



# CAB<sup>®</sup> Insider

July 12, 2017

## MARKET UPDATE

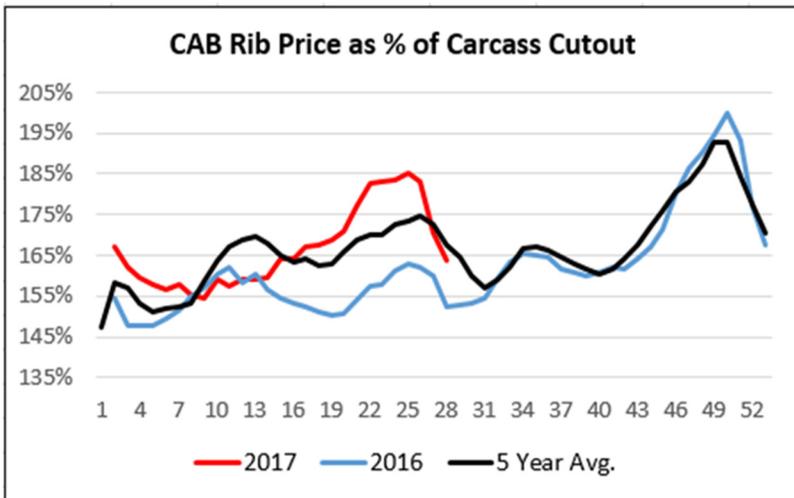
by Paul Dykstra

The holiday-shortened week's federally inspected cattle harvest still managed 546K head, much larger than the July 4 week a year ago. June ended up with 5% more fed cattle than last year, but July could bring a 1% reduction in the weekly harvested head count. We've been pointing out the change of season from June to July, when the dog days of summer mean ample beef supplies while American consumers turn down consumption as grilling becomes less appealing. The fed cattle market is responding as anticipated with a 20% decline from the spring high, but added price weakness is in the cards. Packers, though still profitable on a cash-to-cash basis, have a lot of inventory to sell and their sold-ahead boxed beef position is as poor as it has been in months. Futures have closed the basis gap with the cash market, removing some incentive for feeders to ship cattle ahead of schedule. That should keep the seasonal increase in carcass weights at least on the expected pace. Last week's fed cattle price decline to an average of \$118/cwt. was in line with expectations.

CAB acceptance rates turned up last month, with 30.3% acceptance for the week of June 11th, the latest one for which we have complete numbers. The latest four-week average pegs acceptance at 29.2%, just off those weeks in 2016 at 29.4%. The share of fed cattle identified as eligible for the brand in June is looking very good at 67.5% compared to just 63.5% a year ago. That will surely bolster the certified head count by a good margin for the month, building on the first eight months of the fiscal year, which show a 10.8% increase in certified head.

Boxed beef was all too predictably, seasonally lower. The Choice/Select spread is still wide for this time of year at \$15.60 but less than half of its near-record high a month ago. The CAB/Choice spread last week was fairly aggressive at \$11/cwt., ahead of the five-year average but well under the \$17.50/cwt. spread seen a year ago last week. The biggest spot market mover this week was the rib complex (see next article). Spot market brisket demand has also faded into oblivion, falling \$.52/lb. in a week to \$2.48/lb. Loins round out the true price movers, that total CAB loin complex coming down \$8.20/cwt. Strip loins led the way with more anticipated weakness. Tenderloins don't see the same spring price rally, so they are in a typically sideways, choppy summer pattern. CAB tenderloins maintain a large premium over Choice, however, at \$1.20/lb. Tri-tips were \$0.10/lb. cheaper last week but appear to have put in an all-time high the week prior at \$6.98/lb. Once again, the July retreat from that high should be significant. Rib, loin and brisket items are taking the seasonal brunt, leaving little change for round and chuck prices. The grill-popular teres major, however, has seen an early end to its annual run to spring highs with a free-fall from an early May price of \$7.20/lb. to last week's \$4.38/lb., a more pronounced and earlier decline than in recent years. Thin meats and grinds are slightly lower on the week.

|  | This Week | Previous Week | Previous Year |
|---|-----------|---------------|---------------|
| Weekly Slaughter  | 546K      | 638K          | 514K          |
| Fed Cattle Price  | \$118     | \$119         | \$120         |
| Steer Carcass Wt.   | 855       | 855           | 864           |
| CAB cutout  | \$227.10  | \$234.40      | \$218.90      |
| Choice cutout   | \$216.10  | \$224.40      | \$206.40      |
| Select cutout   | \$200.50  | \$205.90      | \$193.50      |
| CH/SE spread  | \$15.60   | \$18.50       | \$12.90       |
| CAB/CH spread   | \$11.00   | \$10.00       | \$12.50       |
| Beef Index  | \$212.40  | \$230.00      | \$203.60      |
| Pork Cutout   | \$103.40  | \$100.90      | \$90.70       |
| Chicken Index   | \$89.10   | \$88.70       | \$65.00       |

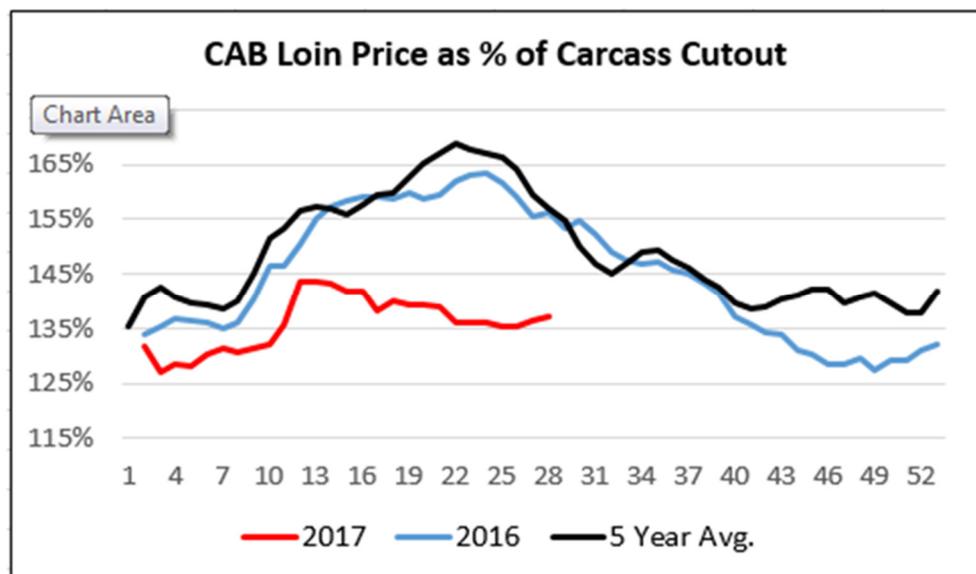


## Ribs plunge as loins keep to lower course

As we abruptly move out of spring and early summer grilling demand, let's take a look back at the beef carcass primal demand through that season. The grilling demand is traditionally focused on steaks, and that means the middle meats from the rib and loin primals. While not the focus of today's edition, we must also give credit to the teres major and flat iron steaks

from the chuck that, in most recent years, have enjoyed great popularity and grilling options at a lower price point. Getting back to the middle meats, it's clear in the 5-year and 2016 trend lines (see charts) that the whole loin price, as a percent of the total cutout, finds an annual high in late May. This is primarily driven by spot-market strip loin demand at that particular time, but is preceded by top sirloin butts finding their annual high in April, peaking a bit earlier in March this year. However, in 2017 it appears that demand for the collective loin items did not garner nearly its normal share of the total carcass value as compared to recent years. That's not to say strips and top butts didn't follow a seasonal price increase, for they most certainly did, but the price increase was not proportionally large enough to capture as much of the total carcass price as expected. Take the rib complex, on the other hand, and we saw quite the opposite. While the 4th quarter always puts rib prices at their annual highs with holiday roast demand, the June ribeye steak demand presses hard for the annual rib complex pricing peak. With that said, June of this year brought on a more pronounced peak for rib prices than normal, pricing at 185% per pound of the total CAB carcass value as compared to the 5-year average of 175% at the top of the June demand. The 0x1 CAB, lip-on, up ribeye reached an all-time high this June at \$10.77/lb.

wholesale, about a 15% premium over the December highs posted in recent years for that item. This is all based on spot market pricing and consequently sensitive to what volumes of product were purchased on forward sales in the early spring months.



## Break-evens challenge feeding profit potential

The summer video cattle auction schedule kicks in with full steam this week, as cattle feeders and backgrounders chew an extra heartburn tablet and set their jaws with resolve against a fairly bullish market. Analysis of the calves fit to go straight into feedyards and pushed right up onto finishing rations shows many of the “better kind” are pricing above a breakeven against the April and June Live Cattle contracts on the Chicago Mercantile Exchange. My calculated cost of gain on a 650-wt. steer including feed, yardage, death loss, interest and vet-medical estimates comes in around \$0.74/lb. with some aggressive performance assumptions and good health. That puts the 650-weight calves at a value around \$160/cwt. today, provided they can be placed in the feedlot in early October and finish in April. The days-on-feed expectation has the average finished date at May 3rd, so consequently about half of the pen would not ship to the packer until May at a lower price than the April price

| Breakeven Calculation Assumptions |               |
|-----------------------------------|---------------|
| Placement Date                    | 10/10/2017    |
| In-Weight                         | 650 lb.       |
| Purchase cost                     | \$160/cwt.    |
| Average Daily Gain                | 3.6 lb.       |
| Feed Conversion                   | 5.9 lb.       |
| Ration Cost                       | \$195/T       |
| Out Weight (shrunk)               | 1390 lb.      |
| Total Cost of Gain                | \$0.74/lb.    |
| Expected Finish Date              | 5/3/2018      |
| Breakeven Fed Cattle Price        | \$115.40/cwt. |

assumption I've used for the best-case scenario. It appears this week's prices are somewhat optimistic with buyers either “betting on the come” or pricing in carcass premiums above what was already an aggressive gain-and-efficiency factor with prices paid on many recently sold lots at a premium above the example I've compiled. A couple of the late June video auctions have already tabulated a 7% to 10% increase in price above a year ago on the same auctions. Calf prices tend to decline as summer turns to fall in normal years, and that is what CattleFax anticipates once again this year.

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