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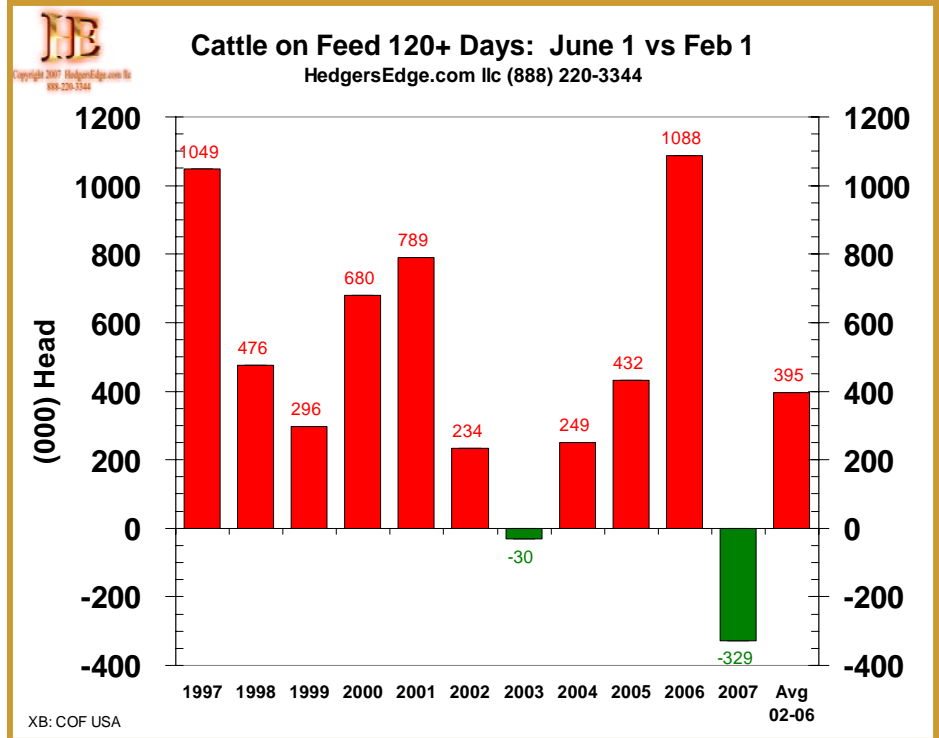
Futures Brokerage, Risk Management & Market Research for the
Agri-Business Community

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Five consecutive months of lower feedlot placements is leading toward an unprecedented shift in the front-end fed cattle supply. The accompanying chart shows the change in this category of cattle on June 1 versus February 1 during the 1997-2006 period, with the current projection for 2007. It is apparent that normally this category of cattle increases from February 1 to June 1 as depicted by the red bars. The average increase since 2002 is 395,000 head. This year a decline of 329,000 head in this category of cattle is projected. When compared with a normal increase of 329,000 head, the net result is a contra-seasonal decline of 724,000 head. Only one other year since 1997 recorded a contra-seasonal decline in this category of cattle, the year 2003. That year the contra-seasonal decline was much smaller than the projection this year.



When the contra-seasonal decline in this category of cattle is coupled with the devastating performance impact of this year's adverse winter weather, the foundation is in place for a sharp reduction in beef production. The bulk of this production decline will occur during the second and third quarters.

The largest price gain recorded from the February monthly average to the June monthly average price during the 1997-2006 period is 12.3 % in 2004. We will discard that increase from this analysis. The prices in that year were unduly influenced by the BSE event, which precipitated a price decline during the January-February period. The next largest price gain during the stated period was 5.5%. A similar gain this year, measured from a February average cash price of \$90.00 MTD, would imply a June monthly average cash price approximating \$95.00. June cattle futures are currently discounting a cash price at or above \$95.00. While such an average price level may be attainable, given the record contra-seasonal supply shift underway, it will not be sustainable. We must remind ourselves that supply represents only one-half the price equation. The other half of the price equation is "demand," which is controlled by the consumer. While we remain "bullish" beef demand for this year for previously stated reasons, there are limits to consumers' generosity. *Stay informed; always manage your financial risk.*

Thank you,
Andy & Bob

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