



# CAB<sup>®</sup> Insider

May 2, 2018


## MARKET UPDATE

by Paul Dykstra

The effects of a long, cold, wet winter continue to show some impact in northern cattle feeding areas. The strength in live cattle prices late last week with Friday bids in the \$124-\$126/cwt. range represented a stout increase above the early-week sales closer to \$121. That alone indicates market-ready cattle are still in short supply while packers look to increase their weekly harvested head counts. Packers are shipping southern cattle to northern plants to fill their needs on a short-term basis until calf-fed cattle in the north reach marketable weights and fat composition. All involved in the beef industry have had to adjust their collective thinking that the large supplies of fed cattle expected to become evident in late April simply did not materialize on the anticipated timeline.

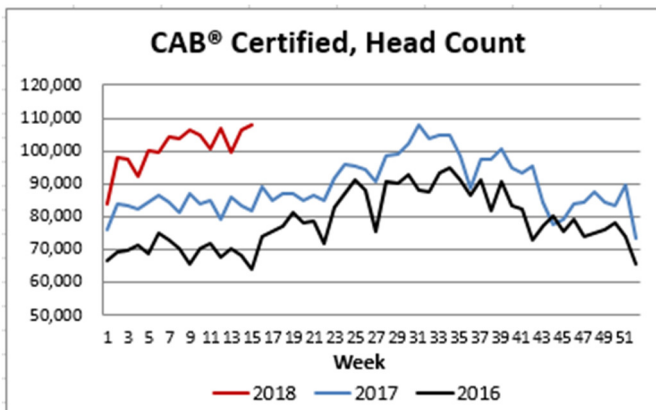
USDA quality grades for fed steers and heifers were adjusting seasonally lower as of a couple weeks ago with the U.S. average for Choice grading carcasses at 70.6%, down from the 73% early-February year-to-date high. That decline may seem minimal, but each year it coincides with the time marbling-rich middle meats are much

in demand for the grilling season just ahead. It's important to put this in historical perspective as well. The current Choice grading percentage is the largest in modern history and 13 percentage points higher than a decade ago when it was 57%. Prime grading carcasses are impressive at the latest 7.9% of the weekly fed cattle supply. The Choice/Select price spread is hammering higher to \$17.42/cwt. as of last Friday and over \$19/cwt. today, according to

 URNER BARRY	This Week	Previous Week	Previous Year
Weekly Slaughter	623K	624K	630K
Fed Cattle Price	\$124	\$122	\$137
Steer Carcass Wt.	867	872	848
CAB cutout	\$225.58	\$219.89	\$227.74
Choice cutout	\$217.02	\$210.52	\$215.87
Select cutout	\$204.93	\$200.56	\$203.62
CH/SE spread	\$12.09	\$9.96	\$12.25
CAB/CH spread	\$8.56	\$9.37	\$11.87
Beef Index	\$214.18	\$208.64	\$212.01
Pork Cutout	\$69.61	\$68.15	\$74.31
Chicken Index	\$73.08	\$73.15	\$80.04

USDA, though just \$12/cwt. on the Urner Barry weekly average report.

Along those lines, the latest data show resiliency in the number of cattle eligible for the *Certified Angus Beef*<sup>®</sup> brand actually qualifying for CAB<sup>®</sup>, after some declines that the grade trend suggests. The last week of March and first of April saw acceptance dip from 36% to 34% and then 35% before marking a 36.7% level the week of April 8<sup>th</sup>. Now, with the week of April 15<sup>th</sup> on the books we see another decline to 34% CAB

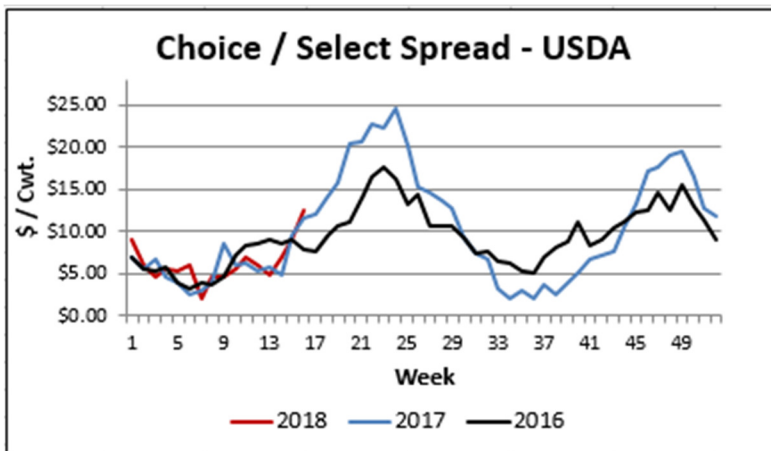


acceptance. Even so, we have recorded 12 weeks in a row now of 99,000 and higher CAB-qualified carcasses through all of the licensed packing base.

Boxed beef prices saw sharp increases across all grades as the perfect scenario for a stronger beef market materialized. Packers are doing an excellent job of selling meat for the forward market and have done so at a rapid pace for three weeks now. We see some who had held off buying product at discount because they were listening to the supply side expound on a glut of cattle that should have materialized. In the absence of this large supply, packers are instead pushing prices higher and those buyers may have been caught flat-footed waiting for lower prices. Coming to the realization that there is little time left to procure spring grilling supplies, buyers have stepped in to secure product, causing quite a demand-based rally in beef prices last week.

A look at the subprimal report from Urner Barry shows middle meats are, indeed, the “in demand” items as grilling season approaches. Warmer weather arrived in many parts of the country the past weekend and Memorial Day is now just 26 days away. Urner Barry reports 30¢ to 40¢ price increases on ribeyes, 0x1 strips and tenderloins. Those are sharp hikes, but the ribeye and strip loins almost perfectly align with a year ago, while tenderloins remain \$1.10/lb. cheaper than year ago.

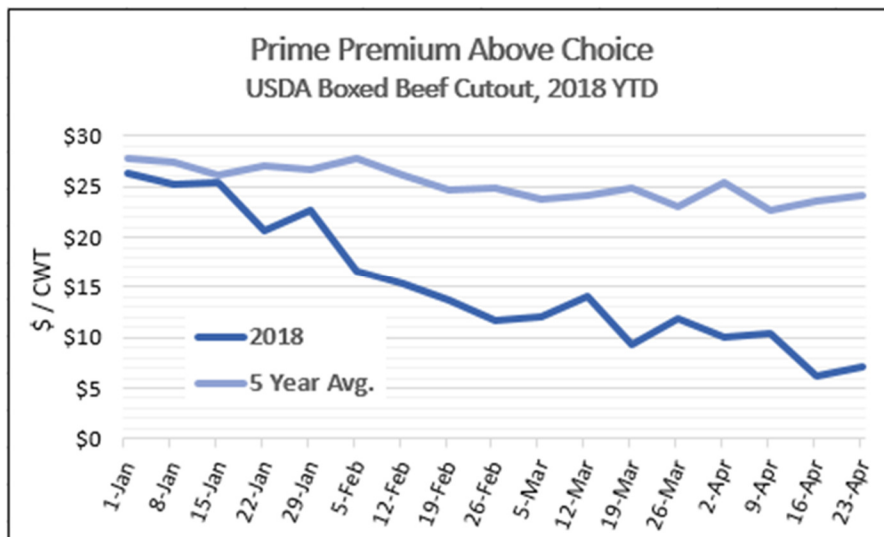
We’ve lamented the softer end-meat markets these past several weeks (outside of the higher valued chuck steaks) we also have some price lift in chuck and round subprimals in a moderate range of 5¢ to 15¢/lb. last week. The only cutout weakness came from briskets, down just a few cents but still trading at a premium of 32¢ higher than a year ago at \$2.57/lb. Inside skirts were also a bit weaker in the report and have been on a downtrend since their late-March high of \$4.78/lb. CAB chuck and round grinds were up 5-7¢/lb. last week, and seasonally poised to see price increases into mid-May. Moving into June, the cattle supply increase should temper grind prices and most likely see them decline from the expected spring surge into May.



## Prime takes on leadership role

As May arrives, it’s customary for beef marketers and producers to turn our attention to the widening price spreads between the quality grades and branded products. Spring grilling demand heats up as Beef Month opens the door to some of the strongest seasonal demand for high-quality middle

meats. In the last issue, we noted current historical high percentages for Prime, Choice and CAB branded products derived from the fed cattle harvest so far in 2018. A deeper look at the



Prime quality grade reveals a year-to-date (YTD) jump from 6% in '17 to 8% as we compare the first 16 weeks with 2018. Accounting for carcass weight and head-count differences across the two years reveals an astounding 33% more Prime beef tonnage on the market so far in 2018, moving the total from 24.3 to 32.4 million lb. in the annual YTD comparison. The line graph shows a decline in the USDA boxed beef cutout premium for Prime above Choice since the first of the year, decending from \$26.37/cwt. to the most recent report of \$7.20/cwt.

At first glance, you'd think the market has become saturated with Prime beef. But market economists note Prime beef is not a regular buy for most consumers, given the 5-year average premium ranging from \$15 to \$20/cwt., with restaurant customers used to seeing a larger markup as menus open on white table cloths.

That's why the pool of restaurants and retailers willing to jump in at a historically normal Prime premium is so small. Today's price spread between Prime and Choice as well as Prime and USDA branded products (a difference of just \$4.41/lb.) presents an opportunity to introduce the higher grade product to a group of end users potentially ready to take the smaller leap to Prime at this time. Quality-conscious CAB-licensed accounts are taking a closer look at trading up to the CAB Prime extension.

Expanded availability of Prime and CAB products drives beef demand much higher. Regardless of a large or modest premium, we've seen the increasing quality of our product lifting the beef market at all levels. Today's Choice/Select price spread is \$19/cwt. while production of Select beef is at a low in modern history, at just 16.8% of fed cattle production in 2018.

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