




CAB[®] Insider

August 23, 2017

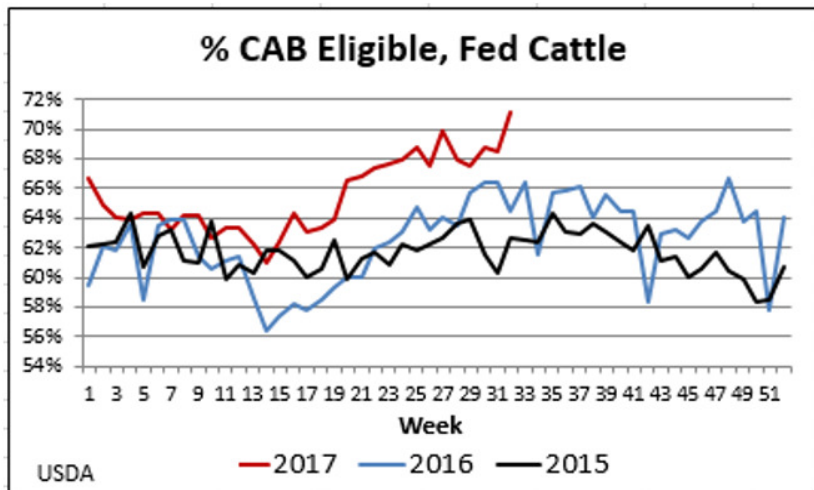
MARKET UPDATE

by Paul Dykstra

The \$115/cwt. price for finished cattle two weeks ago was surprisingly strong, considering the negativity in CME Live Cattle futures. It turned out to be just a precursor to the cash trade last week, which quickly translated the futures free-fall into a \$5/cwt. decline in cash to average \$110/cwt. Given all of the bearish activity in both futures and actual fed-cattle markets, we'd expect cattle feeders at this point to begin to fight the market by extending days on feed for their current near-finished cattle inventory. As fed cattle now trade at or below breakeven levels (cash-to-cash basis), feeders may start adding those days on their current cattle inventory to delay tackling lofty feeder-cattle replacement prices. The looming question for fed cattle prices this fall now on everyone's mind is, "How low will it go?" Excellent demand has kept us out of troubled waters all summer, but the market expectations and forecasts seem now weighing upon us. Only time will tell, as larger supplies in competing proteins join up with larger beef supplies to pressure the market.

	This Week	Previous Week	Previous Year
Weekly Slaughter	634K	641K	602K
Fed Cattle Price	\$110	\$115	\$118
Steer Carcass Wt.	880	875	886
CAB cutout	\$206.90	\$211.40	\$210.40
Choice cutout	\$197.00	\$201.20	\$197.40
Select cutout	\$192.30	\$193.90	\$189.60
CH/SE spread	\$4.70	\$7.30	\$7.80
CAB/CH spread	\$9.90	\$10.20	\$13.00
Beef Index	\$196.00	\$199.50	\$196.00
Pork Cutout	\$92.40	\$94.90	\$75.10
Chicken Index	\$83.01	\$83.78	\$64.24

Carcass weights are on a trend of seasonal increase, with potential for accelerated increases toward heavier weights as we move toward the annual carcass-weight peak in November. We are already seeing exceptional quality grade and CAB acceptance at-or-near



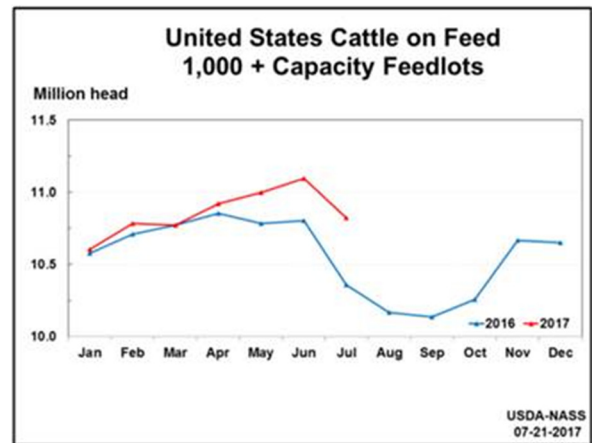
record high percentages. This couples with a landmark 71% of fed cattle identified as eligible for CAB during the latest reported week of August 7th, 4 points higher than this time a year ago (see chart, left). Lest anyone conjure a link to Holstein harvest in that number, keep in mind the live animal specification was actually tightened slightly this year, so the 71% seems valid enough. These factors point not only to short-term but also fourth-

quarter CAB brand supplies easily as large as we've ever seen. Recent months of USDA Cattle on Feed Reports (see chart, right) have drawn a very clear picture for late 2017 supplies of finished cattle that will be robust. The combined rich quality grade, increasing carcass weights and larger head counts will result in ample availability of CAB product.

Continuing the discussion on the end-user side brings to light an opportunity for retailers to step into the market in the near future and capitalize on lower beef prices moving through this period. Granted, booking holiday ribs this

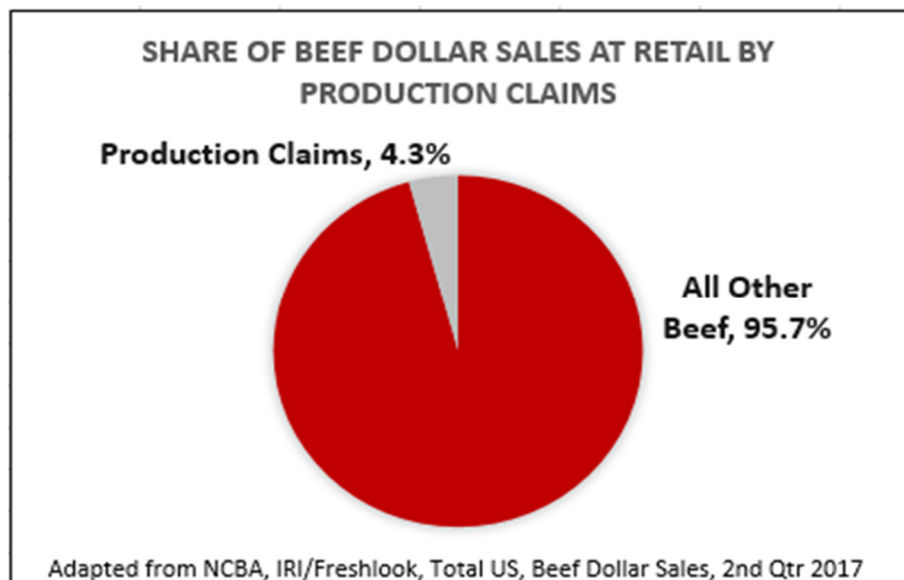
early and at these prices will not draw packer interest, but retailers need to consider what's ahead and make plans now as the scenario is laid out in front of them. Beef prices are headed lower and will most likely continue on that track, recognizing that fourth-quarter demand for middle meats normally inflates prices for those holiday demand items beginning mid-October.

Last Thursday's weekly report from Uner Barry shows the CAB cutout deeply in the red by \$4.51/cwt. on the whole carcass cutout. The plate led the price fall, with outside skirts losing 40¢ on the week to average \$6.75/lb., still 34¢ higher than a year ago. The loin complex was also hit hard as strip loins and tenderloins were cheaper by a margin of 10¢ to as much as 40¢, depending on product code. The positive price movers can be counted on one hand but CAB grinds were perhaps the key highlight with increased values on ground chuck and round, priced at \$1.98/lb. and \$2.79/lb., respectively.



“Production Claims” in perspective

While the *Certified Angus Beef*® (CAB®) brand logo is highly recognized among consumers and producers, many do not realize we also have “brand extensions” including products qualified and marketed under CAB brand Prime, Natural and a combination of the two, CAB brand Prime Natural. The natural labeled products are there to fill demand from consumers who prefer beef from cattle that have come through a documented ownership chain back to the source of origin, known to have consumed a 100% vegetarian diet and to have never had an antibiotic or supplemental hormone. These added attributes under the “natural” production claims do not replace or negate the brand’s “Angus type” eligibility



requirement and 10 carcass quality standards that ensure the same eating quality of our traditional CAB products. While media influences make it seem like American consumers are ever-more interested in production claims regarding all of their food choices, reality shows sales of beef products with the range of such claims remain a small fraction of total beef sales. The accompanying pie chart (see page 2) shows data for sales, in terms of dollar value, of all U.S. beef at retail for the 2nd quarter of 2017.

The gray pie wedge is the collective sales value of all beef with any type of animal production claim including naturally raised, grass fed, organic, no hormones, no antibiotics and combinations of the these claims. The sales share in the 2nd quarter made up just 4.3% of total beef sales value, while the volume in pounds was just 3.2% of all beef. The lion's share of the production claims landed in the "naturally raised" category, totaling right at 2%. Since 2011, the growth in all production claims on a tonnage basis shows a modest increase from around 2.5% to the most recent 3.2%. It's important from a cattle production standpoint to recognize that while these specialty beef items are important to fulfilling the demand of a market segment that we are proud to service, by far the majority of consumers are selecting traditional beef products at U.S. retailers.

When devising a production plan for "natural" and other niche program cattle, producers will do well to closely consider the cost-benefit side of the equation, especially as it relates to production efficiencies. Having a known market outlet for specific sets of cattle is also advisable in market niches that can quickly become saturated with supply.

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