

Beef Margin Watch: July



Beef margins have improved slightly since the middle of July, as feed costs continued to moderate while cattle prices held relatively steady. Corn prices have dropped to fresh contract lows as concerns lessen over weather conditions and yield prospects. On August 12, USDA will release their next crop report, which will incorporate actual field surveys from NASS in yield estimate updates to the corn and soybean balance sheets. Condition ratings for both crops in weekly reports have held up very well since early releases and have not experienced the seasonal declines that would be expected by late July. As a result, most analysts are looking for yields to come in well above trendline projections which would add to stocks and loosen the supply/demand balance. Meanwhile, recent rainfall in the Corn Belt and moderating temperatures have reduced concerns over late-season weather as corn finishes its growth cycle. The cattle market was supported by the latest monthly Cattle on Feed report that indicated lower placements than expected. USDA reported June cattle placements into feedlots up 3.0% from a year ago when the market was anticipating an average increase of 6.5% over 2015. Factors cited for the lower figure included weaker finishing margins in May, generally good pasture conditions and lower feeder imports from Mexico relative to a year ago. USDA also reported total beef in cold storage at the end of June at 451.2 million pounds, 4.9% lower than last year, but 1.8% higher than the five-year average. Our beef producer clients benefited from having added flexibility to existing cattle hedges and are currently strengthening delta on feed hedges following the drop in corn.

Live Cattle Marketing Periods:



Apr '17 2016 2017 Apr 2017: HIGH (\$1.00) LOW (\$20.55) LAST (\$2.41) 10YR PERCENTILE 50.9%



Jun '17 2016 2017 Jun 2017: HIGH \$0.65 LOW (\$15.72) LAST (\$6.16) 10YR PERCENTILE 39.2%



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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Commodity & Ingredient Hedging, LLC

120 South LaSalle St, Suite 2200 ▪ Chicago, IL 60603 ▪ 312-596-7755