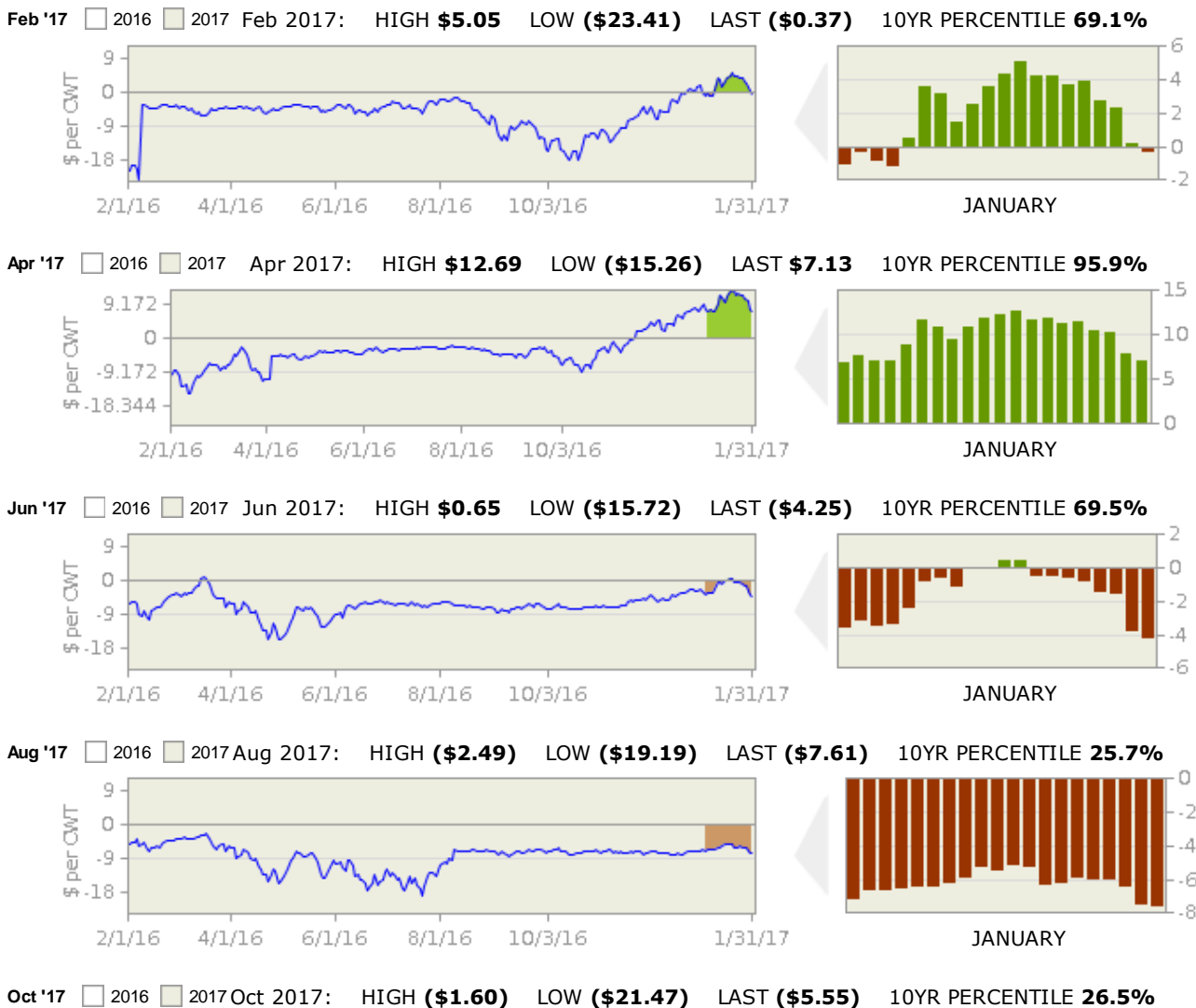


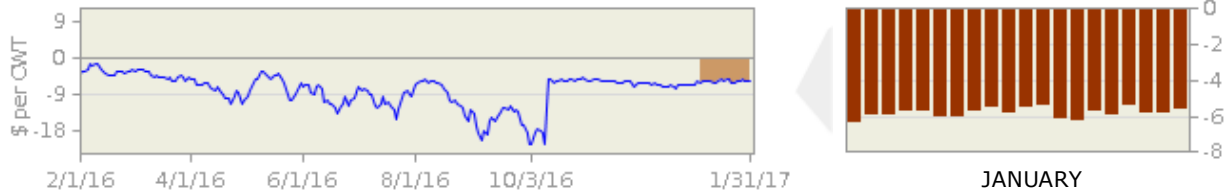
Beef Margin Watch: January



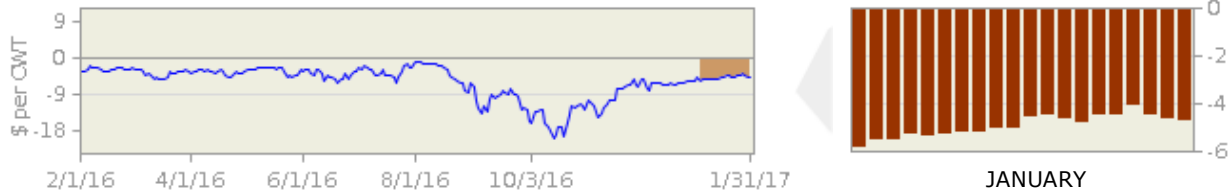
Beef margins deteriorated sharply over the second half of January following a steep decline in cattle prices, while feed costs held steady. Although margins remain positive and historically strong into the spring marketing period, concerns are growing about deferred periods given recent indications that cattle supplies will be larger than previously expected. At the end of January, USDA released both the monthly Cattle on Feed report for December along with the semi-annual U.S. Cattle Inventory report, which provides a broader picture of cattle supplies beyond feedlots of over 1,000 head. Total cattle on feed as of January 1 was reported at 10.605 million head. This was up 0.3% from last year and above market expectations of a 1% decline. The biggest surprise came in the bearish figure of December placements that, at 1.795 million head, were 17.6% more than last year and well over expectations of an 8.4% increase. Much of that cattle consist of lighter-weight animals that will not come to market until later in the summer, keeping nearby supplies relatively tight. Meanwhile, the cattle inventory report showed all cattle and calves as of January 1 up 1.8% from the previous year, with the calf crop up 2.7% from 2016. Both of those figures were higher than expected, indicating continued expansion in the beef cow herd. USDA also reported year-end beef in Cold Storage at 567 million pounds, up 6.79% or 36.049 million from November and 10.63% or 54.478 million pounds above last year. The December increase in Cold Storage compares to the average build of 2.21% and was the second-largest increase for that month since 2006. Our beef producer clients have benefited from recent adjustments to existing positions, particularly strengthening cattle hedges prior to these bearish USDA reports.

Live Cattle Marketing Periods:





Dec '17 2016 2017 Dec 2017: HIGH (**\$1.19**) LOW (**\$20.08**) LAST (**\$4.67**) 10YR PERCENTILE **28.8%**



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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