CAB® Insider

February 1, 2017

MARKET UPDATE

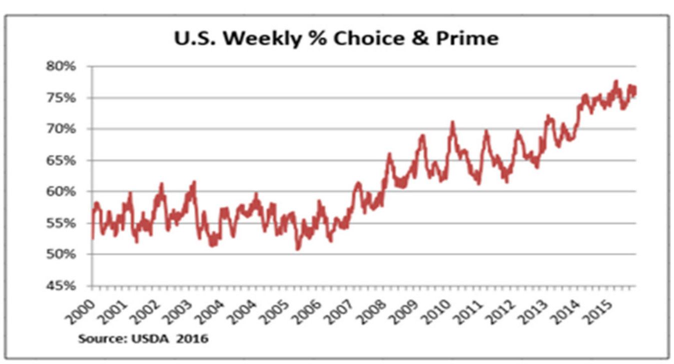
by Paul Dykstra

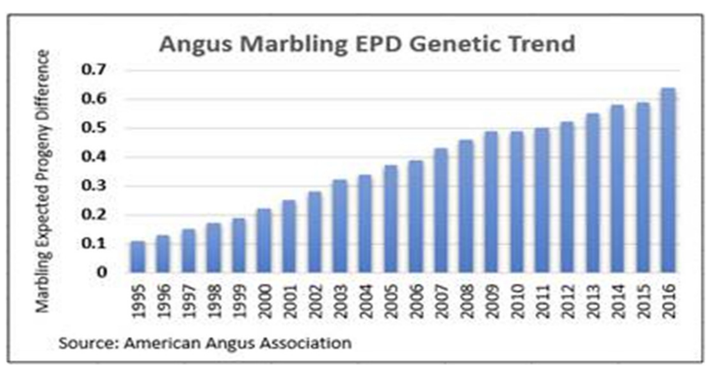
Last week rounded out with a much reduced federally inspected cattle harvest at 577K head due to weather impacts on truck transportation. Likely some production inefficiencies were incurred at packing plants but two weeks of abbreviated cattle numbers may also be a blessing as we head into the poorest beef demand month with smaller beef supplies to push to the market. Fed cattle traded in a range of $120-$124 last week with an average of $122/cwt., the same as reported the week prior. Smaller finished cattle supplies for the next 45 days or so are expected to keep prices in a range between $116 and $124 for several weeks. Larger numbers will come into the market at roughly the same time that spring beef demand increases.

The January 1st Cattle on Feed Report last Friday showed the head count in feedyards with more than 1,000 head at 100% of a year ago (10.6 million head). As well, December marketings were at 107% compared to December 2015 and cattle placed on feed in December were at 118% of a year ago. The overall trend for 2016 showed fed cattle marketed was up 6.8% for the year, totaling 24 million head. Additional growth is expected for the next two years at the rate of 3.5% and 3.0%, respectively. The bottom line for that scenario is a growing supply, at a slowing pace, and a lower price outlook for fed cattle.

There are several reasons we've seen this tremendous change over the last decade. One of the most significant is improvement in Angus genetics. Note the Spring 2017 update for the Marbling EPD in registered Angus cattle (right).

	Last Week	Prev. Week	Previous Year
Weekly Slaughter	577K	569K	570K
Fed Cattle Price	$122	$122	$136
Steer Carcass Wt.	898	905	898
CAB cutout	$197.90	$197.10	$229.80
Choice cutout	$188.30	$186.90	$213.10
Select cutout	$183.00	$181.10	$207.30
CH/SE spread	$5.30	$5.80	$5.80
CAB/CH spread	$9.60	$10.20	$16.70
Beef Index	$186.50	$185.10	$211.50
Pork Cutout	$80.80	$77.60	$76.70
Live Hogs	$65.10	$65.10	$36.80
Chicken Index	$65.30	$65.10	$60.40

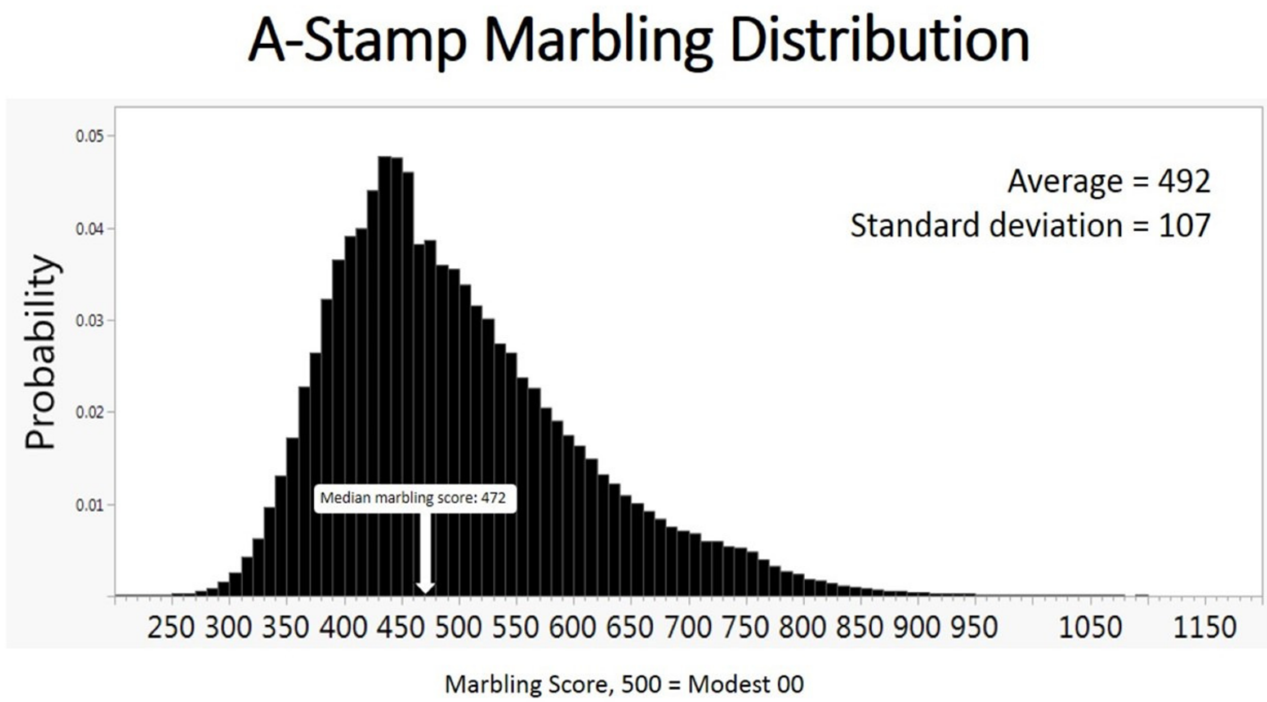




The pure numbers themselves are less important than the fact that Angus breeders are responding to the demand for CAB through genetic selection.

Boxed beef prices gained a little strength last week, the CAB cutout up 80¢ to average $197.90/cwt., while Choice was up $1.40/cwt. and Select up $1.90/cwt. The price spreads are narrowing seasonally due to two factors. First, middle meats tend to carry the larger price spreads on higher quality beef, and on the backside of the holidays, we're seeing those middles come back down in terms of their price impact on total carcass value. That creates a smaller overall price spread between the differing quality levels. Second, we tend to see the highest quality grades of the calendar year during the first quarter because heavy yearlings are the featured class of cattle being harvested. More age and weight tend to favor marbling. As we move into the calf-feds (placed on feed last fall), we'll see weights decline along with quality grade beginning in late March.

Regarding the subprimals, ribeyes are trending lower toward their post-holiday low, typically in February. Strip loins and tenderloins are following that trend but should catch some price support prior to spring demand. Top butts and tri-tips moved slightly higher last week on the Urner Barry report and history says that we shouldn't expect them to be any cheaper moving forward this quarter. End meats last week saw very mixed price direction with the chuck primal cheaper but clod tenders, chuck tenders and deckle-off briskets slightly higher. The round gained in price based on knuckles, as well as insides and outsides. Thin meats were priced a bit stronger with grinds a bit cheaper.



Results of the 2016 Consist Study detailed below can be represented as the percentage of each Marbling Score's occurrence in the population.

CAB Consist Study shows why marbling still commands value

In 2016, CAB staff conducted a study with the cooperation of packing company partners to classify cattle eligible for the *Certified Angus Beef*®. This "Consist Study" is just the latest in a series of five such surveys since 2008 to help us better understand what affects acceptance of carcasses into the brand. Last year's version included 850,000 carcasses harvested during three periods of two week each. The four key carcass specifications sampled, out of CAB's 10, were ribeye area, hot carcass weight, backfat thickness and marbling.

We conduct the research to see why eligible carcasses fail to meet CAB specifications. The overwhelming reason is "not enough marbling," and that hasn't changed in each of the respective studies. While all of the 10 specs are important to achieving a consistent, highly-satisfying eating experience, the requirement for a marbling score equal to or greater than "Modest 00" (Premium Choice) is the most commonly deficient factor. That fact is so prevalent that 92.6% of A-stamped cattle (Angus-type) failing to meet brand standards do so because of insufficient marbling. The good news for cattlemen is that the average marbling score in the study was 492 points, just 8 points shy of the "Modest" marbling category. That means a lot of eligible cattle are just shy of making it into the CAB brand. The potential improvement in CAB acceptance that could result from just a bit more selection pressure for the marbling EPD in the average Angus-based cow herd is fairly significant. That's why we see some of the most focused producers reaching 50 to 75% CAB acceptance.

In other traits, the study showed carcass weight and ribeye size have increased in recent years. The upper limit for carcass weight at 1,050 lb. was augmented upward from 999 lb. in the fall of 2014 to keep in step with industry trends. Even so, data from the study shows that 9.1% of those eligible carcasses were not accepted as CAB as they exceeded that upper weight limit while some of those "heavies" also fell short on marbling.

The brand's acceptable ribeye area window of 10-16 square inches tends to limit only on the upper end. After all, heavier carcass weights bring along larger ribeyes for all cattle, an industrywide trend. Being over the 16-sq.-inch limit resulted in the disqualification of 11.2% of carcasses in the study, while just 0.4% were under the 10-sq.-inch minimum. As some carcasses were unsuccessful for more than one reason, total percentages exceed 100%.

Finally, the 1" ceiling on backfat removed just 3.5% of carcasses from consideration for CAB. Our data analysis over the years suggests that 0.55 inches of backfat provides for the optimum combination of marbling while maintaining an acceptable lean-to-fat ratio across the carcass.

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