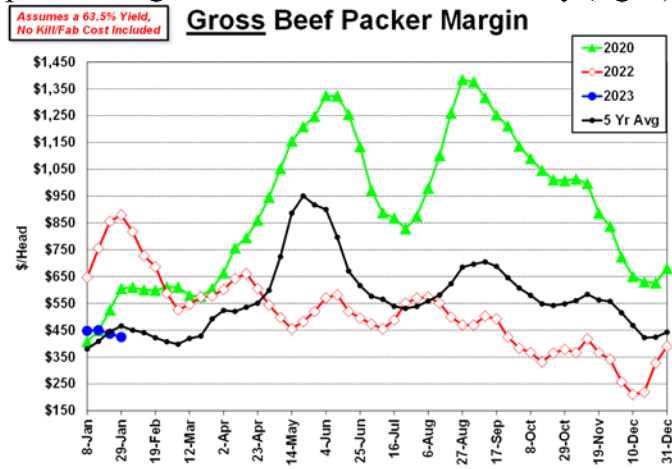


The economy was mediocre at best in 2022. Rampant inflation caused the Fed to raise interest rates. This, in turn, weighed heavily on the stock market. If you look at your retirement account, you might be inclined to say that the economy wasn't mediocre; it was terrible in 2022. On the flip side, the unemployment rate fell to a 50-year low, and the consumer appears to be in decent shape. Supply chains are normalizing, and "real" economy is back to business as usual.

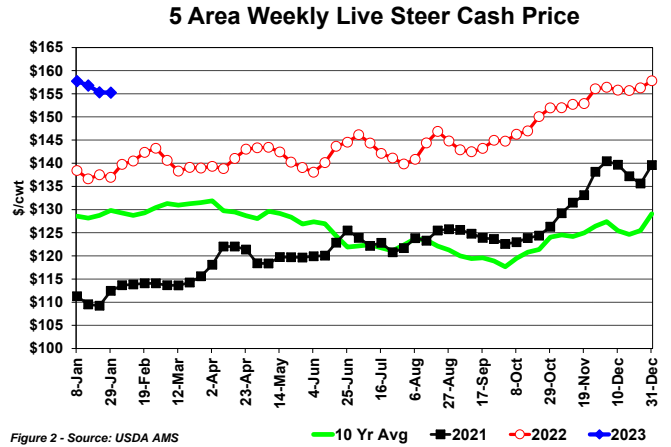
There seems to be a lot of optimism among economists for 2023. Some believe that the Fed's rate hike cycle will come to an end as inflation eases and prices stabilize; this includes energy prices, which took a toll on consumers take home pay in 2022. Personally, I am not willing to bet whether 2023 will be a good year or bad year for the economy. I do believe that the extraordinary event that occurred in 2020 and proceeding government interventions were cataclysmic. I think that it is naïve to assume that we've seen the last of the fallout.

Cattle Overview

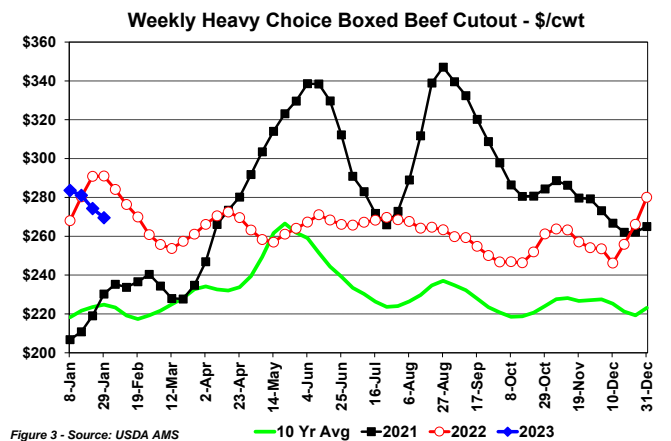
Our biggest concern at the beginning of 2022 was slaughter capacity and potential kill cuts. We were grappling with massive on-feed supplies and wide beef packer margins. Now, our supply of slaughter-ready cattle is manageable for the first time in four years and packer margins are more in-line with history (fig. 1).



The 5 Area Negotiated Cash Steer price has been trading between \$155/cwt and \$160/cwt for seven weeks (fig. 2). It is still early in the week, but the cash market seems to be on firm footing.



Meanwhile, beef prices are slipping. The heavy choice cutout averaged \$5/cwt below the previous week at \$269/cwt (fig. 3).



Seasonally, the cutout declines into late-February. I suspect that packer margins will continue to shrink as beef prices decline quicker than cash cattle prices.

This month's Cattle on Feed report was constructive and in-line with pre-report expectations. On-feed inventories were the lowest for January since 2018 at 11.682 million head (fig. 4).

Monthly US Total Cattle on Feed

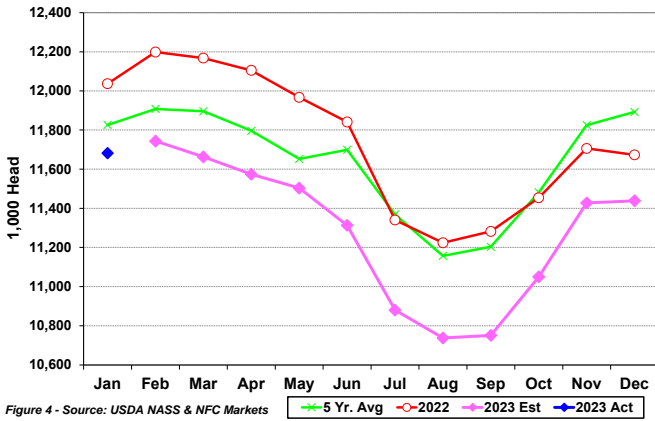


Figure 4 - Source: USDA NASS & NFC Markets

Interestingly, the number of cattle that have been on feed for more than 120 days remains ample (fig. 5). According to our proprietary estimates, however, the front-end supply of cattle should fall below year-ago levels by next month.

Total Cattle on Feed > 120 Days "Front-End Supply"

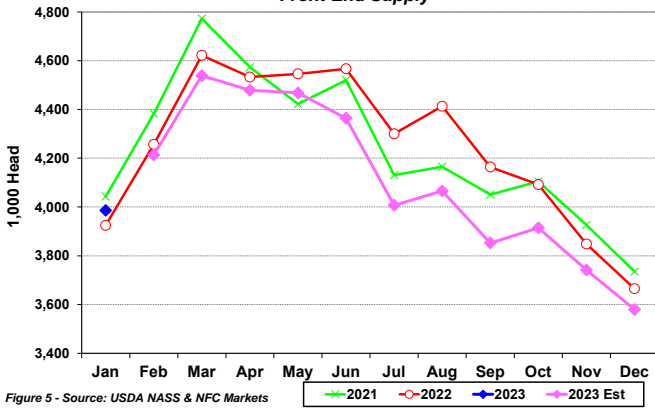


Figure 5 - Source: USDA NASS & NFC Markets

There is an overwhelming expectation for on-feed inventories to decline significantly in the coming year due to less feeder cattle and calf supplies.

Drought, record high hay prices and near record high grain prices forced heavy liquidation of our nation's cattle herd. Federally Inspected (FI) beef cow slaughter in 2022 was the greatest since 1996 at 3.95 million head (fig. 6).

Annual F.I. Total Beef Cow Slaughter

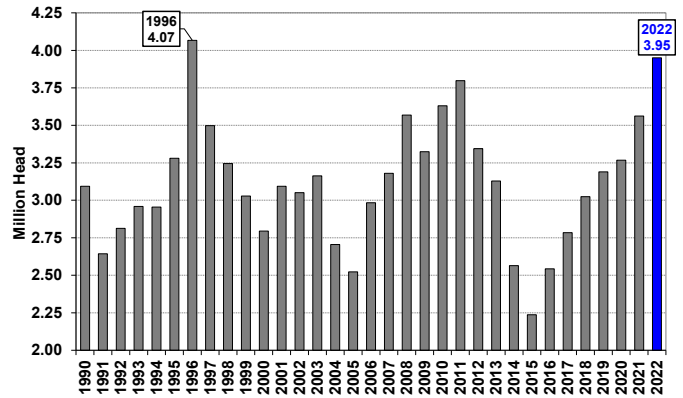


Figure 6 - Data Source: USDA NASS

For nearly three years, the industry has been aggressively liquidating the cattle herd, and fewer beef cows means that there will be fewer calves to feed in 2023. This expectation is subsidizing premiums in both the CME Feeder Cattle and CME Live Cattle futures markets.

The May '23 CME Feeder Cattle future market came alive this morning and looks ready to challenge the December highs (fig. 7). It isn't unusual for the feeder cattle market to trade higher into mid-February before seasonally declining into spring.

Daily May '23 Feeder Cattle Futures Market



Figure 7 - Data Source: CME

The April '23 CME Live Cattle futures market traded and closed into new contract highs on Monday at \$163.25/cwt (fig. 8). Unless we get a major reversal lower this week, this type of price action is promising in the near term.

Daily April '23 Live Cattle Futures Market



Figure 8 - Data Source: CME

Unfortunately, that doesn't mean that it is smooth sailing to higher prices from here. The market will likely encounter tough resistance overhead in the \$165 area and, again, near \$171/cwt. In addition, in four of the previous ten years (2021 and 2022 being the most recent), the contract highs for April LC were made in mid-February. We still have a few more trading days before this could come into play, but it is something to keep in the back of your mind.

Cattle Outlook

Moving forward, our biggest concern is whether we will be able to realize the hefty premiums that are built into the marketplace. The August, October, and December CME Live Cattle futures markets are within a few dollars of the all-time contract highs that were made in 2014 (fig. 9).

Monthly Cont. August Live Cattle Futures 2013 to Present



Figure 9 - Data Source: CME

Whether we realize the friendly premiums will largely depend on corn prices and consumer demand.

The long-term supply outlook is undoubtedly friendly, and almost everyone believes that the market is going higher, which is really what makes me the most nervous. This is the technical theory of contrary opinion.

The theory of contrary opinion is the belief that if everyone expects an asset to appreciate, then the chances of the opposite happening also increase. I am not predicting that this will happen, obviously; it is more of a reminder that things can change quickly. So, stay on top of your risk management. If you are worried about losing potential upside, talk to your broker or give me a call about utilizing options.

This afternoon, the USDA will release the results of its semi-annual survey of US cattle operations. We believe the Cattle Inventory report will show dramatic decreases across every category (Table. A). We will dive into the inventory number next month.

New Frontier Capital Markets

US Cattle Inventory as of Jan 1, 2023

	<i>Estimates</i>	1,000 hd	% of Yr Ago
All Cattle and Calves		90,075	98.0%
Cows and heifers that have calved		38,610	97.7%
Beef cows that have calved		29,300	97.3%
Dairy cows that have calved		9,310	99.3%
Heifers 500# and over		19,375	98.0%
Replacement heifers		9,850	97.9%
Heifers for beef cow replacement		5,450	97.1%
Heifers for milk cow replacement		4,400	98.9%
Other heifers		9,525	98.1%
Steers 500# and over		16,300	98.3%
Bulls 500# and over		2,090	99.1%
Calves under 500#		13,700	98.3%
***Calf Crop (2022)		34,600	98.6%
Cattle on Feed		14,259	97.1%
Implied feeder cattle supply outside feedyards		25,266	98.9%
Grazing on Small Grain Pasture		1,700	99.4%

Table A - Data Source: NFC Markets

The January survey results should help us define the parameters of future feeder cattle supply, although the presumed conclusion of that much tighter supply is imminent.

I will be attending the NCBA convention in New Orleans this week if we don't ice over. If you are there, please send me an email, I would love the opportunity to meet you in person!



This **Monthly Cattle, Grain, and Cotton Newsletter** is written by Kristin Ritchie and reviewed by Daniel Bluntzer with New Frontier Capital Markets, LLC. New Frontier Capital Markets is a full-service agricultural-commodity brokerage specializing in risk management assessment, price analysis, and fundamental market research. **If you have any questions, please give me a call.**

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