

CattleFax UPDATE

THE
DECIDING
FACTOR



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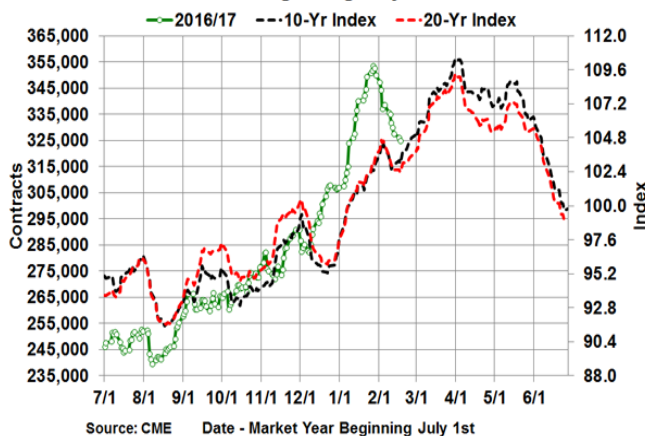
Market Following the Money

There is a saying, “the money goes with the market”. Evaluating the live cattle sector, this correlation is stronger in the first half of the year than it would be during the second half of the year. Due to the strong correlation between the direction of the live cattle market and the open interest, the recent reduction in open interest has a lot of cattle producers concerned that the peak for the winter/spring period is behind us, and if open interest were to decline it would not be as favorable to the live cattle futures market.

The accompanying chart illustrates that, on average, during the first half of February the live cattle open interest declines. Thus, the 28,000 contract decline is right on track with the seasonal pattern. There is also a strong seasonal that live cattle open interest will increase going into the seasonal peak of April 1. In 19 out of the last 30 years the

seasonal peak in live cattle open interest in March and April, was larger in January and February. This would suggest that the odds favor live cattle open interest will increase going into the spring. However, it is important to note that from the lows of open interest in the fourth quarter to the peak into the winter/spring high, the 10 and 20-year average increase is 28 percent in both instances, and this year open interest has already increased 36 percent to the recent peak.

Daily Live Cattle Total Open Interest - Market Year beginning July 1st



Source: CME Date - Market Year Beginning July 1st

Market Highlights

Fed cattle trade in the South occurred at \$119 to \$120 this week, steady with last week. Fed cattle trade in the North occurred at \$119 to \$120.50, same as the week prior. Dressed cattle trade was mainly at \$190, steady with last week. With larger supplies in the southern plains and steady to tighter supplies in the North, the North-South spread should move towards par to a premium in the North over the next several weeks. This week's trade volume was active with the majority of trade occurring in the morning on Friday. Fed steer and heifer harvest has been steady recently. Boxed beef closed the week up in both products with Select gaining on Choice. The Choice-Select spread has seasonally narrowed. Supplies remain limited on the live cattle side of the market for the next 30 days and an increase in spring demand for beef is quickly approaching, supporting the cutout. Feeder cattle were from \$2 lower to \$2 higher this week. The heavier feeder cattle saw mostly a lower market. Calves were \$2 lower to \$2 higher mostly with some instances of \$5 to \$6 higher. The seasonal markets are starting to show, as lighter animals remain in firm demand and heavier feeder cattle have shown weaker demand. This pattern should continue through the spring. Market cows were mostly steady with instances of \$2 to \$3 higher. The 90 percent lean trim market continues to move higher, supporting the cull cow market. Corn was several cents lower this week, but a firmer trend through spring remains.

Currentness

Very current

Current

Neutral

Caution

Uncurrent



Steer carcass weights are up 3 pounds at 887 and are 12 pounds below last year.

The money followed the market higher, as prices from the fourth quarter low of \$97.83 to the January high of \$121.85, was just shy of a 25 percent increase, which is the fourth largest increase in 30-years, for the same period. Going forward, cash will need to continue to lead the market and money higher. Strong exports, seasonally improving domestic demand and manageable fed supplies are supportive to the market tracking the seasonal higher, but there are some headwinds. Cattle feeder's willingness to sell cattle due to strong basis, solid profits and big discounts into the summer will keep cattle feeders pulling cattle forward and selling aggressively.

Bottom Line: The market and money went together with the recent rally. The open interest decline, of late, is seasonal. Cash will need to be the driver to take the market and money higher. If it does feeder cattle values will be well sustained, if not feeders have risk into the upper-teens. Stocker values will be seasonally higher into spring; the magnitude of the increase will be driven by fed cattle values. *Michael Murphy*

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2017 EDUCATIONAL SEMINAR DATES

June 21-22, 2017

Risk Management Seminar

July 19-20, 2017

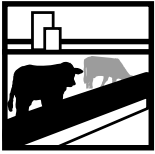
Corporate College Seminar

September 20-21, 2017

Risk Management Seminar

Solid Fundamentals Noted

Fed-Cattle Outlook



The supply side of the market will remain supportive over the next 30 days, and beef usage and demand, although seasonally soft in February, will improve moving forward into the spring. This fundamental combination would suggest the cash market has the opportunity to have one more push to test or take out the recent highs. That said, it is important to note that the technical nature of the market has been damaged recently and an increase in open interest is needed for the futures to make a test of the January highs. Placements from November-January were about 700,000 head larger than the prior year, which means a larger than normal seasonal supply increase moving from present levels through the spring and into a summer peak. This will increase the importance of the feeding industry continuing to pull cattle forward and gain currentness to minimize the price risk moving into the summer. Longer-term, increasing supplies of beef as well as competitive proteins will continue to be a price-limiting factor moving through 2017 and beyond.

Next Week: Fed supplies will remain very manageable. Look for the beef complex to trade stronger. The market is expected to firm and trade near \$121.

Late February-March: Fed cattle supplies will continue to be very manageable. Beef demand and usage will pick up, seasonally, moving closer to spring. Look for the market to be more range-bound and trade between \$118 and \$124.

April-May: Increasing fed cattle supplies will be noted, and the seasonal increase will be larger than normal. Continued currentness will be critical to keeping the front-end supply manageable. Seasonally, beef usage increases moving into the spring. Look for prices near \$120 early, then a softer trend as the market transitions into the larger fed supplies. *Kevin Good*

Projected Fed-Cattle Marketings (000 Head) 17-Feb-2017

	Placed Against	Pre Mo Carryover	Begin Inv	Mo Shipments	Carry-Over %	Net Weeks	Adj. Wkly Avg Shipments	% of Yr Ago
FEB	705	412	1117	733	38	4.0	130	108
MAR	699	440	1138	801	33	4.6	124	104
APR	696	394	1091	756	34	4.0	134	109
MAY	794	389	1183	870	30	4.4	140	101
JUN	876	373	1249	905	31	4.4	146	107
JUL	874	406	1281	874	35	4.0	155	105

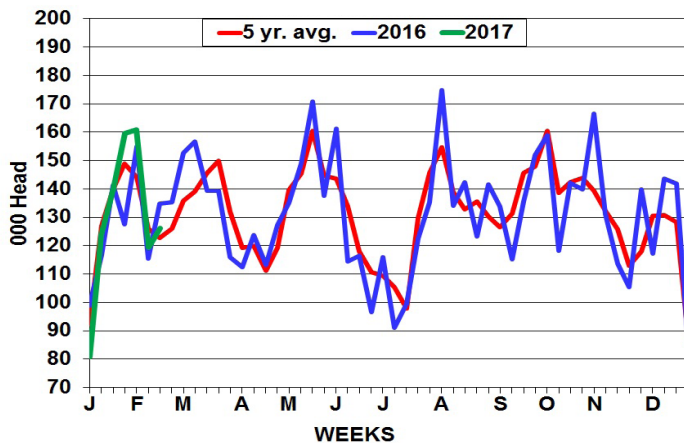
CattleFax Shipments

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Monthly Totals (000 hd)												
2016	539	504	523	567	507	599	602	572	524	555	460	567
2017	584	336	546	515	582	599	590	656	606	528	562	514
Weekly Averages (000 hd)												
2016	128	120	119	129	127	136	137	136	125	126	115	129
2017	139	129	119	123	138	136	148	143	144	126	134	122
17%16	109	108	100	95	109	100	108	105	115	100	117	95
17%5Yr	103	100	91	96	99	92	99	99	104	100	108	88

CattleFax Placements

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Monthly Totals (000 hd)												
2016	487	582	578	561	548	470	518	555	580	661	473	496
2017	553	357	645	495	641	538	467	652	601	595	577	532
Weekly Averages (000 hd)												
2016	116	138	131	128	137	117	118	132	138	150	118	113
2017	132	137	140	118	153	122	117	142	143	142	137	127
17%16	114	99	107	92	112	104	99	108	104	95	116	112
17%5Yr	104	105	99	98	101	100	87	99	96	95	102	100

CattleFax Placements



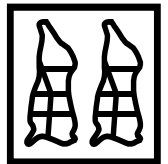
Contract and Formula Cattle 17-Feb-2017

	Scheduled in February	Shipped in February	Scheduled in March	Scheduled in April
Kansas	220,000	152,000	225,000	240,000
Texas	220,000	141,500	230,000	235,000
Colorado	80,000	60,000	80,000	85,000
Nebraska	205,000	135,000	215,000	220,000
Totals	725,000	488,500	750,000	780,000
Basis Bids	April	May	June	
Steers	+\$2 to even	+\$3 to +\$2	+\$2 to even	
Heifers	+\$2 to even	+\$3 to +\$2	+\$2 to even	

Cheap Enough? Yes!

Prices for the Choice boxed beef cutout closed the week \$0.51 firmer; Selects over the same period advanced by \$2.37. Smaller production levels this week brought some of the shorter bought buyers back into the marketplace and provided stability for the cutout after last weeks losses.

Beef Complex



March is quickly approaching and with it should come better beef demand, especially for middles and trimmings. Supplies will remain limited on the live cattle side for the next 30 days. Beef buyers that have been waiting for an opportunity to begin purchasing some spring needs may try to get ahead of the rush and begin booking. As a result, expect a gradual increase in the cutout going forward.

Next Week: Production will remain limited while demand slowly begins to improve. Look for the cutout to continue to firm. Expect Choice boxes to sell from \$190 to \$193, Selects between \$189 and \$191. *Duane Lenz*

Fed Cattle Prices 17-Feb-2017

	Live Steers	Hot-Wgt Prices	Live Heifers	Hot-Wgt Prices	Trade Volume	Contract Formula
PANH	119-120	N.T	119-120	N.T	61,000	93%
KS	119-120	N.T	119-120	N.T	73,000	76%
NE	119-120	190	119-120	190	75,000	80%
CO*	119-120.50	N.T	119-120.50	N.T	25,000	92%
CB	N.T	188-190	N.T	188-190	6,000	0%
PNW*	N.T	N.T	N.T	N.T	0	0%
SW	N.T	N.T	N.T	N.T	0	0%

Price ranges reflect the last best test for average choice to high quality cattle. *Includes all reported Canadian Imports

Feeding heavy steers Optaflexx® keeps money in producers' pockets

Elanco

Optaflexx®

While cattle prices have seen an upward shift since last fall, the industry still anticipates a challenging market for the near future — one that may see many ups and downs. To navigate through the tough times of \$100 live-weight pricing, many producers began to feed cattle to heavier weights in order to capitalize on their initial investment.

“To remain profitable, we started seeing some producers feed steers to 1600-1700 pound market weights,” said Mallorie Wilken, Ph.D. and Elanco technical consultant. “We’re talking about an extra 200-300 pounds, more than we’ve ever seen.”

At these heavier weights, many producers questioned whether feeding Optaflexx®, Elanco’s feed additive that improves both live weight gain and hot carcass weight (HCW), would still be effective. For these producers, maintaining Optaflexx in their rations needed to be more beneficial than just feeding cattle for two weeks longer to get the same results.

Effects of feeding Optaflexx to heavy-finished steers on performance and carcass characteristics

To address these questions, Elanco conducted a field trial to evaluate the performance and carcass characteristics of large yearling steers fed Optaflexx with extended days on feed (DOF). The study, which was conducted from October 8, 2015 to April 1, 2016 in Nebraska, looked at how Optaflexx impacted animal performance at multiple DOF (Table 1) as well as how cattle fed two weeks longer, but not fed Optaflexx, performed (Table 2). Cattle were harvested on February 3rd, February 24th, March 16th and March 30th 2016 for DOF 118, 139, 160, and 174, respectively.

Table 1. Effects of Optaflexx fed at 300 mg/hd/d for 35 days and DOF on steer performance and carcass characteristics*

Days on feed	118 d		139 d		160 d	
Dosage, mg/hd/d	0	300	0	300	0	300
Live performance						
Initial body weight (BW), lbs	917	917	917	918	916	916
Final BW, lbs ^{b,c}	1407	1433	1457	1501	1539	1553
Average daily gain (ADG), lbs ^{b,c}	4.16	4.38	3.91	4.23	3.92	4.00
Feed:Gain (F:G) ^b	7.23	6.98	7.59	7.13	7.29	7.11
Optaflexx treatment phase – 35 days						
Weight gain, lbs ^c	80	97	75	97	93	119
ADG, lbs ^{b,c}	2.29	2.77	2.18	2.85	2.75	3.47
F:G ^{b,c}	12.6	11.1	12.1	9.97	8.82	7.07
Carcass characteristics						
HCW, lbs ^{a,c}	878	894	913	933	987	996
Dressing, % ^c	62.4	62.3	62.7	62.1	64.2	64.1
Marbling score ^c	505	492	558	537	578	577
Ribeye area, in ^{2,b,c}	13.1	13.8	12.9	13.4	13.5	14.0
12th rib fat, in ^{b,c}	0.48	0.46	0.63	0.60	0.64	0.61
Calculated yield grade (CYG) ^{b,c}	3.4	3.2	4.0	3.8	4.1	3.8

*No Optaflexx by days on feed interaction – main effect significance only.
^aOptaflexx significant ($P < 0.10$).

^bOptaflexx significant ($P < 0.05$).

^cnear Days on Feed significant ($P < 0.05$).

Table 2. Performance and carcass characteristics of feeding Optaflexx at 300 mg/hd/d compared to control (0 mg/hd/d) and feeding two weeks longer

Days on feed	160 d		174 d
Dosage, mg/hd/d	0	300	0
Live performance			
Initial BW, lbs	916	916	919
Final BW, lbs	1539	1553	1601
ADG, lbs	3.92	4.00	3.97
F:G**	7.29*	7.11*	7.27**
Live treatment phase performance			
Initial BW, lbs	1446	1434	1476
ADG, lbs	2.75**	3.47*	3.68*
F:G**	8.82	7.07	7.20
Carcass characteristics			
HCW, lbs	987	996	1022
Dressing, %	64.2	64.1	63.8
Marbling score	578	577	606
Ribeye area, in ²	13.5**	14.0*	14.0**
12th rib fat, in	.064	.061	.062
CYG**	4.1**	3.8*	4.0**

***Treatments within row differ ($P < 0.10$).

Increased saleable pounds benefit producers

In addition to increased live weight gain and HCW, the study results showed improvements in ADG and feed conversion. Carcasses from steers fed Optaflexx exhibited increased ribeye areas and improved USDA calculated yield grade scores vs. control steers across DOF. In addition, marbling score was not impacted by Optaflexx feeding. The combination of lower yield grade plus the maintenance of an equal quality grade results in positive overall carcass merit scores for producers, especially those marketing on a grid-based system.

“Helping producers minimize inputs and keeping more money in their pockets by improving feed conversion is a big win for both feedyards and Elanco,” said Wilken. “Providing efficacious and beneficial solutions for producers and the beef industry is the reason why we are in this business. Enabling our customers to succeed is our highest goal.”

Key points

- Optaflexx improves live weight gain and hot carcass response in heavy-finished cattle
- Feeding Optaflexx to heavy-finished cattle gives producers the ability to shift overall carcass merit to a lower yield grade while maintaining a favorable marbling score
- To learn more about this study or Optaflexx, contact your Elanco sales representative or technical consultant, and visit Elanco.us for additional information

The label contains complete use information, including cautions and warnings. Always read, understand and follow the label and use directions.

Optaflexx: Complete feed

For increased rate of weight gain and improved feed efficiency: Feed 8.2 to 24.6 g/ton of ractopamine hydrochloride (90% DM basis) continuously in a complete feed to provide 70 to 430 mg/hd/d for the last 28 to 42 days on feed.

For increased rate of weight gain, improved feed efficiency and increased carcass leanness: Feed 9.8 to 24.6 g/ton of ractopamine hydrochloride (90% DM basis) continuously in a complete feed to provide 90 to 430 mg/hd/d for the last 28 to 42 days on feed.

Optaflexx: Top dress

For increased rate of weight gain and improved feed efficiency: Feed 70 to 400 mg/hd/d of ractopamine hydrochloride (90% DM basis) continuously in a minimum of 1.0 lb/hd/d top dress Type C medicated feed (maximum 800 g/ton ractopamine hydrochloride) during the last 28 to 42 days on feed.

¹Elanco Animal Health. Data on file.

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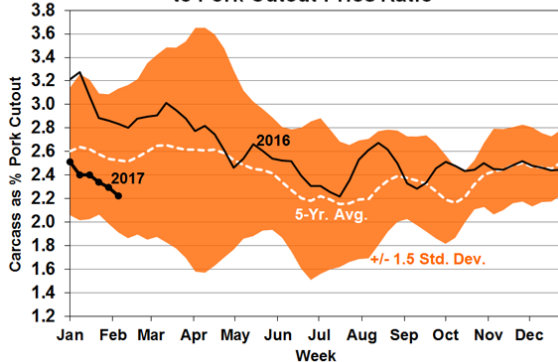
Makin' Bacon

The USDA pork cutout has advanced 6 percent year-to-date to \$85, and lean hog values have rallied more than 25 percent. Exceptional demand for bacon is creating the early 2017 strength.

The pork cutout is \$8.56/cwt higher than one year ago, and the belly has added \$8.94 to the cutout during that time. The rest of the carcass has subtracted 38 cents from the cutout. Demand for bacon remains strong, and supplies are tighter with bellies in cold storage down 67 percent compared to the previous year.

Producers have been shipping market hogs more aggressively to take advantage of cash-to-cash margins around \$50 per head, which is near record high for this time of year. If this continues, it could lead to smaller year-over-year pork production gains than currently forecast. The belly is due for a short-term correction, but long-term seasonal strength from other cuts could support pork values as hog slaughter declines into the spring and summer.

USDA Composite Beef Cutout to Pork Cutout Price Ratio



Bottom Line: The wholesale pork rally and slumping beef values have made the beef-to-pork cutout ratio more favorable for beef than any time since 2014. The pork complex has risk with recent gains coming mostly from one primal, but tighter seasonal supplies should support relatively strong pork values into early summer. The beef complex may not gain strength due to growing cattle supplies, but the pork values may not be as detrimental to the beef market compared to more recent years.

Lance Zimmerman

Live Cattle Imports, Year-to-Date Totals

	04-Feb-17	17-YTD	16-YTD
Canada			
Feeders	2,378	5,903	4,877
Slaughter	9,937	43,873	57,900
	11-Feb-17	17-YTD	16-YTD
Mexico	26,944	131,301	94,067

Summary of Activity	This Week 17-Feb-17	Last Week 10-Feb-17	Year Ago 19-Feb-16
CattleFax Data			
Placements	126,004	119,229	134,833
Shipments	132,971	120,209	120,267
Avg In-Weights	711	703	734
USDA Sltr Wgts	1,369	1,371	1,372
USDA Str Carc Wgt*	887	884	899
Days on Feed	150	152	151
Carryover Pct	37	37	43
Weekly Supply	403,400	380,700	497,000
Percent Grade Choice & Higher	79.20	79.31	76.39
Prime Grade Pct	6.41	6.29	5.67
Choice Grade Pct	72.79	73.02	70.72
Select Grade Pct	15.80	16.48	18.32
Live Prices (\$/cwt)			
Slaughter Steers	119.10	119.69	133.19
Steer Calf (450#)	166.26	164.89	210.14
Steer Calf (550#)	153.46	151.62	191.04
Yearling Steer (650#)	139.16	137.62	172.17
Yearling Steer (750#)	128.47	128.42	157.01
Yearling Steer (850#)	120.79	121.35	147.29
Utility and Commercial Cows	61.24	60.61	74.94
Canner and Cutter Cows	55.53	54.88	69.82
Lean Hogs	74.86	71.83	64.20
Omaha Corn (\$/bu)	3.39	3.42	3.56
12-City Broiler	85.67	84.68	81.77
Dollar Index	100.62	100.90	96.95
Meat Prices (\$/cwt)			
Certified Angus Beef Cutout (UB)	197.97	196.87	222.64
Choice Cutout	189.22	188.71	213.39
Select Cutout	188.19	185.82	209.27
Choice/Select Price Spread	1.03	2.89	4.12
Cow Cutout	164.67	164.10	167.63
Hide and Offal	11.87	11.92	10.63
Pork Cutout	84.42	85.23	75.48
Slaughter (000 hd) and Meat Production (Mil lbs)			
Cattle	572.0	577.0	524.0
Hogs	2,363.0	2,364.0	2,288.0
Total Red Meat Production	975.2	982.1	925.4
Beef Production	468.7	474.4	432.8
Pork Production	502.6	503.6	488.3
Poultry Production	N/A	814.1	805.7
	CME AVG	6 STATE FED	KS-TX-OK
	FDR PRICE	STR PRICE**	FED STR**
Thu 02/16	N/A	118.98	119.04
Wed 02/15	128.02	119.70	119.33
Tue 02/14	128.43	119.88	120.06
Mon 02/13	128.46	119.88	120.06
Fri 02/10	128.41	119.88	120.06

* USDA steer carcass weights are actual from two weeks ago.

** 5-Day weighted average fed steer price (CO,IA,KS,NE,TX,OK), (KS,TX,OK)

F.I. Slaughter Mix (000 head)

	----- Week Ending -----				----- Year To Date -----		
	04-Feb-2017		06-Feb-2016		2017	2016	Pct Chg
Total Sltr	596		535		2900	2809	UP 3.2
	Pct	No	Pct	No			
Steers	51.5	307	53.1	284	1502	1474	UP 1.9
Heifers	27.3	163	25.4	136	792	732	UP 8.2
Cows	19.6	117	20.2	108	564	564	DN 0.0
Bulls	1.7	10	1.5	8	42	39	UP 7.7