



CAB[®] Insider

August 9, 2017

MARKET UPDATE

by Paul Dykstra


The fed cattle market remained quite steady last week with the average just pennies higher than the week before at \$117. In the past few years, we've seen the market strengthen slightly in August, but this week's trade began on Monday with lower bids. A reasonable expectation seems to be a 3-6% market decline from last week through the October low, based on the 10-year and 5-year averages. USDA Cattle On Feed reports point to significant fed cattle supplies in the 4th quarter, the period of concern and focus for the production sector at this time. Even so, beef demand has been good to VERY good in 2017, considering much larger supplies of not only fed cattle, but Choice and *Certified Angus Beef*[®] brand products.

Carcass weights have been a major factor this year, the very current spring market pulling carcass weights much lower than expected through what will be marked as the annual low in early May.

CattleFax points out that the seasonal reversal of carcass weights since that time has been rather rapid, up 4.3% (36 lb.) and the largest since 2008. This stands to reason: as the decline into spring was dramatic, so should the reversal be.

Although live cattle prices were slightly firmer last week, the cutouts showed a bit of weakening with CAB down \$2.50/cwt. and Choice down \$1.60/cwt while Select held almost steady. Updated USDA data shows the U.S. average combined Choice and Prime quality grade portion at 78% to 79.4% for the most recent three-week period ending July 21. That's in the range of 1.5 to 2 points higher than a year ago. The Choice-Select spread as of last Friday was down to \$6.30/cwt., even though the year-on-year quality spreads in the table show similar or wider spreads compared to a year ago.

CAB primal and subprimal pricing last week shows most of the downward pressure coming from the loin, down \$9.49/cwt. on the week. Tri-tips led the devaluation for the loin with a 70¢/lb. decline to place them well off of the June/July highs near \$7/lb. to just \$4.07/lb. Strip loins were down 8¢ to 46¢/lb. on the week as well. The rib primal slowed its price decline, down \$2.12/cwt. on the week to a lower plane after June's huge price peak. The end meats are a mixed bag of up and down price movement with a net tone slightly negative. From the chuck, we see some increase on flat irons, shoulder clod roasts and flap meat. The round shows mostly declines, but peeled knuckles fractionally higher as well as eye of round. Grinds are facing some weakness across the board with ground chuck the weakest, losing 9.5¢/lb. on the week.

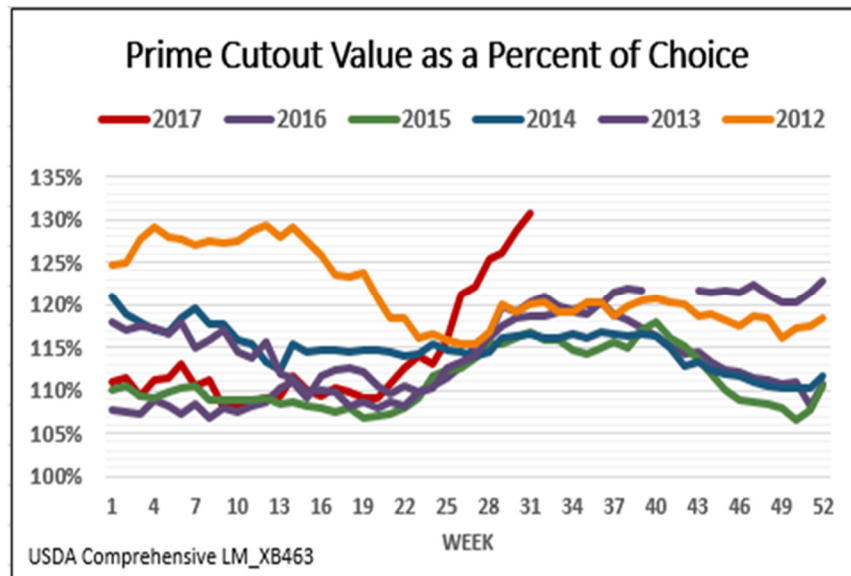
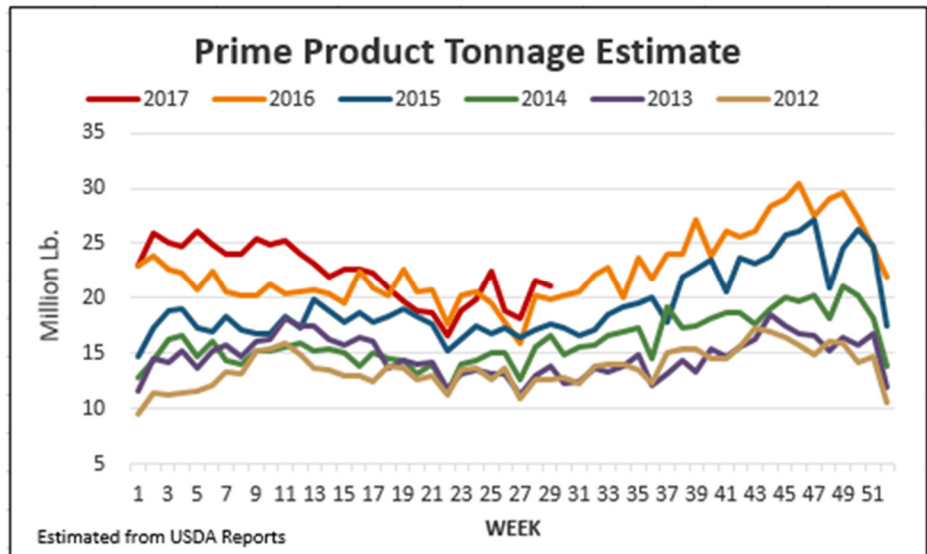
 URNER BARRY	This Week	Previous Week	Previous Year
Weekly Slaughter	634K	627K	581K
Fed Cattle Price	\$117	\$117	\$119
Steer Carcass Wt.	868	865	880
CAB cutout	\$213.10	\$215.60	\$210.50
Choice cutout	\$202.00	\$203.60	\$199.80
Select cutout	\$192.90	\$193.00	\$190.60
CH/SE spread	\$9.10	\$10.60	\$9.20
CAB/CH spread	\$11.10	\$12.00	\$10.70
Beef Index	\$200.00	\$201.30	\$197.80
Pork Cutout	\$97.20	\$100.90	\$76.30
Chicken Index	\$85.30	\$87.90	\$62.50

Gotta have more Prime!

The Prime grade accounted for 5.6% of fed beef in 2016—impressive to industry historians, but not likely to keep most beef producers checking the Prime price point for hanging carcasses or boxed beef. Dairy breeds may contribute about 40% of all Prime

tonnage, leaving an even smaller piece of that little pie attributable to beef breeds.

Still, focused Angus genetics coupled with smart management have yielded examples where single-source load lots often achieve 20% to 40% Prime grading with rare instances upwards of 50%. The most recent 5-year average (2012-2016, above) shows Prime cutout values at 115% of commodity Choice with spikes to 129% and lows of 107% during that period. In that time, the industry has almost doubled the Prime grading percentage, yet a spring supply shortage recently revealed price sensitivity with a much larger Prime/Choice price spread. Prime production tonnage displayed in the chart shows a decline in late April through May of this year as the very current fed cattle supplies brought steer-carcass weights to nearly 30 lb. lighter than a year ago, at their lowest, impacting quality grades through lower marbling achievement. Prime production tonnage slipped below 2016 levels for that period as well, creating some shorted orders between packers and end-users as supply couldn't keep up with demand, evidenced in the CAB brand Prime category as well. While the market was short on Prime this spring, tonnage remained higher than any year prior to 2016. Even so, we see a significant break to the upside in the Prime premium above Choice (see below). The most recent week of July 31 shows the Prime premium had



grown to 131% of the Choice price, even as production through July returned to a level higher than 2016 was since mid-June. The price trend in early 2012 also jumps out on the chart with Prime priced more than 125% of Choice throughout the 1st quarter. At that time the U.S. fed cattle harvest produced just above 3% Prime and less than half of the Prime tonnage generated in Q1, 2017.

Beef Quality Audit pinpoints averages

The National Beef Quality Audit (NBQA), a recurring Beef Checkoff-funded feature was developed in 1991 to study the quality of our collective U.S. steer and heifer beef product. Conducted roughly every five years, the latest iteration occurred in 2016 with results recently published. The utility of the information included in the audit results varies for each of us and many in the production sector already stay on top of audit findings over time. My informed guess is that the vast majority of beef producers do not read the audit findings and are not familiar with the trends captured there. I'll take this opportunity to urge readers, especially those uninitiated, to finish this issue of CAB Insider and navigate to the web site listed below to find the online manual with the 2016 results. I almost guarantee that any reader, not matter how well informed, will learn something from a perusal of those results. In that spirit, I've copied the accompanying quality grade and yield grade distribution chart as an example of one of the useful data glimpses from the audit. It pays to know what the averages look like so we can set our own personal targets much higher to create premium, profitable cattle. Find the 2016 NBQA summary at www.bqa.org.

USDA Yield Grade	USDA Quality Grade, %			
	Prime	Choice	Select	Other ²
1	0.07	4.06	4.79	0.55
2	0.94	23.61	10.90	1.05
3	1.78	29.94	6.20	1.49
4	0.97	9.31	1.40	0.40
5	0.22	1.86	0.33	0.12

¹Carcasses with missing values for USDA quality or yield grades are not included.

²Other includes: Standard, Commercial, Utility, dark cutter, blood splash, hard bone, and calloused ribeye.

National Beef Quality Audit 2016

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