



CAB[®] Insider

February 15, 2017


MARKET UPDATE

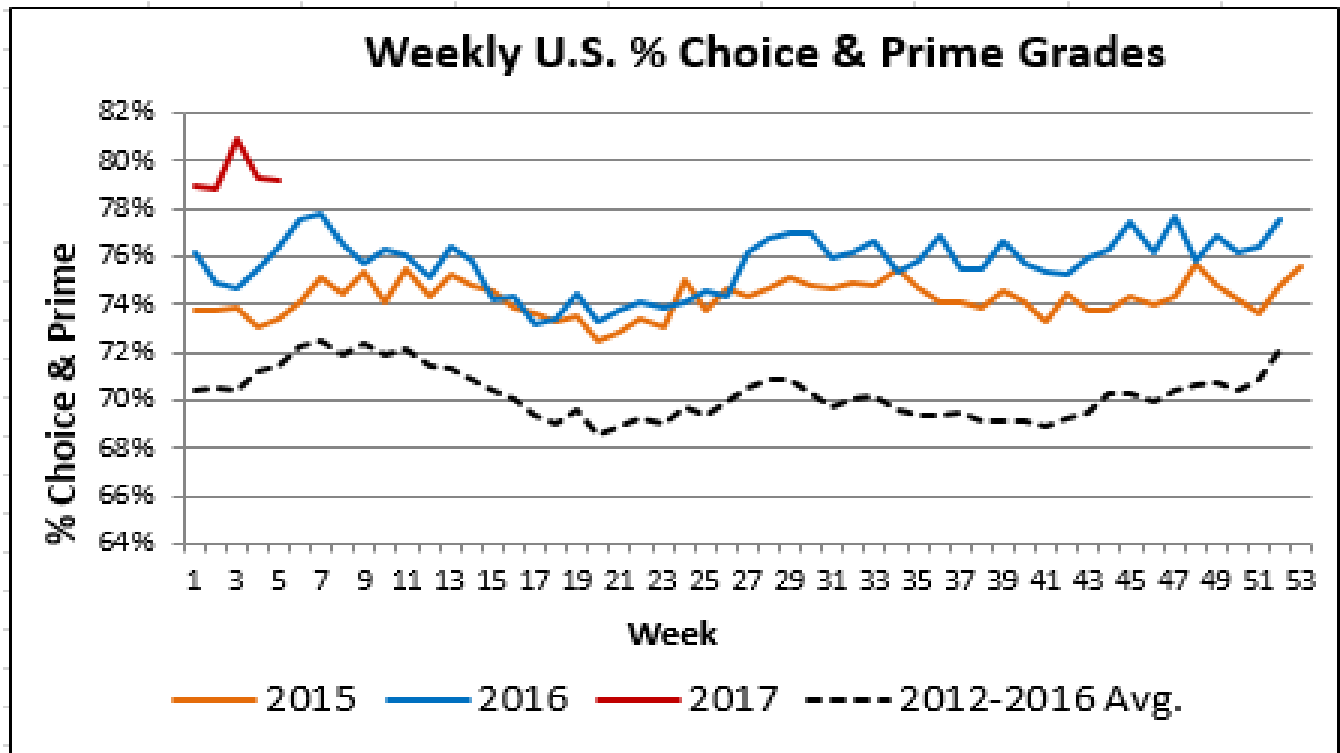
by Paul Dykstra

The fed cattle market is holding up exceptionally well, considering seasonal pressure on the overall beef complex. The Fed Cattle Exchange internet auction saw average prices last Wednesday at \$117/cwt. with 58% of the listed cattle actually being sold. The market followed through on Thursday with feeder-packer cash trade averaging \$120/cwt. The harvested total of 574K was down about 3% from the prior week as packers are content to slow the pace of their weekly head counts a little as their profit margins are said to be negative now. Cattle supplies are adequate compared to demand at this time but a bit of the leverage has shifted to the feedyards for the time being.

Quality grades are moving in favor of premium brand sales with the last two weeks showing a U.S. average of 73-74% Choice and 6.3% Prime, or 80% combined for all graded steers and heifers (see related story below). That modern-day record share of combined Choice and Prime surpasses the same two-week period a year ago by about 5 percentage points. CAB acceptance rates in January were 28% while carcass weights were 10 lb. lower than a year ago with steers at 889 lb. in the 3rd calendar week of the year, the latest week with USDA data.

Boxed beef prices moved lower last week as we observe some of the expected negative price pressure on beef. Each of the quality levels were priced lower, but CAB and Choice lost more ground than Select, narrowing the price spread between Choice and Select to \$3.40/cwt. in the weekly average. Longtime observers know the Choice/Select spread is typically narrow going into late winter with quality grade at its annual richest (% Choice and Prime) and the relatively greater supply creating less premium for higher quality product. Further pressure on beef demand during February/March also narrows the premium margins between the quality grades. Subprimal pricing on the weekly Urner Barry report shows more seasonal action. End meats needed discounting to sell and middles remained under pressure with grilling season a distant dream for orders. Plates saw upward price movement as inside skirts made a huge move from early January's \$3.29/lb. to last week's \$4.45/lb., a trajectory that is uncommon for February and moving toward the month's 5-year high seen in 2015. Flank steaks are steadily higher but as they are still almost \$1/lb. lower than the past two years, we expect them to keep the steady upward trend into mid-summer.

			
	Last Week	Prev. Week	Previous Year
Weekly Slaughter	574K	593K	547K
Fed Cattle Price	\$120	\$119	\$132
Steer Carcass Wt.	884	889	898
CAB cutout	\$196.90	\$199.60	\$222.60
Choice cutout	\$187.20	\$189.80	\$208.80
Select cutout	\$183.80	\$185.30	\$204.10
CH/SE spread	\$3.40	\$4.50	\$4.70
CAB/CH spread	\$9.70	\$9.80	\$13.80
Beef Index	\$185.90	\$188.20	\$207.50
Pork Cutout	\$83.60	\$82.30	\$75.10
Chicken Index	\$65.80	\$65.30	\$60.50



Seasonal quality grade trend

February is one of the two time periods that brings on some of the richest quality carcasses (highly marbled) in a calendar year as we look at combined Choice and Prime percentages. The most recent 5-year weekly grading averages clearly show February as the annual peak in quality grades. However, in the past two years, the November-December grading data has shown peaks in % Choice and Prime rivaling or surpassing the February high seen in the same year. As an industry, we tend to associate the fourth-quarter grade spikes with “age-advantaged” cattle or the true “grass yearlings” that are actually closer to 18 months old when finished and harvested. As well, the replacement heifers failing to conceive are found in the late summer and fall pregnancy check routines, placed in a feedlot and finished in the fourth quarter. They tend to grade exceptionally well.

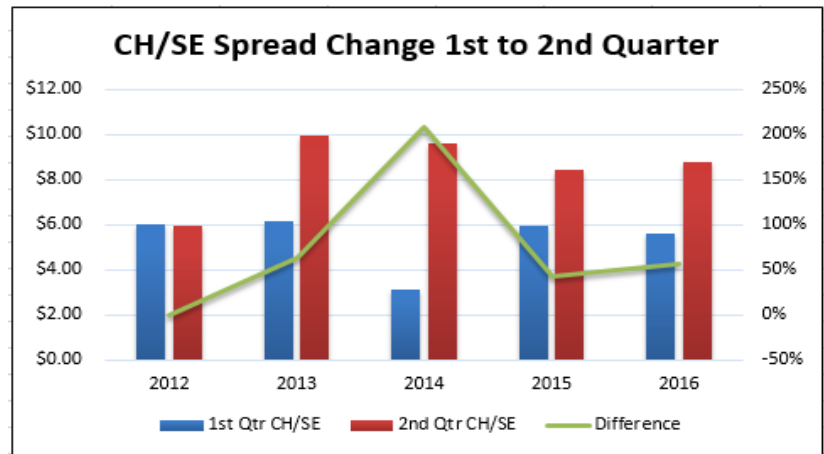
We continue to see fall born calves that have been stretched out on grazing programs and additional yearlings coming to harvest through February. In 2017, the quality grade spike has jumped out of the gate with a modern-era record grading average the week of January 16th highlighted by a combined percentage of 80.9% Choice and Prime (74.5% Choice, 6.4% Prime). The first five weeks of the year have averaged 79.5% Choice and Prime, so this is a very strong pattern to kick off the year. The second quarter will bring on slightly lower quality grades as we move into harvesting the spring calf-feds, but the magnitude of that decline may be only 3 percentage points lower if the past two years are any indication.

Price impacts of seasonality

In last week's USDA report, the grid premium for Choice over Select was just \$3.90/cwt. The first inclination would be to blame the narrower Choice-Select spread on the larger supply discussed above, but that's just a small piece of the puzzle. The period also aligns with what are traditionally the two weakest beef

demand months of February and March. Since beef is trending lower in price and the demand pull is weaker, the packers' ability to drive a wide price margin between Select, Choice, CAB® and Prime is depressed until buyers ramp up their interest ahead of spring grilling season.

That factor is much more important than a couple of percentage points in the % Choice captured. It's hard to forecast price trends for the second quarter, but the increase in the Choice/Select spread from the first to second quarters over the past 5 years has averaged \$3.19/cwt. with a fair amount of variability, including a negative trend in 2013. Note that in early 2014, boxed beef cutout prices were increasing rapidly from around \$2/lb. to \$2.25/lb. in a matter of about 10 weeks. Immediately after that shift had occurred, demand for Select product faded rapidly in the second quarter.



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