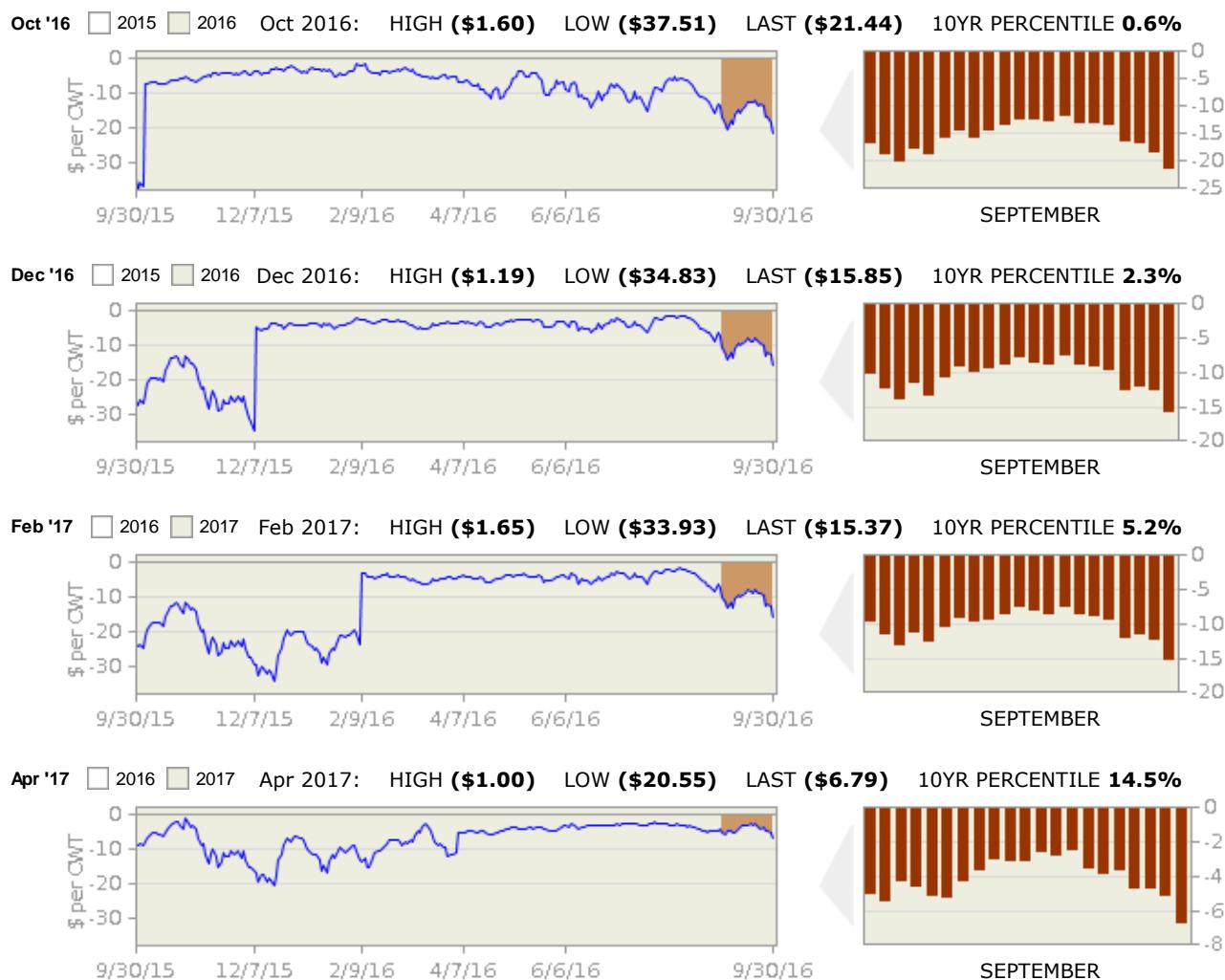


Beef Margin Watch: September



Beef margins have deteriorated sharply since the middle of September as cattle futures dropped to fresh contract lows, while feed costs held relatively steady. Even in forward marketing periods against future placements, the losses in feeder cattle did not offset lower fat cattle prices from a margin perspective, and cattle finishing margins remain deeply negative through next summer. USDA's monthly Cattle-On-Feed report was considered neutral, with figures in line with industry estimates. Cattle placements in August totaled 1.879 million head, up 247,000 or 15.1% from a year ago and about 2% higher than expectations. Placements again skewed heavy; cattle over 800 pounds were up 21.2% from last year and placements in the 700-799 pound range were up 18.5% from a year ago. Meanwhile, USDA reported that total beef in Cold Storage increased during August, a month when stocks typically decline. Beef supplies in Cold Storage on August 31 totaled 476.619 million pounds, up 7.021 million or 1.5% from July, compared with a 10-year average decline during that time period of 1.32%. USDA's Quarterly Grain Stocks report pegged September 1st corn stocks at 1.738 billion bushels. The figure was 19 million bushels lower than the average trade estimate, but 22 million bushels more than the previous forecast, and was considered neutral. As a result, traders are now looking to the October WASDE report for further insight about corn yield and production as harvest advances. Following the recent sharp break in cattle prices, our clients are looking to add flexibility to existing positions, while also strengthening delta on feed hedges as we move further into the harvest season.

Live Cattle Marketing Periods:





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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