



CAB[®] Insider

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MARKET UPDATE

by Paul Dykstra


Last week's federally inspected cattle harvest was another holiday-shortened one at 541K, just smaller than a year ago. The negotiated cash price of \$121/cwt., live basis, was a disappointment to cattle feeders who could point to no bad news pulling prices lower than the prior week's \$123/cwt. The cash trade was driven by CME Live Cattle Futures, which began a negative break Thursday afternoon and carried through on Friday. With the fed cattle price and cutout values so clearly moving in opposite directions, it is evident that cattle feeders were heavily influenced by the futures market.

Carcass weights are becoming a bit of a discussion as the dry feedlot pens and influence of that factor on cattle performance is still coming through in heavier weights through December 23rd. This makes sense as the cold and snowy conditions set in just after that period. The primary concern with carcass weights—just a few pounds heavier than a year ago at this time—is how the trend will shape up for the first quarter. The potential that weights won't decline into the spring as quickly as

historical expectations places some risk on an oversupply of tonnage with fed cattle head counts slated to be larger again in the coming months.

As noted, boxed beef prices last week moved opposite the live cattle direction. It was a very strong pricing week on beef coming out of the holidays, with CAB and Choice carcass cutout values higher, each in the range of \$6/cwt. higher while Select jumped up by \$8.10/cwt. Quality price spreads between Prime, CAB, Choice and Select tend to narrow in January and February with demand moving away from middle meats in favor of end meats. As well, marbling quality tends to run fairly high in fed cattle this time of year so the supply side is relatively robust.

Urner Barry reports showed expected seasonal weakness on ribeyes with the rib primal lower by \$8.78/cwt. This time last year, that rib market kept sliding into February with wholesale CAB ribeyes as low as \$6.50/lb., so the trend bears watching this year. Spring increases on ribeyes normally run February through June. Most other items on the CAB carcass pricing sheet were up simply due to the overall rise in the cutout last week, with big increases on several chuck items, briskets and rounds. Several items were up on the week as much as 15¢ to 25¢/lb. Tri-tips saw a jump of 44¢/lb. to achieve a \$4.53/lb. price compared to \$4.02/lb. a year ago. Flank steaks increased 35¢/lb. to land in a range of \$4.35 to \$4.55/lb., just ahead of a year ago as well. Grinds started the year pretty cheap, and it's hard to say which way that trend is headed.

	This Week	Previous Week	Previous Year
Weekly Slaughter	541K	502K	543K
Fed Cattle Price	\$121	\$123	\$118
Steer Carcass Wt.	903	902	900
CAB cutout	\$216.20	\$210.50	\$197.30
Choice cutout	\$206.30	\$200.40	\$186.60
Select cutout	\$196.20	\$188.10	\$180.00
CH/SE spread	\$10.10	\$12.30	\$6.60
CAB/CH spread	\$9.90	\$10.10	\$10.70
Beef Index	\$203.30	\$196.90	\$184.90
Pork Cutout	\$77.90	\$76.30	\$79.80
Chicken Index	\$64.90	\$63.80	\$64.80

2017 grid premiums & discounts show strong Choice, Prime prices

As annual reviews are more enjoyable if the evaluation shows improvement, marketers of high-quality beef and cattle like to see a measurable margin for the extra effort. In 2017, packers were willing to pay steady to stronger grid prices for cattle hitting the quality and yield grade marks. On the quality side, the bellwether is the Choice/Select spread, averaging

2017 Quality Grade Grid Premiums and Discounts		
Grade / Category	Avg. \$/Cwt.	Annual Change
Prime	\$15.94	+ \$0.89
CAB®	\$4.33	- \$0.17
Choice	Par	
Select	-\$11.82	- \$1.10
Standard	-\$25.59	- \$1.10

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the Yield Grade side, stability was no doubt the case as YG 1 through 5 premiums and discounts were all but unchanged across the board. The leanest YG 1s commanded a \$5.71/cwt. premium while overfat Yield Grade 5s were discounted heavily again this year at minus \$14.88/cwt., quite steady on the year prior. Packer demand and fabrication styles have changed as we look back to 2008 to find a \$15/cwt. discount for Yield Grade 4 carcasses which were discounted at a more lenient -\$9.78/cwt. in 2017.

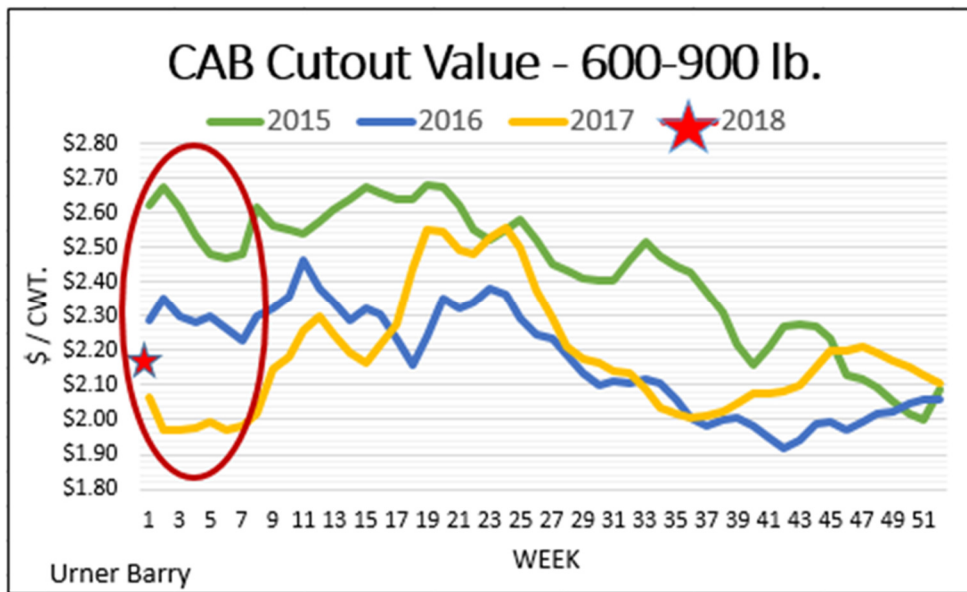
\$11.82/cwt. for the year in the USDA weighted average, \$1.11/cwt. higher on the year. The spike came in early June with a \$27.07/cwt. advantage to Choice carcasses, \$5/cwt. higher than the 2016 high, with a seasonal low in September of \$2.72/cwt. Prime carcasses were paid on average a \$15.94/cwt. premium over Choice in a narrow range spanning just \$5.89/cwt. from \$13.71/cwt. to \$19.60/cwt. The CAB premium averaged just a little lower than the year before, down 17¢ at \$4.33/cwt. July through September figures pulled the average down because CAB acceptance rates outpaced packers' expectations. The weekly high of the reported CAB premium range came in June with one packer reporting a \$14/cwt. premium. On

2017 Yield Grade Grid Premiums and Discounts		
Yield Grade	Avg. \$/Cwt.	Annual Change
1	\$5.71	<u>Unch.</u>
2	\$2.98	<u>Unch.</u>
3	Par	
4	-\$9.78	+\$0.01
5	-\$14.88	- \$0.08

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2018 beginning CAB cutout value: three-year perspective

January has kicked off with a spike in wholesale beef values as noted in the Market Update section. Active spot market buying seems to have coupled with a smaller than anticipated holiday cattle harvest period to create a brief up-tick. This action is not unexpected in early January, as it was the case in 2014-2016. However, 2017 may be more of a characterization of what we may anticipate in the first quarter of this year given the continuation of added cattle supplies and heavy enough carcass weights. Those did not seem so negative to prices until late December, but we've now seen steer weights for the week of



December 18th up 6 lb. and heifers up 13 lb. compared to 12 months prior. Bear in mind these weights were immediately prior to the severe cold and snow event that began the next week with likely negative impacts to feedlot weight gains. It is with an eye on supply that we consider the very good likelihood of a lower cutout move into late January and early

February. With the negotiated fed cattle market turning lower last week and the boxed beef trade simultaneously higher, packers will probably have expanded margin to work with, and a willingness to resume larger weekly harvest numbers. That should augur buying opportunities for end users very soon, as cattle feeders anxiously await further positive developments on their side.

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