

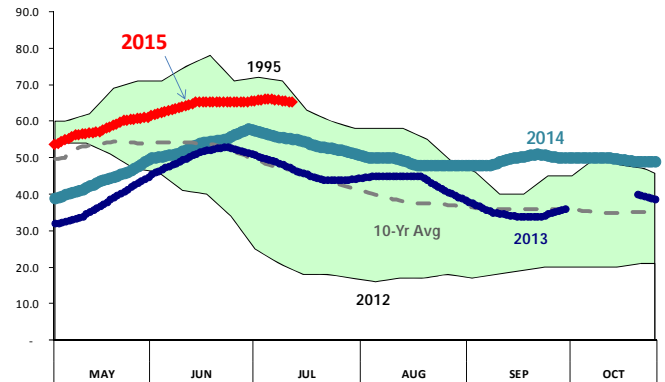
The US beef cow herd is expected to show strong growth in 2015 thanks to strong calf prices and, even more importantly, excellent pasture conditions and declining feed costs. While at the start of the year the assumption was that producers would seek to rebuild their herds given the strong incentives in the market, much of that was dependent on the ability to keep retained heifers in the herd. Too often in the past producers would retain heifers only to sell them off later due to the lack of available feed. But this year so far has been a continuation of what we saw last year - ample grass supplies and a strong push to retain females rather than send them to the feedlot. The latest USDA crop progress report showed that for week ending July 12, 65% of pastures were in good/excellent condition. This is a 10 point improvement from the previous year and an almost 20 point improvement from the 10 year average. In 2012, when drought in the Southern Plains forced producers to liquidate a lot of productive cows, the national pasture good/excellent rating was a mere 19%, 46 points lower than today. Conditions in Texas and Oklahoma, which in recent years have been greatly affected by drought, show a dramatic improvement. In the latest report, 77% of pastures and ranges in Texas and 67% in Oklahoma were rated in good/excellent condition.

With plentiful grass, and some of the best calf prices on record, there is little surprise that cow-calf operators are holding on to every cow and heifer they can. We think the second chart to the right is quite telling. It shows the ratio of cows/heifers as % of total slaughter. It is normal for the ratio to decline in the summer and be higher in the winter but this year the summer decline has been the biggest we have seen in the past 15 years. Female slaughter (cows/heifers) in May and June was just 40% of the total, well below the levels we saw during the herd rebuilding years in 2005 and 2006. Cattle slaughter is lower compared to a year ago and dramatically lower than what it was in 2012 and 2013 - this has been largely due to fewer females in the mix (herd rebuilding/herd preservation) and to a lesser extent because of a smaller calf crop overall. Consider these numbers: Total cattle slaughter for the period May 3 - June 27 was 4.432 million head, down 358,290 head (-7.5%) compared to the previous year and down 705,782 head (13.7%) compared to the same period in 2013. Female slaughter (cow/calf) during May and June in 2015 was 1.823 million head, 258,198 head (-12.4%) from a year ago and 520,743 head (-22.2%) compared to 2013. So the decline in female slaughter has accounted for a little over 2/3 of the overall reduction in US cattle slaughter in May and June of this year. This is what normally expects during herd rebuilding years—if anything the reduction this year has been even more dramatic and consistent with the excellent returns cow-calf operators are enjoying at this time.

Implications: Feedlot placements are expected to be low through the summer, which will continue to limit the supply of cattle coming to market later this year and in early 2016.

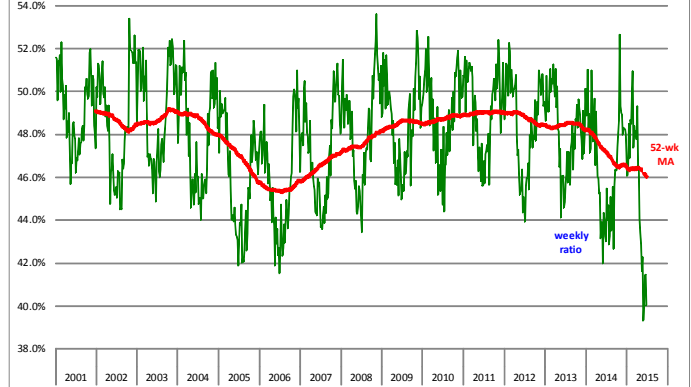
US PASTURE CONDITIONS: 20 YEAR HISTORY

% RATED IN GOOD/EXCELLENT CONDITION. WEEK July 12, 2015



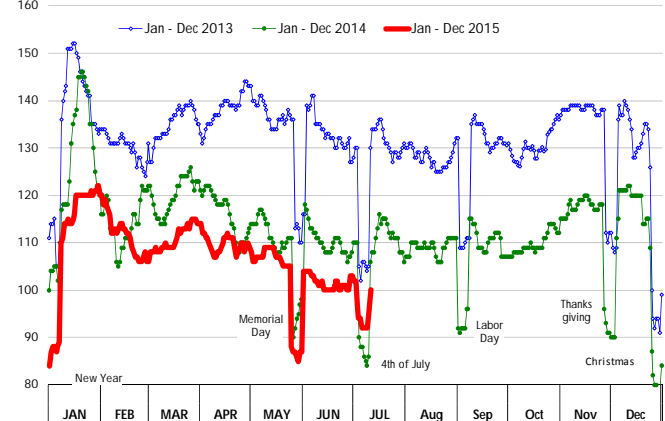
Ratio of Female Slaughter (Heifers + Cows) To Total US Cattle Slaughter

Weekly Data and 52wk Moving Average. Last Reported Week is June 27, 2015



US COW & BULL SLAUGHTER, JAN - DEC

PRELIMINARY DATA BASED ON DAILY SLAUGHTER ESTIMATES - 7 DAY RUNNING TOTAL



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