beef inventories have increased in each of the past two months when normally they decline by an average of 3% at this time of year. USDA's latest Cattle on Feed report indicated that feedlots placed 1.6% more cattle in July than a year ago, above average estimates of a 0.4% decline. The total supply of cattle on feed as of August 1 was estimated at 10.165 million head, up 1.6% from last year and 0.3% above market expectations. On a positive note, feed costs continue to moderate as corn dropped to fresh contract lows following recent estimates for record yields and production this season. Our clients remain focused on adjustments to existing positions, particularly strengthening delta on feed hedges and lightening delta on cattle hedges, given the recent weakness in both markets.

## Live Cattle Marketing Periods:

**Oct '16** 2015 2016 Oct 2016: HIGH (\$1.60) LOW (\$37.51) LAST (\$13.77) 10YR PERCENTILE 3.0%



**Dec '16** 2015 2016 Dec 2016: HIGH (\$1.19) LOW (\$34.83) LAST (\$7.13) 10YR PERCENTILE 14.0%



**Feb '17** 2016 2017 Feb 2017: HIGH (\$1.65) LOW (\$33.93) LAST (\$6.96) 10YR PERCENTILE 12.3%



**Apr '17** 2016 2017 Apr 2017: HIGH (\$1.00) LOW (\$20.55) LAST (\$4.30) 10YR PERCENTILE 26.6%



Jun '17 2016 2017 Jun 2017: HIGH **\$0.65** LOW **(\$15.72)** LAST **(\$7.62)** 10YR PERCENTILE **27.5%**



Aug '17 2016 2017 Aug 2017: HIGH **(\$2.49)** LOW **(\$19.19)** LAST **(\$7.10)** 10YR PERCENTILE **29.7%**



The Beef Margin calculation uses Feeder Cattle futures to price inbound animals and assumes each will consume 55 bushels of corn and cost approximately \$250 per head (for other feed and non-feed expenses) to gain 550 pounds and reach a market weight of 1,250 pounds.

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