



# CAB<sup>®</sup> Insider

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## MARKET UPDATE

by Paul Dykstra

Last week was rather mundane in the live cattle market as the fed-cattle cash trade played out just as predictably as it could. The \$2 decline from \$128 to \$126/cwt. was not surprising as, really, we have seen the market hold more strength than many would have guessed through the month of February. Cattle supplies at their current tight levels allowed feedlots some leverage to keep the steer/heifer price higher while packers were able to push the cutout higher in late February to solidify their profit margin. Packers picked up the harvest pace last week after three weeks of sub-600K head harvest weeks, posting a 608K head total.

The latest reported week in carcass weights shows a big week-on-week decline, with the steer carcass weight down 8 lb. in just one week to put steers only 2 lb. heavier than the same week last year. Heifer carcasses remain 4 lb. heavier than a year ago.

We haven't discussed the drop credit (hide and offal) for some time in the Market Update section. At a current price level of \$9.99/cwt. (live-weight basis), the drop credit is depressed and much lower than a year ago when it was at \$12/cwt.

Decreased demand for hides on the international market seems to be the primary drag at this time. The causative effect there seems to be that there are too many leather substitutes now being used for items that were traditionally leather goods, such as handbags and shoes. All of this matters not to the CAB cutout but does have a net negative effect on the total value of the animal.

On the end-user side of the business, things are getting a bit uglier with cutout values taking another sharp increase last week. The CAB cutout was up \$2.40/cwt, Choice was up \$4.30/cwt. and Select was higher by \$3.40/cwt. Of particular note is the very narrow spread between CAB and Choice product, reduced even further from last week and representing a great buying opportunity for the premium brand.

The CAB subprimal report shows a very cut-and-dried scenario with middle meats clearly trending higher and undoubtedly leading the way with big increases on ribs and strips as the main source of value appreciation to the carcass, while the *teres major* continued to fit the same price pattern: seasonally higher and higher. The chuck complex shows a negligible net gain of 69¢/cwt. with the round as the only net loser from the CAB cutout report, showing an 82¢/cwt. price decline. Other highlights to the positive price direction were flank steaks and skirts, the outside skirts proving their seasonal might with a 30¢/lb. increase to average \$6.40 to \$6.90/cwt. last week. CAB grinds were steady or a few cents higher.

	This Week	Previous Week	Previous Year
Weekly Slaughter	608K	572K	586K
Fed Cattle Price	\$126	\$128	\$125
Steer Carcass Wt.	881	889	879
CAB cutout	\$222.60	\$220.20	\$219.10
Choice cutout	\$217.70	\$213.40	\$207.30
Select cutout	\$211.50	\$208.10	\$202.60
CH/SE spread	\$6.20	\$5.30	\$4.70
CAB/CH spread	\$4.90	\$6.80	\$11.80
Beef Index	\$216.10	\$212.20	\$205.00
Pork Cutout	\$78.40	\$79.00	\$81.20
Chicken Index	\$69.90	\$70.20	\$71.20

# Net Yield Grade impact depends on grid format

Analysis of grid marketing often brings to light that some packers offer a format with an allowance for Yield Grade 4s while others do not. The “allowance” or “threshold” is simply the average percentage of the packing plant’s Yield Grade 4 carcasses. Functionally, the seller can deliver a load of cattle up to the plant average of YG 4s before the penalty is assessed on any cattle exceeding the average. Thus, if the plant average is 11% YG 4s then the 12<sup>th</sup> YG 4 carcass out of 100 is the first to be discounted, plus any more over that number.

One threshold grid structure takes the concept further, offering premiums for YG 1s and 2s when those higher valued carcasses exceed the plant average, and applying discounts for excessive YG 4s and 5s and, in similar fashion, adding premiums when those discount carcasses are less numerous than the average.

The standard grid design is simpler than the aforementioned structured approach. In this classic alternative, every carcass other than a YG 3 (par), receives a premium or discount regardless of plant average thresholds.

Grid Structure Examples – Yield Grade Premiums & Discounts			
Yield Grade	Standard Grid \$/Cwt.	Threshold Grid \$/Cwt.	Threshold Plant Avg. %
1	\$5.00	\$4.00	6%
2	\$2.00	\$2.00	34%
3	Par	Par	---
4	(\$6.00)	(\$10.00)	11%
5	(\$15.00)	(\$20.00)	2%

At first blush, a threshold grid seems to be more attractive as it appears to be more

Example A		Price Adjustment \$/Cwt.	
Yield Grade	Cattle YG Results	Standard Grid	Threshold Grid
1	5%	\$0.25	---
2	44%	\$0.88	\$0.20
3	43%	---	---
4	8%	(\$0.48)	\$0.30
5	0%	---	\$0.40
Net/Cwt.		\$0.65	\$0.90
Net/Head*		\$5.72	\$7.92

\*880 lb. carcass

forgiving, especially in the case where one of the fundamentals of grid marketing is avoidance of discounts. Since high-marbling cattle that will hit the CAB brand and Prime grade categories may sometimes carry more likelihood of YG 4 occurrences, allowances up to the threshold YG 4 level are attractive. That’s doubly true in the current era where the cost of gain relationship to selling price favors feeding cattle longer to heavier backfat and finished weight outcomes.

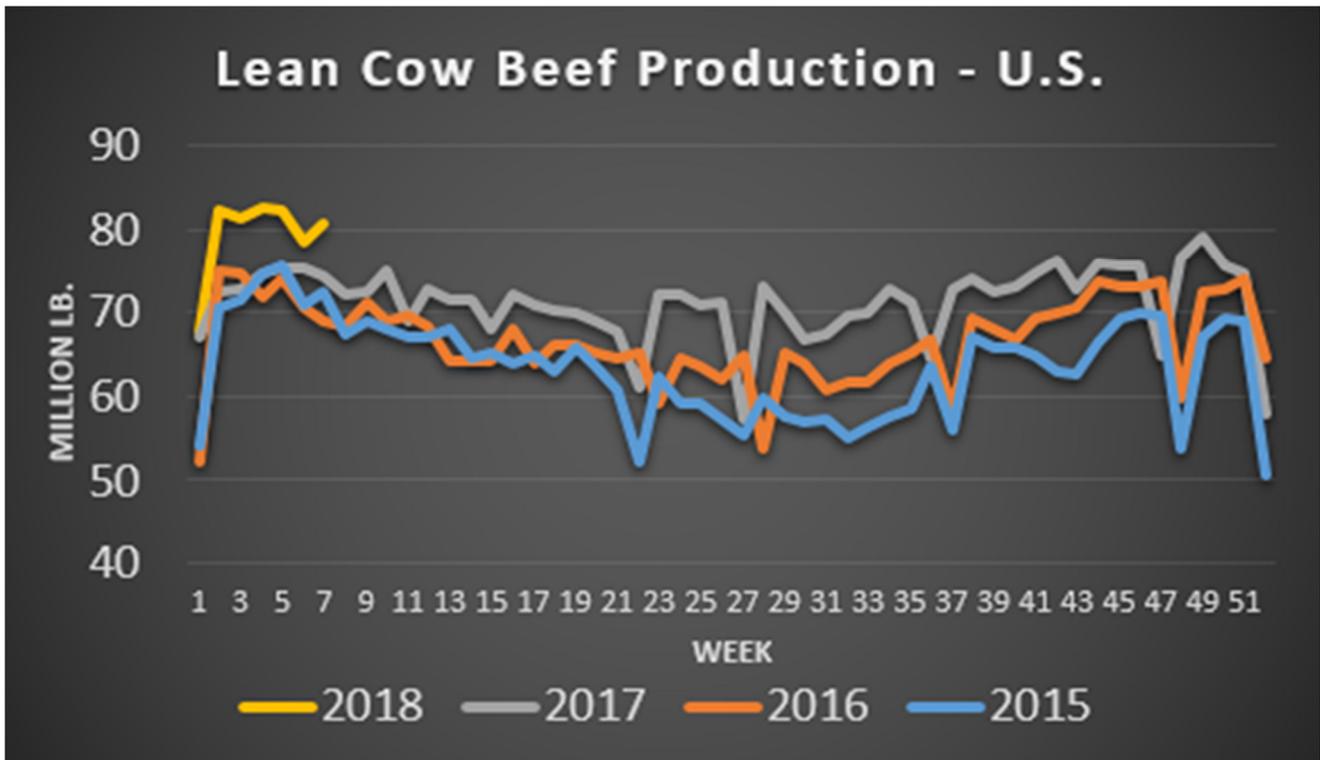
The catch is that we need to be aware that the premium and discount prices are not necessarily equal on each grid. They may be, but it’s likely they are not. For instance, a threshold grid may include a YG 4 discount of - \$10/cwt. and a static grid may apply a - \$6/cwt. discount.

While that may seem confusing, both structures at those levels tend to price the “industry average pen,” in terms of YG distribution, right around \$0 premium or discount, which makes sense.

The only way to know which grid is better suited to any group of cattle is to apply the actual carcass data to the known grid values—in which case it’s too late to decide. While the two structures deliver differing results, the reality is that they are designed to value a group of cattle in essentially the same way. The accompanying price structure table and two example sets of cattle illustrate this point to the degree that we can do so with simplicity.

Example B		Price Adjustment \$/Cwt.	
Yield Grade	Cattle YG Results	Standard Grid	Threshold Grid
1	2%	\$0.10	---
2	12%	\$0.24	---
3	56%	---	---
4	30%	(\$1.80)	(\$1.90)
5	---	---	\$0.40
Net/Cwt.		(\$1.46)	(\$1.50)
Net/Head*		(\$12.85)	(\$13.20)

\*880 lb. carcass



USDA federally inspected cattle harvest as of the week of February 12<sup>th</sup> is up 2.78%. While fed steer and heifer numbers contributed 78.3% of the total head count, the beef cow portion (non-fed cattle) in that count is up 10.4% compared to 2017. January 1<sup>st</sup> data suggests an increase of 1.6% (510K head) in the U.S. beef cow inventory, adding a small measure of available cows to the mix without regard to the impacts of imported lean beef for grinding.

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