



# CAB<sup>®</sup> Insider

July 26, 2017

## MARKET UPDATE

by Paul Dykstra

Fed cattle prices firmed up a bit more last week with the average price right in the range from the week prior at \$120/cwt. Cattle feeders have to feel pretty good about this price level as the late July market is usually not very good. More downside risk to fed prices remains through August but the market has found a bit of a comfortable spot here for a few weeks that is very workable for feedlot profitability.


The USDA Cattle on Feed report published Friday showed cattle placed in feedlots during June numbered 116% of a year ago, which is more than anticipated. Live cattle futures this Monday through Wednesday morning have reacted negatively

Boxed beef prices are starting to look like the summer low is near. The historical trend is fairly strong for the cutout price to move lower through July and then catch

a bounce or simply move sideways in August (see third item, graph page 3). It is also quite evident that the cutout can move lower again going into fall. We remain in an expansion phase with cattle numbers, so further weakness could be expected.

The cutout values for CAB, Choice and Select product slipped lower again last week with CAB down \$4/cwt., Choice down \$5/cwt. and Select down \$3.20/cwt. Packers had a very poor June and first week of July when it comes to out-front sales of boxes for 22 days and longer delivery dates.

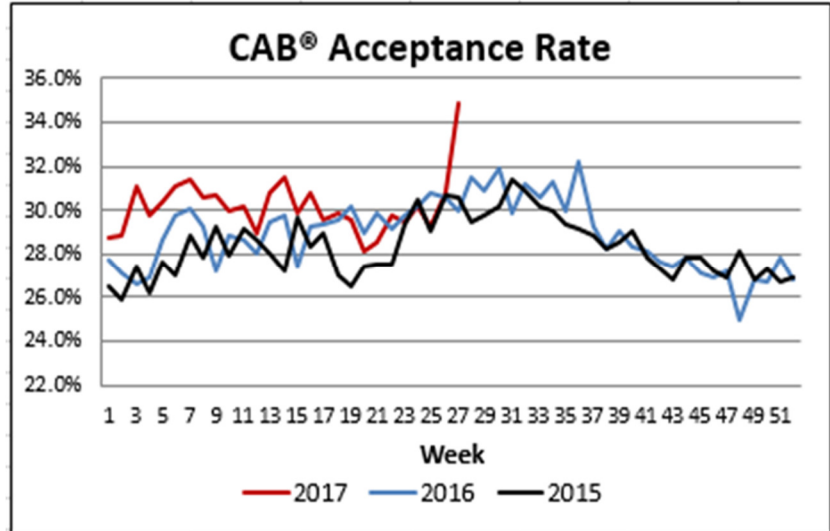
Sales of that type picked up again for the week of July 10th in the latest data and indications are that buyers have stepped back in to the market as we've seen product prices deteriorate to the current level. The story across the beef carcass last week points to the same trend we've reviewed here for weeks now with middle meats giving up the most price, this time with the loin leading in the downward direction. Thin meats also suffered a fair bit last week with the plate and flank devalued, while the end meats found mixed results.

	This Week	Previous Week	Previous Year
Weekly Slaughter	622	629	597
Fed Cattle Price	\$120	\$119	\$115
Steer Carcass Wt.	866	859	875
CAB cutout	\$216.80	\$220.00	\$209.80
Choice cutout	\$204.70	\$209.70	\$197.80
Select cutout	\$192.80	\$196.00	\$188.20
CH/SE spread	\$11.90	\$13.70	\$9.60
CAB/CH spread	\$12.10	\$10.30	\$12.00
Beef Index	\$202.00	\$206.50	\$195.80
Pork Cutout	\$103.30	\$104.20	\$87.00
Chicken Index	\$89.20	\$89.20	\$62.60

## Grade rebounds with dramatic spike in CAB acceptance

We must point out the acceptance into the *Certified Angus Beef*<sup>®</sup> brand among Angus cattle evaluated at licensed plants in early July. The absolutely huge number, 34.9%, is certainly an anomaly that won't stay long, but it's in the books now.

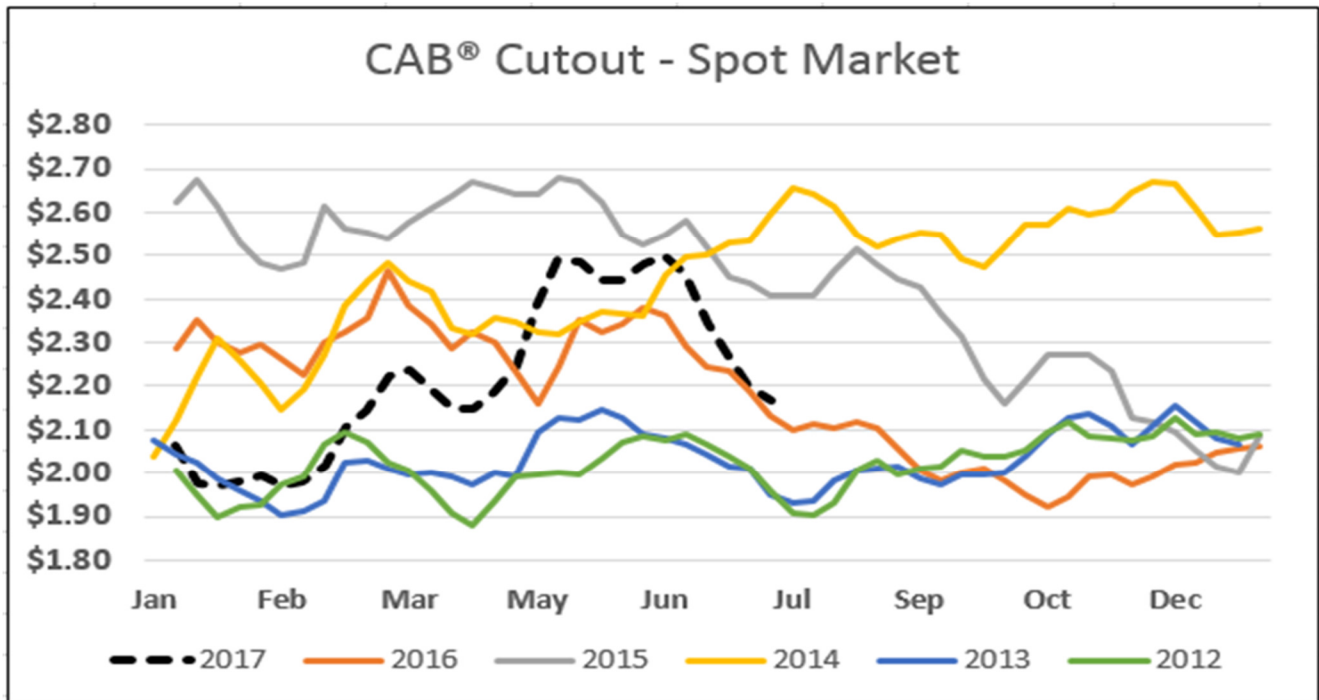
How could it reach so high? As cattle feeders aggressively sold cattle ahead of schedule this spring, we noted the decline in quality grade that took the national average Choice and Prime quality grade down to 74%. This seasonally appropriate decline from the January-February grading highs of near 80% Choice and Prime, was exacerbated by the aggressive cash market and short-term supply shortage of market-ready cattle. Bear in mind that 2017, year-to-date, has



featured another modern-era record share of Choice, Prime and CAB brand accepted carcasses compared to Select and no-roll carcasses. We typically see a summer peak in quality grade in late July, and 2017 is at least typical in that regard. The Choice and Prime categories are now collectively back up to 78.5%, and that amazing 34.9% of eligible carcasses accepted into the CAB brand for the first week in July. That was the highest one-week acceptance percentage we've seen, and 5 points higher than the same week a year ago. Even with the larger supplies of both low Choice and CAB product, the Choice/Select spread remains near \$12.73/cwt. in the latest USDA boxed-beef cutout report. The CAB/Choice spread, now at \$12/cwt., is \$7/cwt. wider than a month ago according to Urner Barry. As data become available for the middle of July, we should see the summer grading peak with a very small decline moving into August.

## Looking back on first-half 2017

July is typically not a very fun month in the beef business as the summer price slump challenges the market on both the fed cattle and boxed beef fronts. For folks on the cattle side, conversations dwell on, "how low will it go?" The boxed-beef side finds itself in a waiting game to buy beef cheaper. Both sides resign to it and just want to get this summer low over with. We've all been pleasantly surprised that prices haven't slipped any lower than they have in July 2017—granted, the month isn't over yet, and we know the inventory of recent placements on feed is growing based on last Friday's report showing a 116% head count compared to last June. Better yet, demand has been good despite higher beef prices, and thanks a lot to a healthy export equation. In the very near term, the CAB spot market cutout normally finds a summer low, as shown in the graph for each year since 2012.



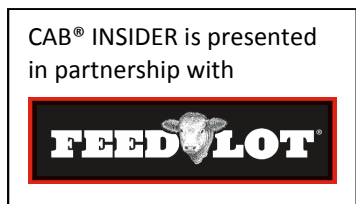
This has occurred in each of those years except for the anomaly year of 2014 when the beef market was anything but normal, adjusting to a supply shortage. The cutout typically has found a summer low right about the first of August before firming up a bit for a few weeks as we follow that pattern on out. Looking at it from the supplier side, we'll need some more of that "surprisingly good" demand to help finish out the year and keep the market current. That's still a guessing game as the historical fall pattern through year-end doesn't provide a strong predilection, and there will be a larger head count to work through.

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