



CAB[®] Insider

April 12, 2017

MARKET UPDATE

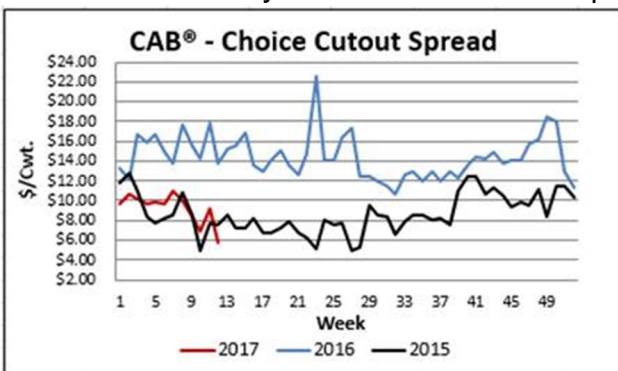
by Paul Dykstra

Fed cattle prices retreated a bit more last week as predicted for April. Packers asserted their position on Wednesday with bids not high enough on the internet Fed Cattle Exchange to buy a single one of the 3,572 head offered on that auction. While cattle feeders were not willing to accept the lower price on Wednesday, it was almost predestined that the market would be lower for the week. The \$127/cwt. average cash price developed late on Friday and may be considered a victory for feeders in that it wasn't any lower. The challenge: Cattle Fax notes the largest year-over-year increase in fed cattle supplies will occur in the second quarter of 2017, projected up 6.5%.

We know packers had many more head forward-contracted for April, creating a very small need for them to buy cattle in the weekly cash trade, but we are also seeing plenty of pressure on boxed beef prices. Urner Barry cutout prices in the table show much lower values, with CAB product down \$4.60/cwt., Choice down \$5.67 and Select lower by \$7.90/cwt. These moves have created marginally wider price spreads between the cutouts, though narrower than a year ago. The CAB/Choice spread fell most, but then it had the farthest to fall from \$16.80/cwt. a year ago (see chart). The smaller fed cattle harvest last week (573K head) may have helped put a stop to the declining price momentarily as packers curtail supply.

That \$4.60/cwt. decline in CAB cutout took in most sub-primals, but the rib primal held strong and regained a few cents. Wholesale ribeyes have been steadily near \$7.87/lb. for the past 4 weeks, although our five-year average shows

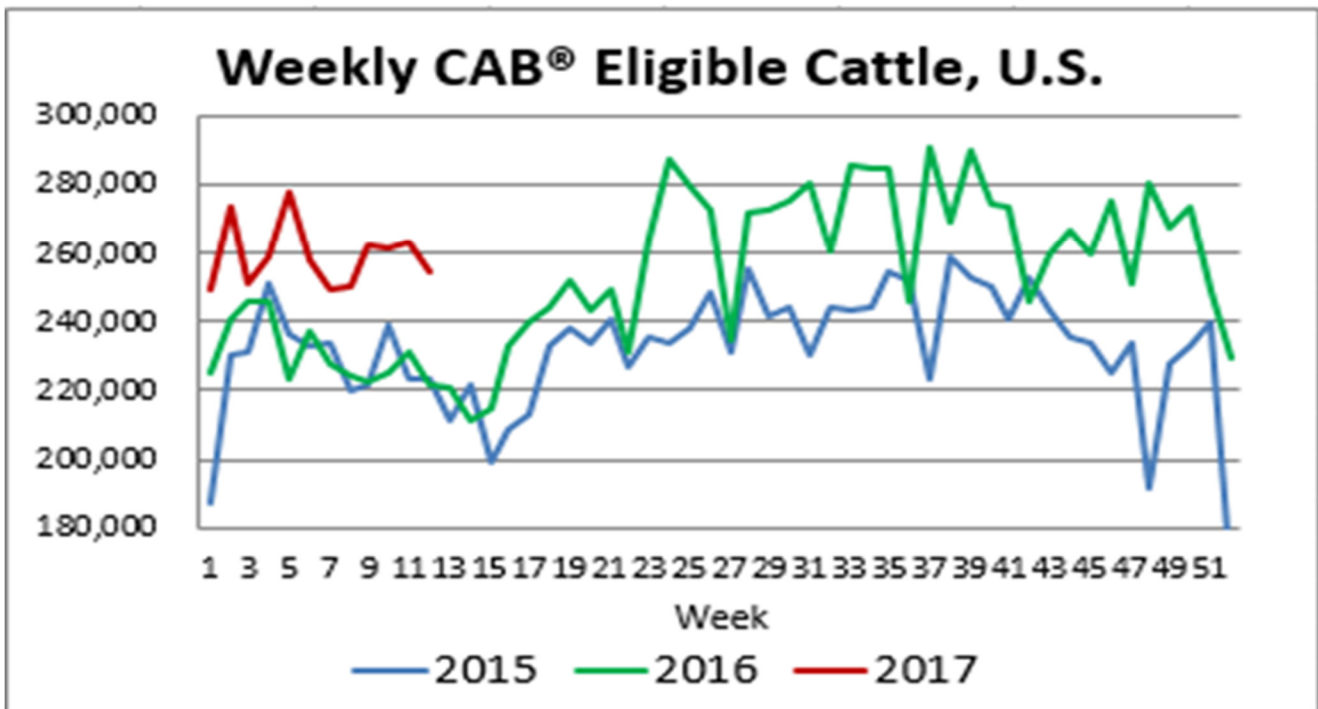
	Last Week	Prev. Week	Previous Year
Weekly Harvest	573K	593K	536K
Fed Cattle Price	\$127	\$129	\$134
Steer Carcass Wt.	868	872	887
CAB cutout	\$215.00	\$219.60	\$232.40
Choice cutout	\$206.50	\$212.70	\$215.60
Select cutout	\$199.60	\$207.50	\$207.40
CH/SE spread	\$6.90	\$5.20	\$8.20
CAB/CH spread	\$8.50	\$6.90	\$16.80
Beef Index	\$204.10	\$210.50	\$213.20
Pork Cutout	\$75.00	\$76.90	\$76.80
Chicken Index	\$77.10	\$76.80	\$64.10



April as a likely dip before seasonal strength in May-June. That 5-year pattern would have been even more pronounced except for the anomaly year of 2015. In contrast, the loin primal was hit hard last week with a \$9.28/cwt. decline in price, tri-tip and flap meat the only positives. In the past two years, loins increased significantly to their annual highs in May-June.

Rounds were also much weaker last week with an overall negative \$8.32/cwt. move.

Insides were down \$0.25/lb. while goosenecks, knuckles, outsides and round eyes were down between \$0.05/lb. and \$0.12/lb. The chuck traded both sides of unchanged with a net decline of \$3.22/cwt. Some of the thin meats showed price increases including flap meat, outside skirt and pectoral meat. CAB grinds are all trading in a relatively seasonal pattern, which means they are also priced lower after the March cutout price increases.

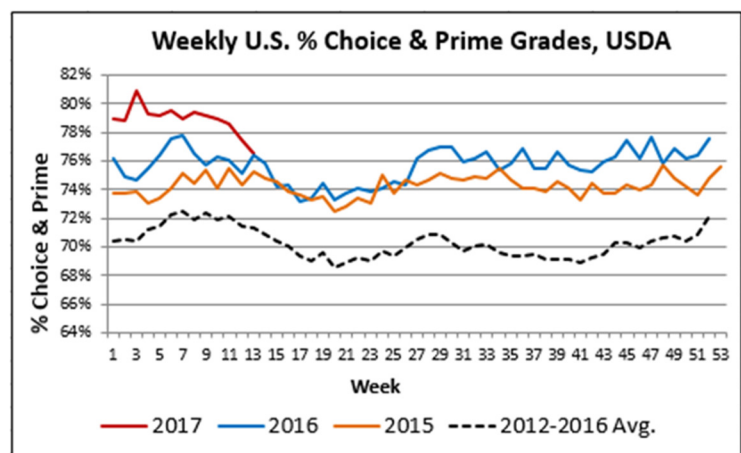


Supply shaping up to meet growing demand

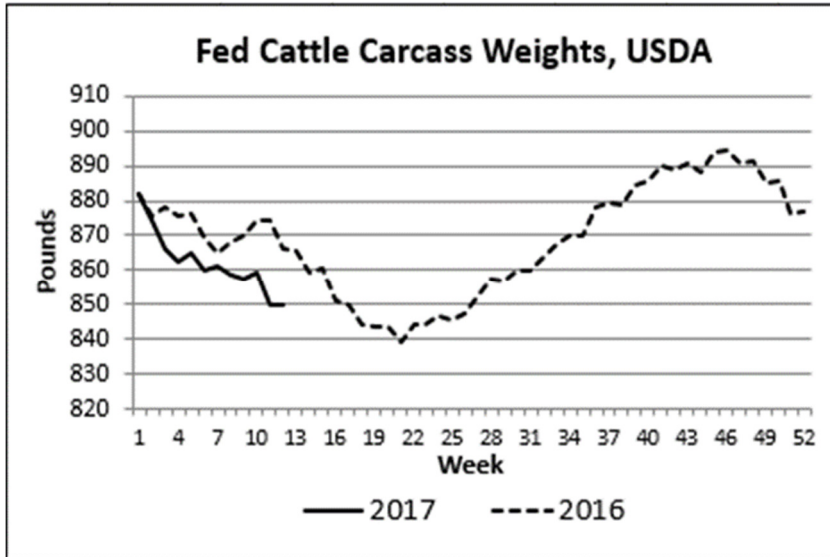
Regular readers and aficionados of all things related to high-quality beef recognize that the *Certified Angus Beef®* brand only succeeds on pull-through consumer demand. Another important, yet little discussed feature, is availability. CAB happens to be the most widely available brand in the Premium Choice category, produced by more than 85% of the federally inspected fed cattle packing base (by volume) in North America. In the U.S. last year, those licensed partners branded 17% of all fed cattle carcasses with the CAB logo while demand models showed room for more. Supply growth continues in calendar 2017 with another amazing first quarter: the share of black-hided, Angus program-eligible cattle increased by 2.5 percentage points over Q1 of 2016 to average roughly 64.5%. Harvested fed cattle head counts were up 7% for the period and, combined with the stronger eligibility influence, supplied the marketplace with 12% more carcasses for USDA graders to evaluate under the brand's 10 carcass specifications.

Q1 quality grades fall off in rapid decline

With marbling the most influential of the CAB brand's 10 carcass specifications, record Choice and Prime grading in the first quarter has been a further boon to brand supply. More of those eligible carcasses are passing the muster into mid-Choice quality grade and above. All USDA-graded fed cattle in the first quarter of



2017 averaged 72% Choice and 6.2% Prime, up 2.3 ppt. and 0.5 ppt., respectively, compared to Q1 2016. This is easily a record performance for the quarter and 10 percentage points higher than first quarter performance just 5 years ago. Posting a combined Choice and Prime percentage of 3 points higher than last year's record first quarter is impressive, but doing so with a more current fed cattle supply is more significant. While solid data regarding days on feed is hard to come by, we do know that combined steer/heifer carcass weights



were 11 lb. lighter than a year ago for the quarter as feeders marketed aggressively into a bearish outlook. That fact seems to be weighing on what has become a rapid decline of 3 ppt. in Choice and Prime carcasses over a 5-week period beginning late February. History suggests another 2- to 3-point decline could be in store by early May, setting the market up for a seasonal spring increase in price spreads between CAB, Choice and Select.

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