Market Outlook

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Cattle Market Dynamics
While a cooling off has occurred since the start of 2015, to say the cattle market was on a hot streak throughout much of 2014 should be viewed as an understatement. The reasons behind the seismic run-up can be boiled down to limited supplies and robust demand. The story line of tight supplies was not new, nor earth shattering, in 2014. In fact, the large majority (if not all) of the livestock/beef market economists had been highlighting this for a number of years. The surprising market event was beef demand, helped in part by limited competition at the meat case.

Supply
The U.S. beef herd is at it's lowest levels since 1962 at 29.70 million head, while Florida's beef cow herd is at 916,000 head. Even prior to 2014 market signals called for herd expansion, but other factors constrained expansion, specifically intense drought. This has created limited inventories in U.S. feedlots as noticed in Figure 1, which have fed through the supply chain and created smaller supplies of beef.

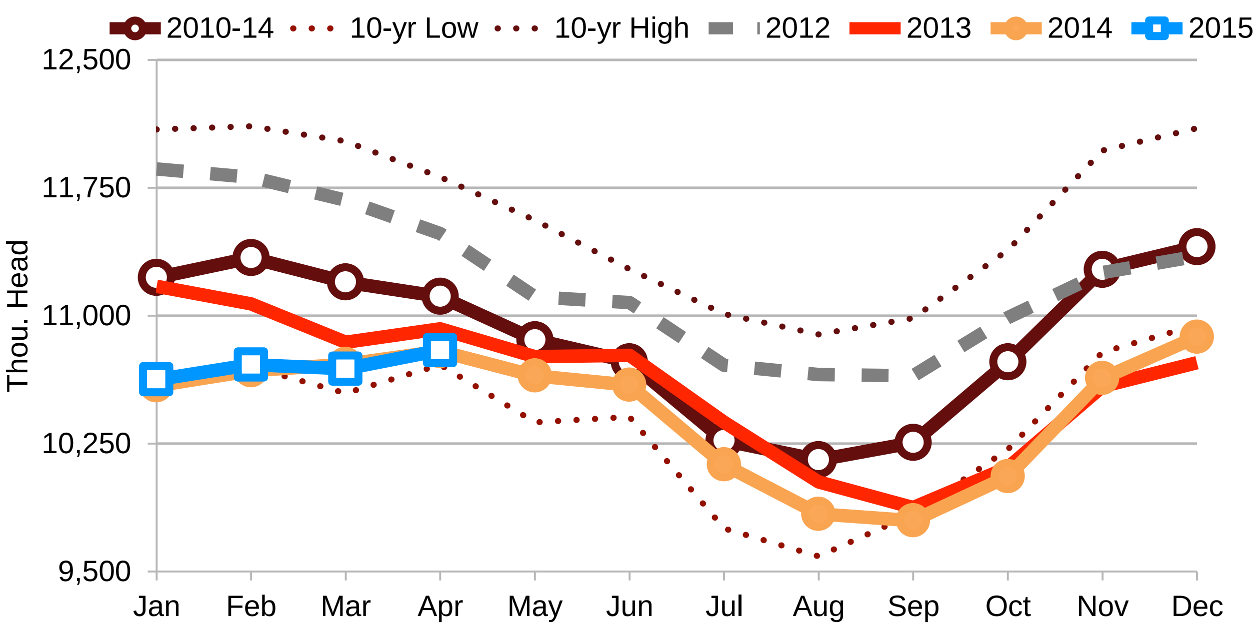

Figure 1. Cattle in U.S. Feedlots (minimum of 1,000 head capacity)

While this has been partially offset by increased weights of cattle in feedlots, overall beef supplies in 2014 totaled 24.323 billion pounds, down 5.7% compared to 2013. Projected beef supplies for the current year, 2015, are 24.281 billion pounds (down 0.2% from 2014).

Signs do point to beef herd expansion. The annual Cattle Inventory report indicated 5.78 million head of heifers were held back with the intention of replacement by U.S. beef producers as of January 1, 2015. Granted, this has shown up in prior years, but market forces have often changed producers' mind and many heifers were moved from heifer development to beef development (i.e., placed into feedlots). However, it does appear that expansion is finally holding ground, as the April 2015 Cattle on Feed report showed heifers on feed down 10% compared to one year ago but mostly on par with the the five year average.

Demand

As noted, demand was the catalyst that created the "perfect storm" in 2014. Figure 2 depicts beef demand as an index. This is the best way to capture beef demand since it takes into account actual beef consumption, beef prices and the prices of competing meats. This provides a comparison of beef demand today versus previous years. Figure 2 highlights that beef demand in 2014 improved 7.5 percentage points compared to 2013, the second largest year-over-year gain since 1980, with growth in 2014 exceeding any expectations by industry experts. This phenomenon was aided by smaller broiler supplies, which kept chicken prices elevated, and smaller pork supplies due to the PEDv epidemic, which kept pork

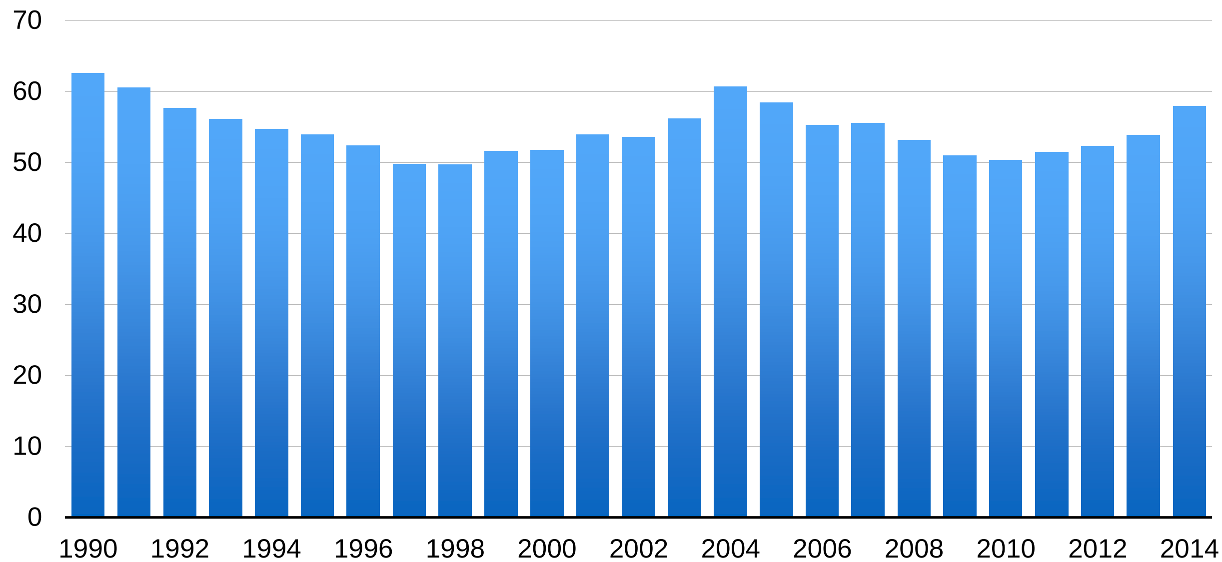

Figure 2. Beef Demand Index (1980=100; 2014=57.89)

prices elevated. As a result, the concern of "sticker shock" for beef products at the meat case was stymied, for the most part, in 2014.

Prices

Prices in 2014 did not maintain any degree of normalcy, meaning the typical seasonal pattern that cattle (and to a smaller extent beef) prices experienced were not noticeable. This was a result of tight supplies in the face of growing beef demand. Thus far in 2015, cattle prices have not maintained their trend higher and beef prices have continued higher. The steadying off of cattle prices has come at the dismay of producers. Keep in mind, though, these remain above year ago levels.

Outlook

The "perfect storm" that brought about the record prices of 2014 appears to have been downgraded to a "tropical depression". Despite cattle prices continuing to be at higher year-over-year levels, producers are depressed that they have not continued to move higher. The aiding factors in 2014 are slowly being erased. Broiler supplies are growing (up until the recent avian influenza outbreaks) and the pork industry now has a vaccine for PEDv. Both are heating up the competition at the meat case.

It is expected that cattle prices will gradually trend lower throughout the year, ending 2015 below the fourth quarter 2014 prices. Herd rebuilding takes time, but available feeder supplies should begin to show up in the first half of 2016 and continue to build moving forward, which will add pressure to prices as the 2010's come to end.

The silver lining will be beef trade. The U.S. dollar was rather expensive — when compared to other currencies across the globe — during the 2014 price increase. This only hindered the overall potential of beef and cattle prices since the result often reduces exports and increases imports. The U.S. dollar has slid lower since mid-March, and current projections point to a good year for beef exports. If this forecast is realized, the pressure on prices will be less severe.

Finally, lower prices at the pump should be viewed as a positive since this would result in more dollars for consumers. First quarter results indicate that some of these dollars landed in savings accounts as opposed to spending — more than expected anyway — but the overall gains of lower fuel and energy prices are generally a good thing for beef and cattle prices.