



CAB[®] Insider

September 6, 2017

MARKET UPDATE

by Paul Dykstra


Weakness remains the theme in the fed cattle market as last week's average came in just under \$105/cwt., a \$2 decline from the week prior. The total federally inspected harvest was smaller than expected at 622K, 2.7% smaller than the week before but 1.5% larger than the same week a year ago. Most of that reduction in processing came from a truncated Saturday harvest, estimated at 41K head

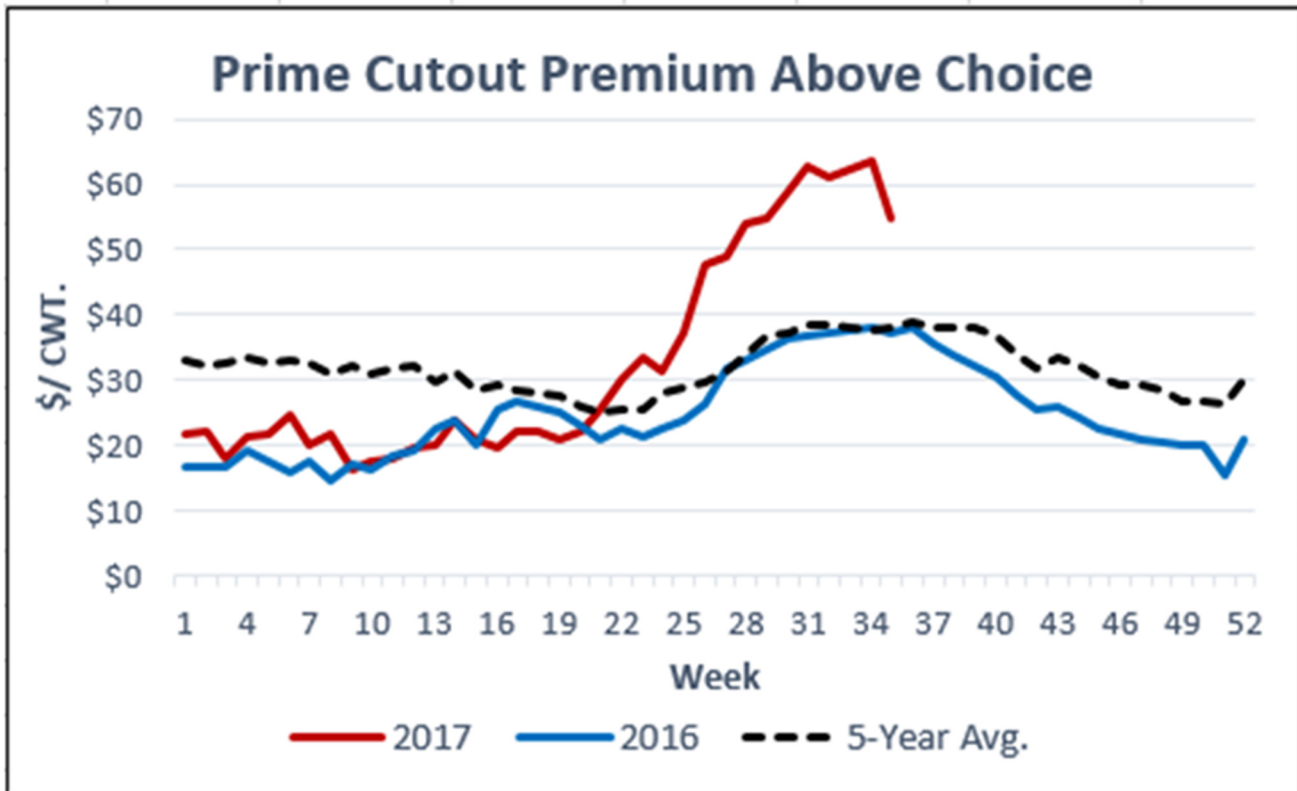
compared to 56K head on the previous Saturday. The weekly cash market has led the recent downtrend while Live Cattle futures prices remained more resilient. Even with futures moving to a position of par, or above the cash market, cattle feeders have continued to sell cattle more willingly than some expected. Analysts are calling for a steady fed cattle market this week.

In the meantime, the national average Choice quality grade share two weeks ago was 74% with Prime coming in at 5.98%. The combined Choice and Prime grades for the last two reported weeks came to 80%, which is 4 percentage points higher than the same period a year ago. Steer carcass

weights increased just 2 lb. in the last report to 884 lb. (about a 1,392-lb. live equivalent), which brings hanging weights to 9 lb. less than last year's weight for this period but 2 lb. heavier than the 5-year average. Much attention will be given to the rate of progression of carcass weights from here until November, as a gauge of market currentness relative to head count and product tonnage.

Last week's boxed beef spot market activity also showed continued negativity with the decline a bit slower than the prior two weeks. The CAB cutout was lower by \$1.89/cwt. to average \$201.53/cwt. while Choice boxes were down just 32¢/cwt. and Select down 14¢/cwt. CAB subprimals showed some mixed price direction across the carcass, most of the supportive pricing coming from the chuck complex with chuck rolls, square cut chucks, clods and flap meat. From the loin, there was improved interest on 0x1 strips and tri-tips as both of these items had recently dipped to prices below a year ago. Continued price pressure was noted on ribeyes as no price bump occurred in August, which was the case in each of the last five years excluding 2014. Ribeyes are now priced at 2013 levels on the wholesale spot market with an attractive value in last week's average at \$7.17/lb. The 5-year average indicates a fall beef cutout price bottom in the first part of October with the exceptions being 2014 and 2015.

	This Week	Previous Week	Previous Year
Weekly Slaughter	622K	639K	613K
Fed Cattle Price	\$105	\$107	\$108
Steer Carcass Wt.	884	882	893
CAB cutout	\$201.53	\$203.42	\$205.90
Choice cutout	\$190.03	\$192.10	\$194.03
Select cutout	\$187.12	\$188.89	\$187.44
CH/SE spread	\$2.91	\$3.21	\$6.59
CAB/CH spread	\$11.15	\$11.32	\$11.87
Beef Index	\$189.06	\$189.48	\$187.86
Pork Cutout	\$83.59	\$83.67	\$78.09
Chicken Index	\$80.24	\$81.63	\$65.43



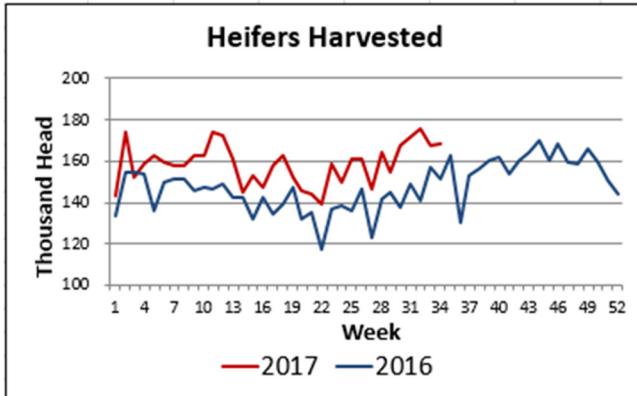
Prime numbers justify the records

A year ago at this time in the *Insider*, we took a look at seasonality of the Prime cutout premium over the Choice cutout. Good old-fashioned supply and demand tend to create some seasonality with the highs and lows of the Prime/Choice premium spread, seasonal changes in harvested cattle and quality-grade dynamics impacting supply a fair amount. The share of fed cattle grading Prime tends to hit the annual low in the last week of June, a couple of weeks after the premium in the Prime cutout begins to build steam, headed toward the annual high in late July, where it remains elevated until the end of September. In the latest 5-year average, this increase has shown a move in the Prime premium from the low of \$25/cwt. to the high of \$38/cwt.

Yet this year the premium, which was rather lackluster from Jan. 1st to mid-May, cruised higher from that stagnation near \$20/cwt., on up to an amazing \$63.52/cwt. for the week of Aug. 21st—easily the largest Prime cutout premium over Choice on record. It has also been said that one large retailer’s advance purchase of a large volume of Prime ribeyes for delivery through the summer was a major factor in that pricing anomaly. The explanation seems plausible because it would take such a major factor to override the annual improvement in Prime supplies culminating over the past handful of years to the 2017 YTD increase in Prime tonnage. That’s estimated up 9%, with weekly Prime grading percentages the highest in modern history, averaging 5.5% of the fed cattle harvest since January 1st compared to 2015 at 4.76% and 2016 at 5.28% for the same inclusive period. Prime supplies will loosen up moving into October and November; grading will continue to build a richer carcass mix with heavier carcass weights and ample head counts. Packer grid premiums for Prime grading carcasses in the latest 4 weeks’ reports indicate an average premium of \$19.60/cwt. with a range of \$10 to \$35/cwt. at the various firms.

Breeding herds put the brakes on expansion

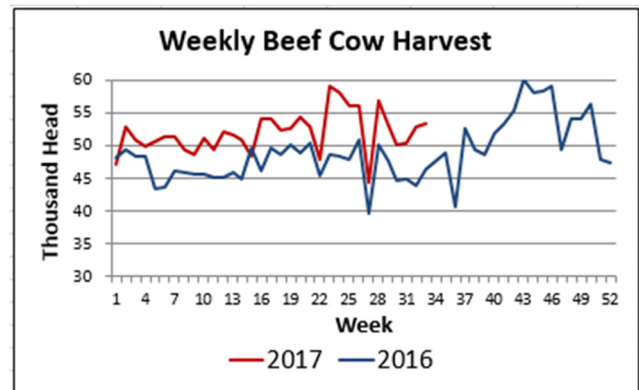
Federally inspected cattle harvest this year is up 6%, with fed steers and heifers comprising 80% of that mix, as they have since 2014. The current increase in fed heifers is notable, with a YTD increase of 11.4% over 2016. Notable on a couple of fronts: First, the



larger heifer count is in contrast to their steer counterparts, estimated at just 3.4% more numerous this year in the gender comparison. This generates a faster turnover rate of feedlot pens because heifers finish at lighter carcass weights than steers by a margin of 66 lb. so far this year. A growing national cow herd provides for more heifers that could enter the fed cattle mix, skewing a percentage increase comparison, but the much smaller growth in steer numbers makes for an easy contrast and

an indicator that heifer retention in breeding herds has greatly slowed. Similarly, the increase in the U.S. beef cow harvest over a year ago is rather stark with an uptick of 10.8% in 2017.

Again, the January 1st Beef Cow Inventory Report suggested a 2.97% increase (+ 900K head), so the year-on-year increase of 5,046 head per week to this point would just remove 262K head from the cow herd by year's end if the trend remained. However, in the past 6 weeks we've likely seen some effects of drought in the Northern Plains states of Montana, North Dakota and South Dakota as the year-over-year change for those weeks accelerated to 6,460 head per week. Fall pregnancy checks of those spring calving herds will likely see the trend only increase as producers make the tough decisions to sell more cows than they'd like to, faced with restricted winter feed resources.



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