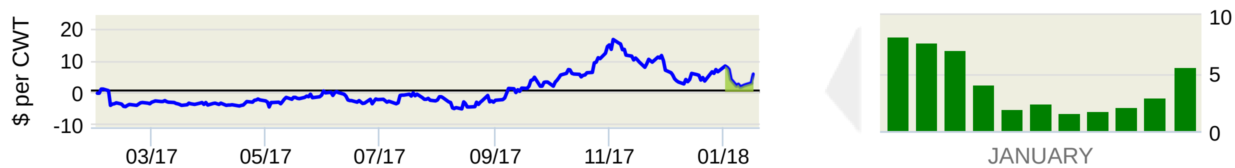
Beef Margin Watch: January

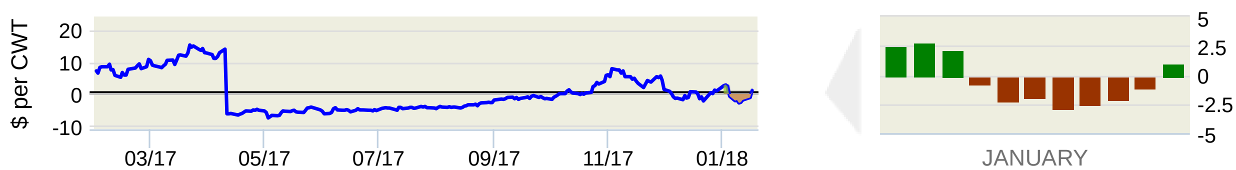
Beef margins dropped sharply over the first half of January as a result of lower cattle prices being only partially offset by lower corn costs. Feeder cattle prices were also up slightly since year-end, adding to margin pressure in deferred slots on forward placements. Cattle prices remain under pressure from expectations of larger beef supply in 2018 despite strong demand. USDA raised their 2018 beef production forecast in the January WASDE due to larger expected cattle slaughter through the first half of the year combined with higher average carcass weights. Beef production is now projected up 170 million pounds from December at 27.827 billion, with both imports and exports unchanged from last month. Meanwhile, demand continues to be very strong with November beef and veal exports totaling 260.7 million pounds, up 2.7% from a year ago and just below the record volume shipped in August. For the year, beef exports are projected up 11.5% from 2016 on a volume basis and 17% higher in value terms. Asian markets in particular continue to show very strong demand for U.S. beef, with growing confidence that larger U.S. production will continue to provide a reliable supply of high-quality beef for their consumers. USDA made only modest adjustments to their corn balance sheet in the January WASDE, raising ending stocks by 40 million bushels due to a combination of slightly increased production and lower projected feed demand. Harvested area was reduced 400,000 acres, but yield was raised to a record 176.6 bushels per acre, resulting in a 26 million bushel increase in production. Feed and residual demand was lowered by 25 million bushels from December, although the reduction was partially offset by a 10-million-bushel increase to projected FSI usage. Our beef producer clients benefited from recent adjustments to strengthen cattle hedges and are now looking for opportunities to add more upside flexibility to those positions.

Live Cattle Marketing Periods:

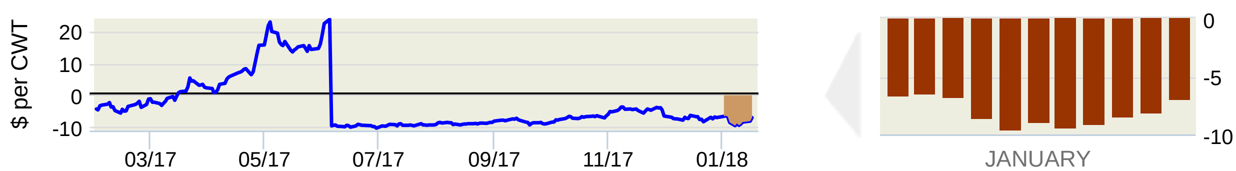
Feb '18 2017 2018 Feb 2018: HIGH **$16.41** LOW **($5.29)** LAST **$5.60** 10YR PERCENTILE **87.7%**



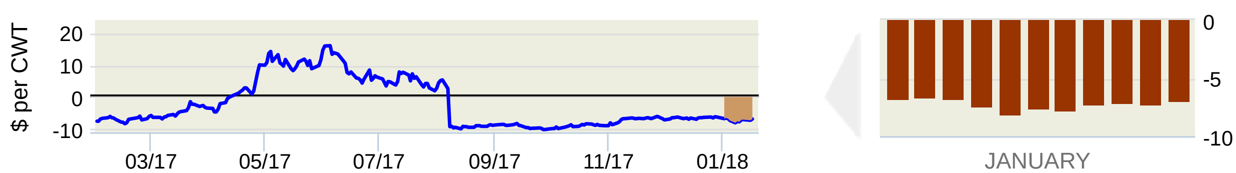
Apr '18 2017 2018 Apr 2018: HIGH **$15.25** LOW **($7.54)** LAST **$1.03** 10YR PERCENTILE **75.5%**



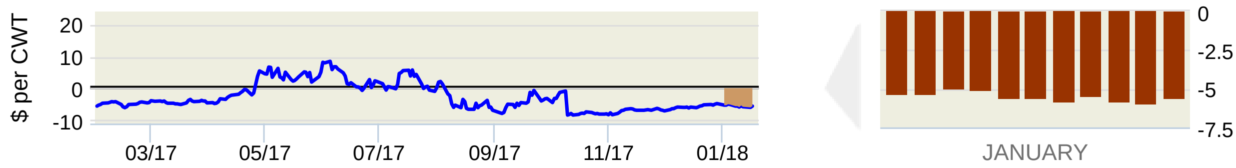
Jun '18 2017 2018 Jun 2018: HIGH **$23.69** LOW **($10.24)** LAST **($6.95)** 10YR PERCENTILE **36.3%**



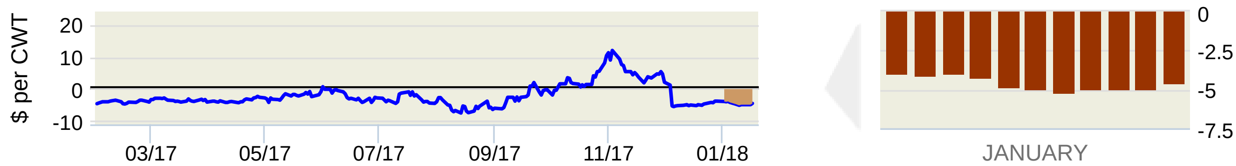
Aug '18 2017 2018 Aug 2018: HIGH **$16.06** LOW **($10.15)** LAST **($6.85)** 10YR PERCENTILE **37.0%**



Oct '18 2017 2018 Oct 2018: HIGH **$8.37** LOW **($8.36)** LAST **($5.59)** 10YR PERCENTILE **29.2%**



Dec '18 2017 2018 Dec 2018: HIGH **$11.96** LOW **($7.49)** LAST **($4.50)** 10YR PERCENTILE **32.5%**



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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