



# CAB<sup>®</sup> Insider

May 24, 2017

## MARKET UPDATE

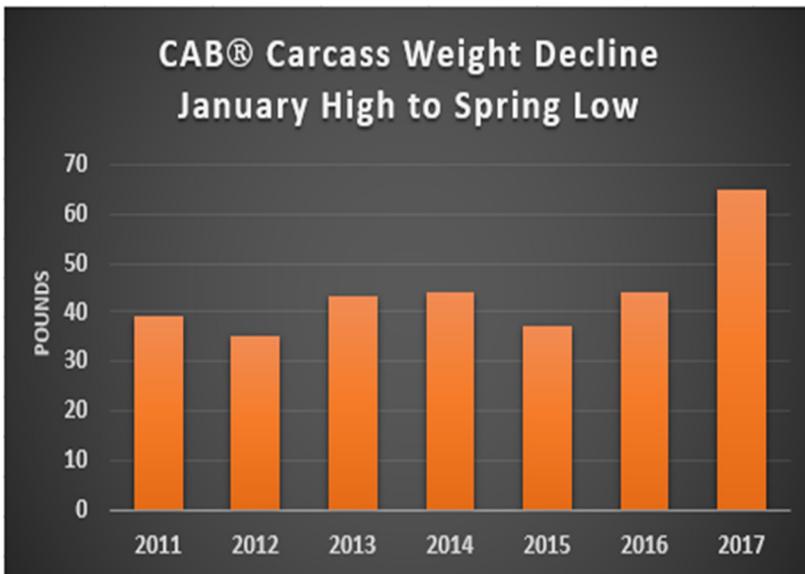
by Paul Dykstra

Last week's fed cattle was a continuation of the recoil downward from the \$144/cwt. spring market high now more than two weeks behind us. Packer bids materialized later in the week than in the preceding weeks, with the bulk of the trade occurring last Thursday at \$134/cwt. While prices are abruptly lower in a two-week period, some were surprised that the decline wasn't worse, and feeders with cattle to sell on the cash market were willing to do so as the downward trending market suggests they should.

The weighted average USDA fed cattle carcass weight for the first week in May declined 17 lb. from the prior week to 811 lb., 33 lb. lower than the same week a year ago. We have continued to describe the ultra-current market conditions as the primary driving force behind the lower weight trend this season. However, the significant snow storm that impacted western Kansas and surrounding areas on May 1st likely exacerbated the issue because cattle showed significant stress and weight loss. We typically see fed cattle weights at their annual low in the 3rd or 4th week of May, but the timing of this year's low remains in question since this major weather event has occurred just ahead of the normally expected annual carcass-weight low.

	This Week	Previous Week	Previous Year
Weekly Slaughter	602K	612K	590K
Fed Cattle Price	\$134	\$138	\$131
Steer Carcass Wt.	832	847	862
CAB cutout	\$248.80	\$248.90	\$232.20
Choice cutout	\$241.80	\$241.50	\$219.50
Select cutout	\$220.10	\$222.40	\$202.20
CH/SE spread	\$21.70	\$19.10	\$17.30
CAB/CH spread	\$7.00	\$7.40	\$12.70
Beef Index	\$235.90	\$235.60	\$214.70
Pork Cutout	\$84.70	\$79.80	\$82.00
Chicken Index	\$85.30	\$82.80	\$66.30

The *Certified Angus Beef*<sup>®</sup> (CAB<sup>®</sup>) carcass cutout value was essentially unchanged in last Thursday's weekly summary, showing just pennies to the downside. All in all, it's been a historic price run-up into the middle of Beef Month and prices could logically be expected to subside as packers pay less for fed cattle. Now that Memorial Day wholesale buying is complete, we're at a logical spot in the market for end-users to balk at the higher spot-market prices. We're already seeing that as many items in last week's report moved lower. Outside of demand for CAB ribs in last week's report (up \$0.15/lb.) we'd have seen a more noted negative tone to the cutout as the round and chuck items failed to see much interest. Loin ball-tips, tri-tips and flap meat also posted positive price direction, but these were not enough to outweigh the adjustment lower on the whole loin primal as prices for strips, sirloins, tenderloins and top butts were all in negative territory. CAB grinds are moving higher with ground chuck 20 cents higher than a year ago at \$2.40/lb. Ground sirloin and round, while ticking upward, are no pricier than a year ago at \$3.45/lb. and \$2.97/lb., respectively.

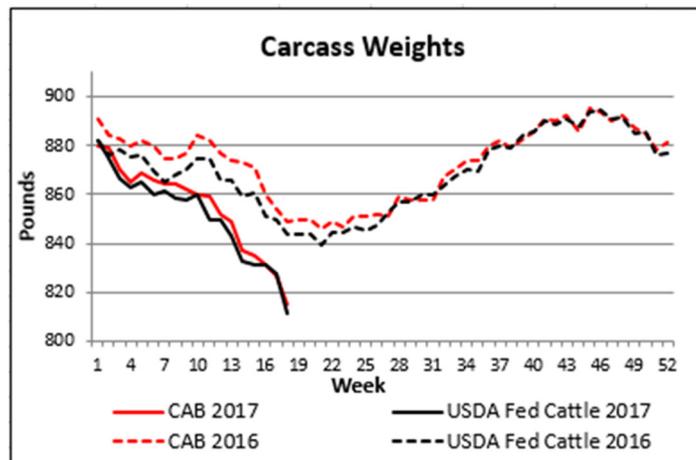


## CAB carcass weights plummet; qualification rates remain high

In the past five years, the average CAB-qualified carcass has weighed 8 lb. more than the USDA fed steer and heifer average. Of course, CAB carcasses are included in the total USDA number, so the spread is actually a little larger than stated. Although our large dataset analysis proves we get

CAB carcasses qualified up and down the weight range (below the 1,050-lb. maximum), we also know that the lightest carcasses qualify just a bit less frequently, driving the CAB average weight slightly higher. With fed cattle marketed ahead of schedule and lighter than expected this spring we've watched CAB acceptance rates closely. We know that a large share of CAB-eligible carcasses land right at the tipping point for marbling. That's right between low Choice and middle Choice, the latter's Marbling Score being the lowest

acceptable level for the brand. You can deduce that a CAB carcass with just enough marbling to reach middle Choice at 860 lb. may have fallen instead into the low-Choice category had the steer been marketed three weeks early and many pounds lighter. Since early marketing has been the resounding theme this spring, it's not without concern for supply that we've watched as the average CAB carcass weight declined from 880 lb. in January

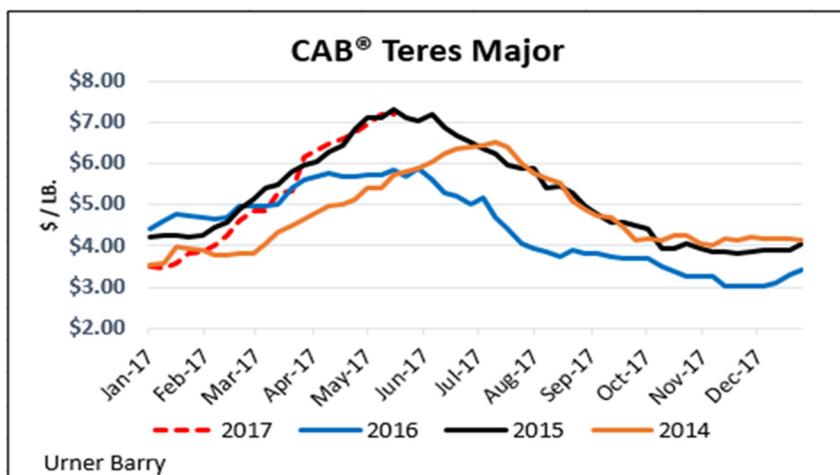
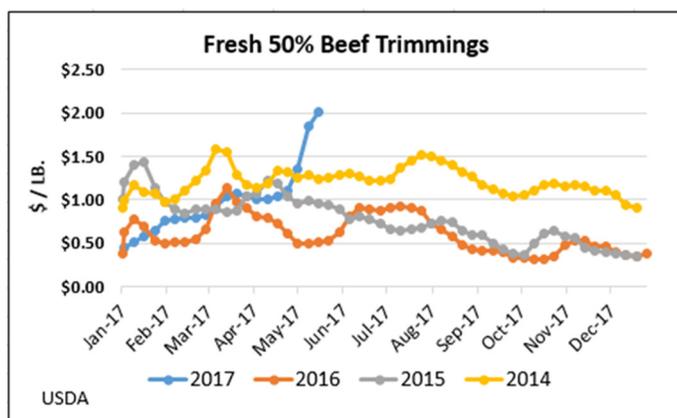


to 815 lb. the first week in May. This is the lightest spring-seasonal low since May 2011, which saw the CAB carcass average touch 796 lb., while 2012 and 2013 marked spring lows of 817 and 818 lb., respectively. Those 2012 and 2013 lows were virtually the same as that seen three weeks ago, but the magnitude of decline from the January heavy to the May light weights were 35 lb. (4%) and 42 lb. (5%), respectively, compared to 65 lb. (7%) this year. CAB acceptance rates were 24-25% in May of 2012-2013 versus the 30-31% levels achieved in 2017. With all of that said, we may have already notched the spring low in the CAB acceptance rate at 29.5% during the week of April 23rd. Although USDA could post still lower carcass weights in the two-week trailing data through mid-May, quality grade could also improve ahead of carcass weights.

## Major May move for the Teres, as trimmings soar

The seasonal price trend for the CAB clod tender, more commonly known by the Latin “Teres Major,” has been very strong since it began to trade with serious spring and summer seasonal demand in 2014. The cut saw a July price high that

year but reached a peak in May in both of the succeeding two years. Using January as a baseline in each year, the increase to the annual high has been continuous and steep, averaging 73% for the past four-year period, including this year. However, 2017 has seen the most aggressive increase: 106%, up from \$3.50/lb. to \$7.20/lb., fueled a bit stronger by the spike in overall beef values. Given recent pricing activity, the Teres Major may have just completed its run to the annual high, further entrenching the strong seasonal swing for this item. Although we’ve focused on how middle meats, particularly the rib, are driving cutout values, the chuck has done fairly well in recent weeks. It posted a 13% price increase since early April, while the round is up only 7% and the total CAB spot cutout increased 16% for



the period. The Teres Major’s support for that increase was joined by the Flat Iron, shoulder clod, chuck roll and the square-cut 2-piece chuck in pushing the inflationary action of the chuck primal this spring. As well, 50% lean/fat trim has underpinned beef values with the recent run-up to \$2.00/lb., far above the norm and the previous high seen back in 2014 at \$1.59/lb. This has likely provided further support to chuck prices as an alternate source of grinding material.

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