

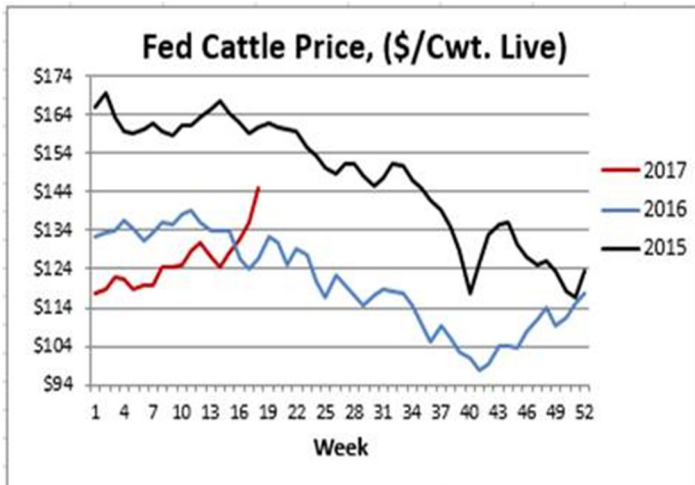


# CAB<sup>®</sup> Insider

May 10, 2017

## MARKET UPDATE

by Paul Dykstra




Last week saw another shocking fed-cattle rally—no use rehashing the drivers because they have not changed, but the \$20 gain in the last four weeks is certainly a rare event. CattleFax pointed out this rally is matched only by other record moves in 1978 and 2003. Carcass weights for steers now 21 lb. lighter than 2016, and selling prior to optimal grade endpoint led to a 3 percentage-point decline in Choice and Prime quality grades. Those averages are only at the 2016 level of 76%, a modern era record then. Reports from CAB-licensed packers on acceptance rates

for the brand show a mixed impact with regional variation by cattle type, origin, age and prevailing marketing method. Higher CAB acceptance rates prevail where younger cattle mean more “A” maturity and fewer tripping the 1,050-lb. carcass limit. Other plants saw lighter weights and earlier marketing that hindered marbling levels and, in turn, lowered CAB acceptance. Week of April 16<sup>th</sup> data showed a CAB acceptance rate of 30.8%, up 1 point on the week prior and a point and a half above a year ago. As data comes in from late April and May, CAB rates will likely decline.

Short-term exuberance for cattle sellers comes at the expense of boxed beef sales, raising concerns over demand. Urner Barry’s Thursday quote for the weekly CAB cutout price at

\$238.70/cwt. was up \$14.20 on the week. The Choice weekly average was up \$13.50 at \$229.40/cwt., while Select was \$214.60/cwt., up \$11. The only CAB subprimal not higher was the chuck arm roast (\$3.04/lb. wholesale), which has trended seasonally lower by 13% from the first of the year compared to a 32% decline for that period last year. Ribs led the price inflation last week with ribeyes up 73 cents to \$8.94/lb.

Any summary might suggest that while the cattle market is getting a shot in the arm the overall health of the beef markets is perhaps on less firm footing as we transition into grilling season at elevated cutout prices.

	This Week	Previous Week	Previous Year
Weekly Slaughter	612K	624K	586K
Fed Cattle Price	\$145	\$137	\$127
Steer Carcass Wt.	849	848	870
CAB cutout	\$238.70	\$224.50	\$224.20
Choice cutout	\$229.40	\$215.90	\$209.20
Select cutout	\$214.60	\$203.60	\$199.70
CH/SE spread	\$14.80	\$12.30	\$9.50
CAB/CH spread	\$9.30	\$8.60	\$15.00
Beef Index	\$224.70	\$211.80	\$206.20
Pork Cutout	\$75.50	\$79.80	\$81.20
Chicken Index	\$81.20	\$80.00	\$68.20

## Year-on-year Choice primal price comparison

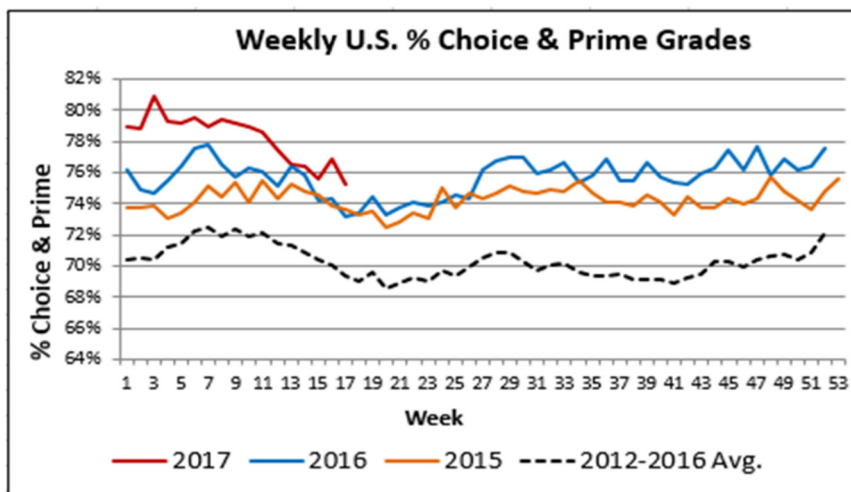
The recent packer scramble to own finished cattle in the weekly cash market has caused them to force cutout values above 2016 levels, which end-users may have argued were too high at that time. Even so, the margin-balancing act necessitated the increases because the volume of cattle purchased in the spot market at these escalating prices over the past three weeks was the largest in years. Last fall, we reported that middle meats represented a larger proportion of total carcass cutout values in 2016 than previously. Current data suggests demand for middle meats as we head into grilling season is once again driving middle meat prices to a higher degree than the end meats, as noted in the table depicting the large category of Choice 600-900 lb. carcass cutout values. The thin meats, including briskets, are also much more advanced in their annual percentage price than the ends. At this point, it would appear that the end meats are again a relative bargain, and packers will need to drag along prices on those weight-heavy items to work on their margins. In the meantime, the very current fed cattle market, a decline in quality grades and strong steak demand for grilling season has the Choice/Select spread up to \$19.13/cwt. on a carcass weight basis as of Tuesday this week. The CAB/Choice spread was \$9.30/cwt. in last week's average compared to \$15.00/cwt. a year ago at this time, offering buyers a smaller price leap to the premium product.

600/900 Lb. Choice Primal Wholesale Carcass Prices			
	Last Week, Price/Lb.	Year Ago, Price/Lb.	% Change
Rib	\$3.94	\$3.21	23%
Chuck	\$1.74	\$1.60	9%
Round	\$1.75	\$1.64	7%
Loin	\$3.59	\$3.18	13%
Brisket	\$1.67	\$1.37	22%
Plate	\$1.99	\$1.41	41%
Flank	\$1.52	\$1.28	19%
Total	\$2.39	\$2.09	14%

Source: Urner Barry

## Calf-fed vs. yearling carcass outcomes

A pronounced decline of industry aggregate marbling levels in harvested fed cattle annually occurs from the late February highs through May, resulting in a smaller mix of Choice and Prime carcasses in favor of a few more grading Select. The 2012-2016 average decline in combined Choice and Prime grades for the Feb-to-May period was 4 percentage points, while 2017 has brought on an accelerated pace in the grade decline as we've moved quickly through the harvest-ready cattle. Traditionally, cattle feeders and packers cite the coinciding seasonal switch from harvesting yearlings to calf-feds during this timeline



as the primary reason for a decline in marbling levels, indicating that yearlings just grade better.

However, a recent meta-analysis of 32 separate studies (See Table, Johnson and DiCostanzo 2017) indicates quite the opposite is true. Cattle fed a high-energy diet in the backgrounding phase (calf-feds) achieved higher average marbling scores than cattle backgrounded on:

winter wheat, unlimited forage with a restricted ration, or grazing dormant grass prior to the finishing phase. This analysis matches that of our own feedlot partnership database at CAB. It should motivate sellers of superior-marbling Angus cattle to consider the typically wider Choice/Select spread, Prime and CAB premiums featured in the spring of the year as a margin-enhancing target.

	Pre-Finish Feeding Strategies			
	High Energy Feeding	Ad Lib Forage + Restricted Energy Feeding	Grazing Winter Wheat	Grazing Dormant Grass
HCW, lb	699	725	758	703
Backfat, in	0.47	0.43	0.59	0.51
REA, in <sup>sq</sup>	12.18	13.22	12.49	11.98
Marbling Score	548	527	532	508

Adapted from Johnson and DiCostanzo, 2017

The research did suggest more saleable weight in yearlings than calf-feds in each of the backgrounding strategies and larger ribeye size than calf-feds in two of the three alternative programs. Clearly, the average carcass weights featured in the studies are behind today's heavier weights. Despite that, we should also consider in the comparison that modern genetics have advanced post-weaning growth to the degree that many calf-feds are achieving finished weights that were previously unimaginable. These cattle are staying leaner to heavier endpoints at optimal backfat and yield grades, opening the door to achieving greater saleable weight at younger ages. Breaking the belief that yearlings always grade better demands further consideration as to why we see the spring decline in quality grades.

### Don't miss these recent columns and articles:

- On Target: Ranch environment and beef demand  
<http://www.cabpartners.com/articles/news/3216/OnTargetMay17.pdf>
- That much better?  
[http://www.cabpartners.com/articles/news/3214/GEN\\_\\$B%20demo.pdf](http://www.cabpartners.com/articles/news/3214/GEN_$B%20demo.pdf)

### Video news releases:

- Foreign demand rising for premium beef  
<https://www.youtube.com/watch?v=UrQ-2x1I56s>
- Trading places: rancher & chef  
<https://www.youtube.com/watch?v=aTbWdQgBdvM>



Remember, CAB® Insider is archived at <http://www.cabpartners.com/news/cabinsider/>

To subscribe to CAB Insider and Feed-Lot eNews, text the word "FEEDLOTNEWS" to 22828