CAB® Insider

February 7, 2018

MARKET UPDATE

by Paul Dykstra

Despite a greater harvest count last week, fed cattle cash sales echoed the tones of the prior week, still considering the smaller harvest and shorter supply of beef at the packer level. That left fed cattle prices essentially unchanged on the week at $126/cwt. for the spot market trade.

Boxed beef trade was stronger early in the week on the heels of those smaller supplies, though quickly reestablished. The past two Saturdays show an estimated 47,000 head of federally inspected cattle harvest. Protein buyers continue to approach the market cautiously, its comprehensive cutout value 8% higher than a year ago and weekly sales for quick shipment running behind.

URNER BARRY	This Week	Previous Week	Previous Year
Weekly Slaughter	629K	588K	596K
Fed Cattle Price	$126	$126	$120
Steer Carcass Wt.	891	896	898
CAB cutout	$217.50	$214.80	$196.90
Choice cutout	$208.40	$205.50	$187.20
Select cutout	$202.90	$198.80	$183.80
CH/SE spread	$5.50	$6.70	$3.40
CAB/CH spread	$9.10	$9.30	$9.70
Beef Index	$206.80	$203.50	$185.80
Pork Cutout	$82.40	$81.70	$83.60
Chicken Index	$70.80	$70.40	$65.80

Average carcass cutout values ended a bit higher, despite some weakness later in the week. The price spreads between CAB, Choice and Select were a bit narrower than the week prior with the Choice/Select spread at $5.50/cwt. The CAB/Choice spread at $9.10 was just slightly smaller than the prior week and within striking distance of a year ago.

CAB subprimals show a $14.50/cwt. increase for the week on light, bone-in ribeyes, the rib primal grabbing buyer attention in early February after the January price easing. CAB chuck items continue to see favorable buyer response with flatirons reaching $3.68/lb. wholesale, up 72¢ compared to a year ago. That's still above 2015-2016 levels, but seasonality suggests better price opportunities on the buy side from now into April. The other higher valued chuck item, *teres major*, continues its ascent past $5/lb., wholesale, on a trajectory toward an expected annual price peak closer to $7 in May. Lower priced chuck roasting items firmed up last week with decent interest, but chuck flap values have fallen off hard from an early January $7.00/lb. to last week's $6.17/lb. Loin items were primarily priced just slightly higher last week on the overall stronger beef market price. CAB peeled tenderloins, however, are currently quite cheap in relation to a calendar year, down 17¢ on the week to $10.20/lb., just under a year ago at this time. Skirts, particularly insides, saw some demand improvement and now have only price risk to the upside, though not as much as outside skirts, based on recent annual history of seeking their May-June price peak.

Ground chuck and round saw softer demand last week and pose no real threat, near term, for price inflation. Buyers of those items will likely watch the market to fill any spot market needs, and they would be right to do so.

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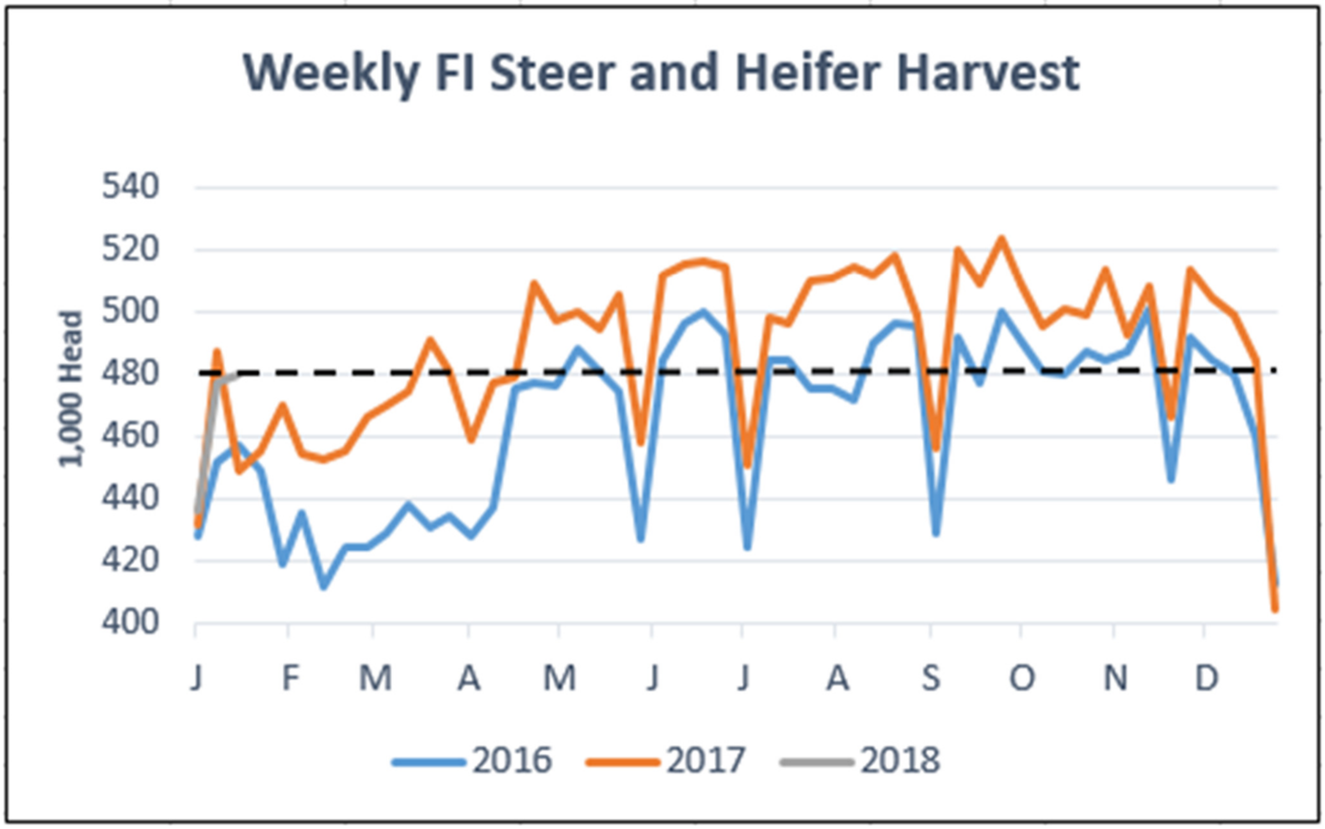

Packers must maximize for healthy ’18 market

Relative profitability for the entire beef sector in 2018 will be largely dependent on packers’ ability and desire to maintain near-maximum production at their harvest facilities as the larger head counts enter the supply chain. The black dotted line in the chart indicates what has been estimated by CattleFax as the weekly fed-cattle head count achievable by the U.S. packing base in a normal 40-hour workweek. The 2016-2017 trend lines show just how frequently that 480K head per week was surpassed in those years through Saturday production. Labor is a limiting factor at the packing level, and maintaining a complete and capable workforce will be more important again in 2018. That’s as the industry faces expanded fed cattle numbers in the face of packing plant capacity shrunken due to plant closures over the past handful of years, in part triggered by the drought-reduced cow herd beginning as far back as 2010 in the South. Packer profitability was record high in 2017 and almost that good in 2016. This year starts out with packer profits in the black but tightened recently as packers faced higher cattle purchase costs. While all sectors of the beef business were profitable in 2017, it will be important for packers, specifically, to maintain profitability again in 2018, incentivizing maximum production by operating on six-day weeks. Beef cow herd expansion has not been stymied through lack of profitability at this point, but it appears we are edging ever closer to a bottleneck at the packing level. That could shift supplies across the critical line and above our ability to process the beef, in turn pushing back against the production sector.

January inventory report: fewer replacement heifers

USDA's biannual Cattle Inventory update at the start of the year was published January 31st http://usda.mannlib.cornell.edu/usda/current/Catt/Catt-01-31-2018.pdf, most of the figures quite close to the analyst predictions. Some adjustments were made to calf crop numbers from the July and January reports for 2017, but for all practical purposes the trends are no surprise. Beef cows and heifers that calved in 2017 were up 2% while the "all cattle and calves" number was up 1% on a year ago. Beef replacement heifers are down almost 4% in the report, confirming our suspicions that herd expansion is grinding to a crawl in 2018, but with the new data suggesting a more abrupt halt. For simplicity in the adjoining table, we've removed the dairy cow and heifer numbers but note these were both 1% above January 2017. Pertinent to the terminal end of the beef market is the total number of cattle in feedlots, at 107% of a year prior, just under the 108% suggested in the January 1st Cattle on Feed Report. The numbers are not identical because the biannual reports from USDA are the only ones to include feedlots of all sizes, as opposed to the monthly reports featuring only feedlots of 1,000 head one-time capacity and larger. As such, the January report is a good indicator that the year began with feedlots front-loaded with cattle. That's significant as we look ahead in 2018 and beyond today's immediate scenario where February finished cattle supplies are tighter. Drought conditions in the important cereal grain producing states of Texas, Oklahoma and Kansas last fall drove more cattle into feedlots earlier than anticipated as winter grazing intentions fell apart on poor moisture and growing conditions. We should consequently see those added head counts ship to packing plants earlier than "normal," with more bias on early finish dates, potentially impacting 2nd and 3rd quarters. This could pressure fed cattle prices during that period but will be a net positive to sellers of calves and feeder cattle this spring as cattle supplies outside of feedlots will be tighter.

January 1st Cattle Inventory Report – USDA NASS

	2017	2018	% of Prior Year
	(1,000 hd.)	(1,000 hd.)	
All Cattle and Calves	93,701	94,399	101
Beef Cows & Heifers that have calved	31,213	31,723	102
Beef replacement heifers 500 lb. and up	6,368	6,131	96
Steers 500 lb. and up	16,383	16,352	100
Calves under 500 lb.	14,386	14,427	100
Cattle on Feed	13,067	14,006	107
Calf Crop	35,092	35,808	102

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