



CAB[®] Insider

June 7, 2017

MARKET UPDATE


by Paul Dykstra

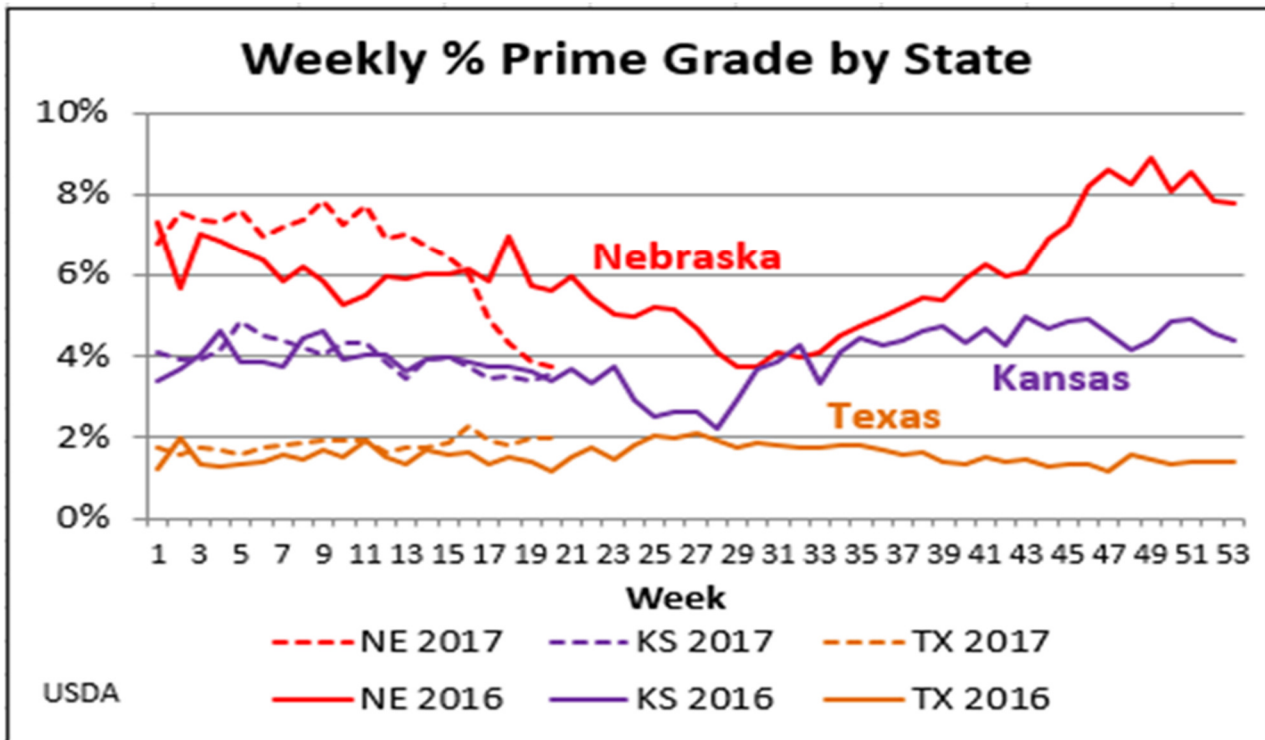
Last week brought on a much stronger fed cattle market, the average spot cash price of \$136/cwt. in the range of \$3 to \$4 higher. Packers had held purchases lower the week before Memorial Day, but their need for cattle finally sent them looking to buy. The market moved higher throughout the week starting with Wednesday's Fed Cattle Exchange garnering a steady \$132/cwt., but quickly advancing in country trade. The increase surprised many cattle feeders who expected movement in the opposite direction or just steady. Early in the week, the market sentiment got a boost from news that India would ban all trade of slaughter beef and buffalo. That would have a far-reaching effect on global trade as India is the 2nd largest exporter of "beef," albeit the lion's share is actually buffalo. However, by week's end the news was of a delay and decision suspended for four weeks, so the potentially impactful news was put on ice for the time being.

Average steer and heifer hot carcass weights have increased just a few pounds from what looks like the annual low in the first week of May, now 26 lb. lighter than a year ago (steer weights unavailable in first reports). Earlier this spring, some wrongly estimated that lighter carcass weights had pulled fed cattle carcass tonnage below 2016 levels, despite a 6.3% increase in the head count of harvested fed steers and heifers. Year-to-date estimates we derive from USDA show carcass tonnage has increased 4.2% over a year ago. However, those estimating on the lower side were

vindicated for a short time as the week of May 15th saw combined Choice and Prime tonnage 0.5% smaller than the same week a year ago despite a 3% larger head count.

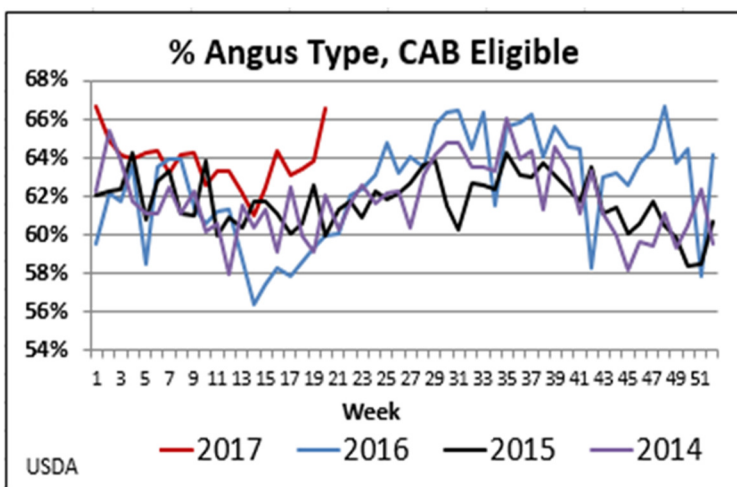
Urner Barry figures for *Certified Angus Beef*[®] brand and Choice cutout prices on the spot market were unchanged last week as packers held to significantly higher levels than in early May. Boxed beef echoed fed cattle in terms of surprising demand and price resiliency. The weekly Choice cutout (including spot market and forward-priced) at \$2.38/lb. was down just a penny from the prior week's year-to-date high. However, CAB ribs kept pushing higher (+\$1.13/cwt.), beyond already-record highs to a new mark of \$447.23/cwt., 21% higher than a year ago at this time. Brisket prices showed little seasonal demand across 10 years until 2014 and '16; we're beginning to see a bit of that pattern this year, but it is moderate so far. All other CAB carcass primals were modestly softer in price with some items priced higher and some lower within each. The increase of roughly \$1/cwt. in the comprehensive cutout price for all beef last week is noteworthy with regard to demand. The weeks ahead will provide a further demand test, as we have seen beef prices on quite a run.

 URNER BARRY	This Week	Previous Week	Previous Year
Weekly Slaughter	550K	613K	527K
Fed Cattle Price	\$136	\$132	\$132
Steer Carcass Wt.	-	836	859
CAB cutout	\$244.10	\$244.10	\$234.28
Choice cutout	\$237.40	\$237.30	\$219.60
Select cutout	\$212.60	\$214.10	\$198.20
CH/SE spread	\$24.80	\$23.20	\$21.39
CAB/CH spread	\$6.10	\$6.80	\$14.68
Beef Index	\$230.00	\$231.00	\$214.00
Pork Cutout	\$89.98	\$88.60	\$83.33
Chicken Index	\$88.18	\$87.79	\$66.25



Prime dips as CAB eligible soars

According to the 2-week trailing USDA quality grade data, the national average Prime grading rate of 4.9% since May 1 has tracked a pattern below its 5.2% mark for that period a year ago. That doesn't seem like much but it meant an estimated 9% smaller year-on-year Prime production for a three-week period. Details on the three highest volume beef packing states show Nebraska packers with a significant drop in their Prime grades while Kansas and Texas held steady to just fractionally lower. Since most carcasses stamped in the Prime category are just barely into Prime (Slightly Abundant marbling) it's logical that some of those animals with genetically high marbling potential fall short of Prime and land somewhere in the upper two thirds of Choice as they are harvested at a lesser degree of finish and days on

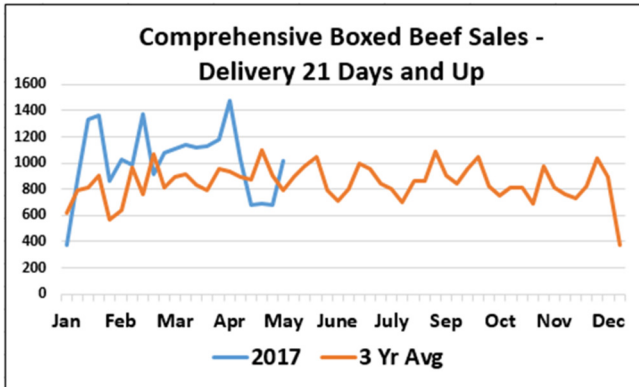


feed. Prior to this development, many who study the trends have wondered why we haven't seen more negative effects on the Prime grade—and CAB qualification rates, for that matter, as reviewed in a previous edition of the CAB Insider. Although the national average Choice portion remains at 70%, two points higher than a year ago, we also see that Nebraska and Texas packers have given up a little ground in the Choice category in recent weeks, although not outside of seasonal norms. That said, eligible

carcasses qualifying for the *Certified Angus Beef*[®] brand (CAB[®]) ran perfectly even at 29.5% from the last week of April through the middle of May. An important piece of the CAB supply picture is the weekly proportion of the fed cattle harvest that is eligible as Angus-type for further scrutiny under the brand's 10 carcass specs. That factor ratcheted up significantly in the third week of May as 66.5% of the steer/heifer harvest were eligible under the live animal specification, compared to only about 60% for that week in each of the previous three years.

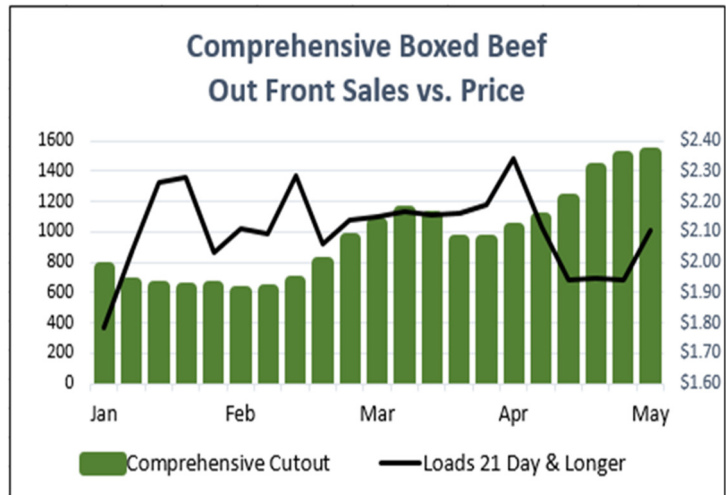
Advance-purchase beef buyers ride shifting market

As we've watched the comprehensive boxed beef price tick higher this spring, it's easy to forget that much of the recently shipped product was priced well in advance. End users did a better-than-average job of booking product early in 2017, at a much more aggressive rate



than in any of the prior three years (see first graph). Beef prices normally cool off after the first of the year, particularly the middle meats, and this year those discounts held well into February before making the first move higher into March. The second chart depicts this very well as the relationship between the comprehensive boxed beef price and the number of loads sold for delivery 21 days and greater played opposing positions through early May. The price pattern in each of the

years since 2014 from January through late April could be categorized as similar—except the 2017 price started much lower in January and stayed low late enough into February for buyers to get the clear message that the low was already in place; their best bet was to book product. Fast-forward to the latest data for late May and we can see buyers laid off of beef purchases as best they could while the market marched higher into this period. Even so, they stepped back in for these longer term deliveries in the past couple of weeks as their optimism for a price downturn may be wavering and their needs to once again secure product have heightened. These dynamics are very telling as to what has occurred with the live cattle and boxed beef market so far this year with packers needing to deliver on their sold-ahead positions.



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