



# CAB<sup>®</sup> Insider

March 1, 2017

## MARKET UPDATE


by Paul Dykstra

Any doubt that harvest-ready cattle are in short supply this season was removed last week as packers fought to fulfill their unsecured immediate needs in the cash market. The Fed Cattle Exchange set the tone early when the average \$122.10/cwt. found 92% of the listed cattle sold, compared to 32% the week prior. Packers kept increasing bids to feedyards through active trade on Thursday, achieving a \$124/cwt. average for the week, and reports had isolated auction markets bumping \$130/cwt. by the weekend. All indications suggest finished cattle are, indeed, hard to come by today, but larger calf-fed supplies are expected to surface in April. Packers likely have more cattle forward-contracted with feedyards from April through June, which could dampen prices some as we move into that period. Average steer carcass weights the first week in February declined 8 lb. from the week before, and 12 lb. from a year ago. Lighter year-on-year carcasses equate to missing 4,700 head of steers in the week's harvest, just shy of one day's production at a large packing facility.

USDA's February Cattle on Feed Report last Friday showed an 11% increase in January placements compared to a year ago while those marketings were 10% up, and the "on feed" head count in feedlots of at least 1,000-head capacity was up 1% in that comparison.

Weekly average carcass cutouts were fairly strong, the Choice value up by \$4.50/cwt., but the daily spot market was even more dramatic: Monday through Friday saw a price advance of \$6.60/cwt. with the Friday Choice cutout at \$195.30/cwt. Monday and Tuesday of this week saw further sharp increases, with Choice product as high as \$204/cwt. in the USDA report, slightly higher than Urner Barry's figure. Spot-market CAB<sup>®</sup> cutout saw a smaller weekly gain of \$3.60/cwt. last week, reducing the CAB-Choice spread to \$10/cwt. for more sales opportunities. Overall price increases link to tighter supplies with packers harvesting 4% fewer cattle per week than last year's 4th quarter. As well, looking ahead to spring beef demand has begun to push markets seasonally higher.

The loin was the price driver for the week, with CAB top butts continuing higher as strip loins come off of their February price lows. Tenderloins remain at their seasonal low. The CAB round was up \$4.69/cwt., a bit more than the rib primal. Overall, prices were modestly higher, the majority direction upward and the market trend firmly positive.

			
	Last Week	Prev. Week	Previous Year
<b>Weekly Slaughter</b>	575K	572K	541K
<b>Fed Cattle Price</b>	\$124	\$119	\$136
<b>Steer Carcass Wt.</b>	879	887	891
<b>CAB cutout</b>	\$201.60	\$198.00	\$232.30
<b>Choice cutout</b>	\$191.60	\$187.10	\$216.80
<b>Select cutout</b>	\$188.50	\$184.60	\$209.10
<b>CH/SE spread</b>	\$3.10	\$2.50	\$7.70
<b>CAB/CH spread</b>	\$10.00	\$10.90	\$15.50
<b>Beef Index</b>	\$190.00	\$185.80	\$214.70
<b>Pork Cutout</b>	\$83.10	\$84.50	\$74.20
<b>Chicken Index</b>	\$67.50	\$66.50	\$59.20

Industry Average Pen		
Category	%	\$/Cwt. Impact
Prime	5%	\$1.00
CAB®	17%	\$0.85
Choice	75%	\$2.11
Select	20%	(\$1.87)
<b>QG Total</b>		<b>\$2.08</b>
YG 1	5%	\$0.20
YG 2	30%	\$0.60
YG 4	15%	(\$1.05)
YG 5	0%	\$0.00
<b>YG Total</b>		<b>(\$0.25)</b>
<b>Premium / Cwt.</b>		<b>\$1.83</b>
<b>Premium / Head</b>		<b>\$16.31</b>

## Quality vs. Dress in grid marketing

The average cattle feeder wants to be rewarded for above-average quality of course, but many have lamented that grid marketing is mostly about dressing percentage. You know, the pounds of hanging-carcass yield after removal of head, hide, hooves and offal. Well, let's take a closer look.

As a singular factor, we know "dress" is important. Falling below the industry standard of 63.5% dressed weight means we start out on the grid several dollars behind the alternative "live weight" sale price. Cattle that hang more pounds of saleable carcass weight as a percentage of live weight obviously put us at an advantage.

High Quality Pen		
Category	%	\$/Cwt. Impact
Prime	15%	\$3.00
CAB®	55%	\$2.75
Choice	85%	\$2.39
Select	0%	\$0.00
<b>QG Total</b>		<b>\$8.14</b>
YG 1	0%	\$0.00
YG 2	20%	\$0.40
YG 4	25%	(\$1.75)
YG 5	0%	\$0.00
<b>YG Total</b>		<b>(\$1.35)</b>
<b>Premium / Cwt.</b>		<b>\$6.79</b>
<b>Premium / Head</b>		<b>\$60.36</b>

The rest of the grid proposition plays out through premiums and discounts based on carcass quality grade, including CAB® brand premiums, along with yield grade (lean-to-fat ratio) and "outs" due to nonconformance. Let's focus on the quality grade and yield grade items since they are the primary dollar drivers. The tables depict the difference (\$/cwt./head) when comparing an industry-average pen of cattle to one featuring a high quality grade.

The tables apply a fairly representative set of grid premiums and discounts to the two pens of steers. We can banter about what the grade percentages should be on the high-marbling cattle, but I've used figures well below the extreme end of what we see for quality grade. I've used the 2016 annual average Choice/Select spread of \$9.37/cwt., much wider than it actually is today. Note that I've also adjusted the Yield Grade 4 percentage higher

(disadvantage) for the high-marbling pen, for argument's sake.

Live Weight	Dressing %	Hot Carcass Weight	Weight Difference	\$ Per Head Difference
1400 lb.	62.5%	875	14 lb.	<b>\$27.30</b>
	63.5%	889		

Results show we can add a \$6.79/cwt. premium to the high-marbling pen over the cash market, a \$44.05/head advantage

over the industry average pen. In contrast, if we focus strictly on dressing %, a fairly common 1-point difference above or below industry average creates a \$27.30/head impact with a base price of \$195/cwt. and live weight of 1,400 lb. Ideally, we'd own multi-faceted cattle that will give up nothing in dressing % and simply capture further premiums. However, the quality driver can overcome the dressed-yield driver in cases such as these example pens.

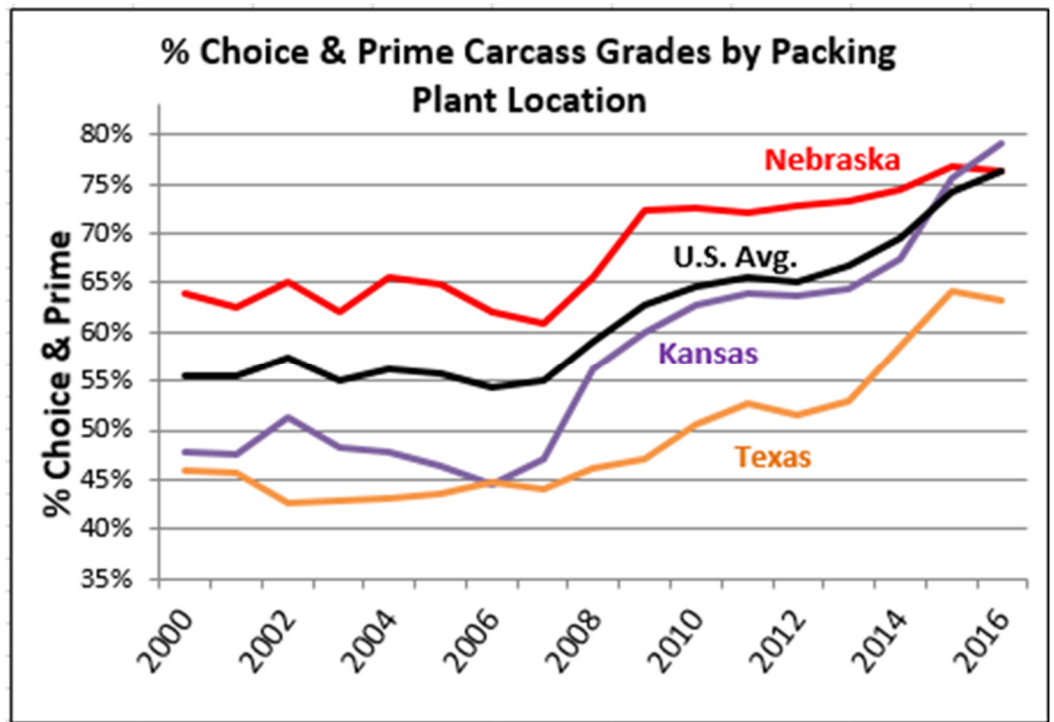
# Kansas ends Nebraska's epic quality grade reign

Since the year 2000, when USDA started reporting quality grade trends individually for the "big three" beef packing states of Nebraska, Kansas and Texas, it has been a foregone conclusion that Nebraska packers would post the highest percentage of Choice and Prime carcasses of the trio. In fact, just 10 years ago the gap between Nebraska and second-place Kansas was 14 percentage points (61% vs. 47% Choice and Prime).

However, Kansas packers saw the quality of their purchased cattle increase dramatically in the past decade, sometimes posting higher quality numbers than their northern counterparts in calendar 2015.

Amazingly, a new era may have dawned in 2016 as Kansas packers overtook the throne, surpassing Nebraska

packers by a margin of 2.4 ppt. with a whopping 79% combined Choice and Prime (75% Choice, 4% Prime). As marginal as that difference may seem, it's the magnitude of improvement over time that is noteworthy. The U.S. average for Choice and Prime grew at a rate of 21 ppt. in the past 10 years while Kansas packers tallied a 32-ppt. gain for the same period.



## Don't miss these recent columns and articles:

- *On Target*: Earlier is better  
<http://www.cabpartners.com/articles/news/3133/OnTargetMar17.pdf>
- Finding flavor, incentivizing more  
[http://www.cabpartners.com/articles/news/3127/CAB\\_TasteResearch\\_NR.pdf](http://www.cabpartners.com/articles/news/3127/CAB_TasteResearch_NR.pdf)

## Video news releases:

- Beef grades climb in 2016  
<https://www.youtube.com/watch?v=2MiL5MOACSQ>  
Investing in, trusting technology  
[https://www.youtube.com/watch?v=jDAvi\\_PYWKS](https://www.youtube.com/watch?v=jDAvi_PYWKS)

CAB® INSIDER is presented  
in partnership with



Remember, CAB® Insider is archived at <http://www.cabpartners.com/news/cabinsider/>  
To subscribe to CAB Insider and Feed-Lot eNews, text the word "FEEDLOTNEWS" to 22828