




CAB[®] Insider

November 1, 2017

MARKET UPDATE

by Paul Dykstra

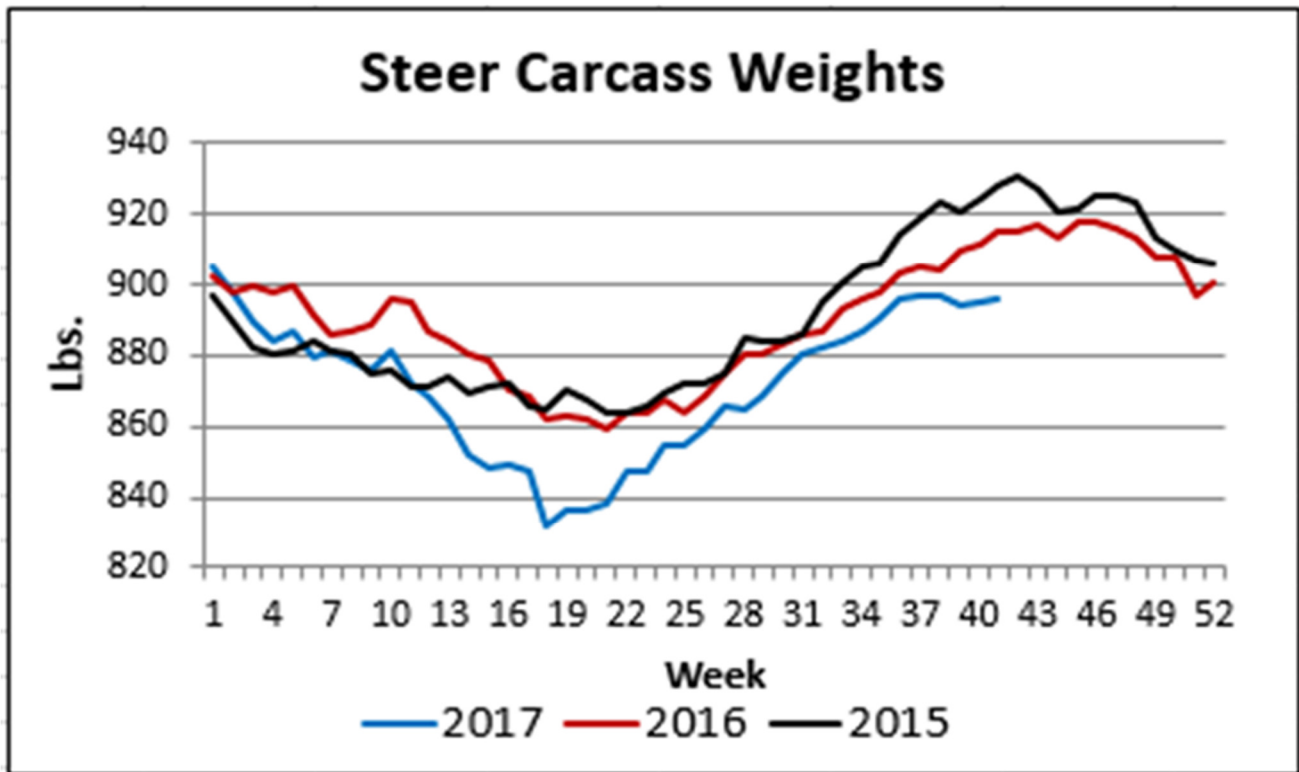
Last week's federally inspected harvest was much reduced compared to the prior week at 617K, down 12,000 head but still 5,000 above the 2016 week. Some said packers had scheduled cooler cleanouts, and Saturday harvest was 5,000 head smaller. For a market hardly tested early in the week, with few cattle traded at \$111/cwt., the explosion came after hours Friday evening when some traded as high as \$119.50/cwt. in western Nebraska. That was hard to imagine for non-participants this Monday morning as the weighted average came in just shy of \$117/cwt. The wide range and seemingly desperate packer buying was fueled by futures (December Live Cattle) trading at a premium to cash along with a reported "very current" fed cattle supply in western Nebraska and Colorado. Everyone awoke on Monday to an entirely new market and extremely bullish futures activity through Wednesday. One negative trend to cattle values that began developing in August is the declining value of drop credit (hide, offal), down to about \$10/cwt. from \$12/cwt. in July and \$1.50/cwt. lower than fall 2016.

 URNER BARRY	This Week	Previous Week	Previous Year
Weekly Slaughter	617K	629K	614K
Fed Cattle Price	\$116	\$111	\$104
Steer Carcass Wt.	896	895	915
CAB cutout	\$210.03	\$208.30	\$199.10
Choice cutout	\$200.90	\$198.40	\$185.40
Select cutout	\$193.80	\$190.70	\$172.60
CH/SE spread	\$7.10	\$7.70	\$12.80
CAB/CH spread	\$9.13	\$9.90	\$13.70
Beef Index	\$198.60	\$196.00	\$182.30
Pork Cutout	\$75.50	\$73.60	\$73.70
Chicken Index	\$65.80	\$65.70	\$62.00

As November begins and the December futures replace October as current month on the Chicago Mercantile Exchange, you can see a bullish tone. Early this week OCT was moving up to catch cash, expiring at \$117.45/cwt., while DEC charged on toward \$125 and FEB near \$130—premium to cash, which has built optimism and a bullish attitude among cattle feeders. There's no promise that weekly cash fed cattle prices will rise to these levels, and we know futures are largely moving in a positive direction due to outside investors buying, especially in the last week or two.

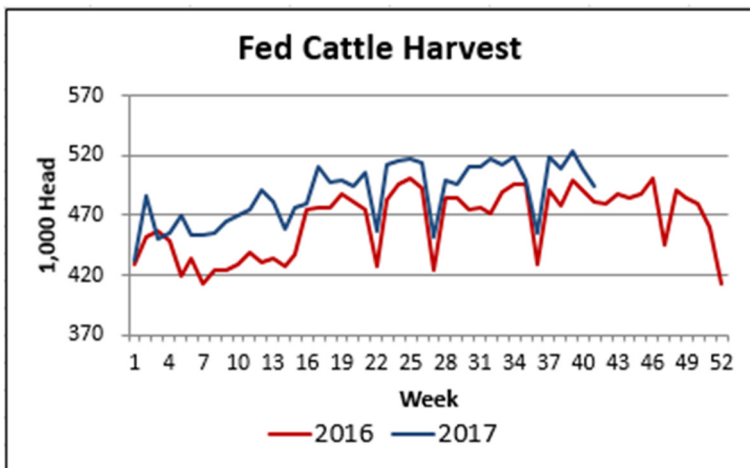
Feed costs remain low, judging by corn futures, the DEC contract trading near its low at \$3.47/bu. Cattle feeders can realize a very low cost of gain in the 70¢/lb. area on a live weight basis, and some low-cost yards looking at the 60-70¢ range, barring major winter weather events. Corn harvest is slower this year but weather conditions and outlooks have brightened.

The *Certified Angus Beef*[®] cutout advanced last week by \$1.76/cwt. with Choice and Select up \$2.50 and \$3.10/cwt., respectively, slightly narrowing the quality spreads. The CAB rib complex took a brief break from seasonal inflation, still up 33¢/cwt., no thanks to a slight decline in ribeye prices. Loins led leaders as tenderloins came back to near last year's price, though lower than other recent years. Short loins, strips and top butts were down but attracting buyer interest. End meats are getting demand traction as the calendar rolls into late fall. Positive if not tremendous price moves abound for chuck and round items, discounting only on chuck rolls, eye of round and flat/eye combos on the Urner Barry report.



Weight watchers: keeping pounds off

Tracking carcass weights through the year, it's often difficult to find the newsworthy item; plus or minus, 5-lb. changes, year over year, hardly exciting. However, we find ourselves today at the second point in 2017 worthy of pause to consider the unexpected. Monthly feeder cattle placement data back to the late spring had us prepared for a fall market wreck like that of 2015, and for much the same reason. Logical predictions for very large head counts into the fall did occur, bringing upwards of 20,000 head more fed cattle per week to packing plants than at the same time a year ago. As the fed cattle price dipped to \$104/cwt. in August, scratching and clawing up to \$108 through September, feedlot margins disappeared. A troubled market seemed as imminent as cattle feeders pushing days on feed and carcass weights to the max. However, packers remained quite profitable through this period with a desire to maximize production while cattle feeders hustled to "market their way" out of the hole. This, in and of itself, has brought us to where we are today with fed cattle carcass



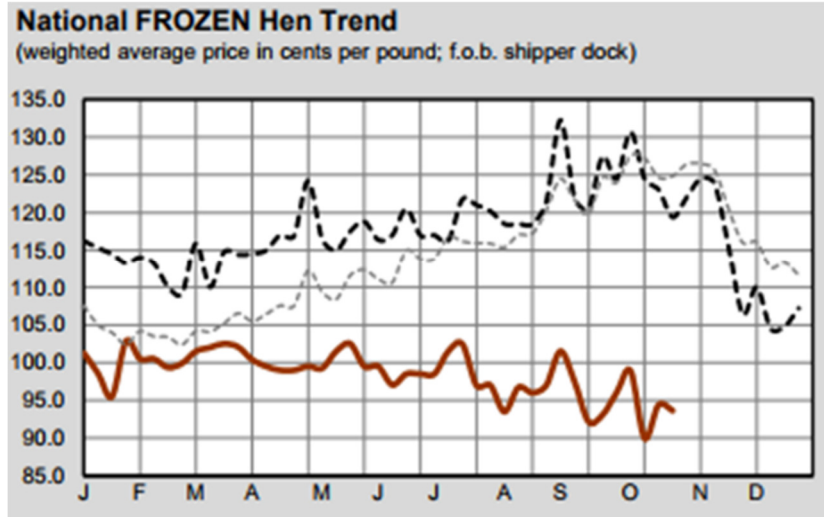
weights not only in check, but 19 lb. lighter than a year ago on both fed steers and heifers. The net effect of that? It **cut in half** the carcass tonnage from our 21,000-head/week increase in the fed cattle harvest over the past 8 weeks (ending Oct. 14th) for which we have data. The "stalling out" of the fall carcass weight climb is a real shot in the arm for cattle feeders and has much, but not everything, to do with last Friday's wild fed-cattle trade.

Cheaper turkeys before holidays compete with beef

As the calendar turns to November, we shift focus to the upcoming holiday season with food an important factor in the celebrations over the next two months. Thanksgiving turkeys are on the minds of Americans, and retail purchasing will soon begin in earnest. In the beef business, we often say retail protein buyers shift their focus to turkey in November but we've

changed that. The beef middle-meat frenzy should be in full swing from now through early December.

As well, Thanksgiving turkeys are actually the king of retail loss leaders when it comes to the protein case and holiday buying. Americans love the traditional Thanksgiving meal, but while turkey is the main course for so many of us, those birds provide no profit opportunity for retailers. Stores fight for customers through attractive



front-page ads, slashing turkey prices as low as they can. All of this to capture margin on every other item in stock, excluding turkeys. The latest USDA data (see chart, lower 2017 trend compared to the 2016 bold dots and 3-year average) shows turkey prices are now bargain-basement low—the lowest since 2008 when production was overwhelmingly high—although current production tonnage is neck and neck with a year ago. Even so, one of the largest turkey producers in the country, Select Genetics, just broke ground on what will be the largest turkey hatchery and incubator in the country near Terra Haute, Indiana.

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