



CAB[®] Insider

May 16, 2018

MARKET UPDATE

by Paul Dykstra

The fed cattle trade is starting to show a little more packer willingness to increase harvest levels, with last week's federally inspected head count of 645,000, just 2,000 fewer animals than the prior week. On the fed steer and heifer count, that's 513,000 head two weeks ago and 511,000 last week. Packer margins remain quite good with estimates of well over \$100/head profitability.

Feedyards are also profitable at this time and one of the primary drivers of that profit is the historically large and positive basis in the June Live Cattle Futures. That contract closed last Friday at \$107/cwt. (further declining early this week), while the cash market last week was \$122/cwt. We'll discuss this later in more detail in terms of carcass weight, grading implications and the cash market. The end-user side has started to take note of lighter carcass weights and subprimal cut sizes, with purveyor concerns voiced in late April and early May. What a contrast to the normal complaints about beef cuts getting too large as finished

weights for cattle increased over the decades. Consider for a moment that continuity of size would potentially allay some of the consternation. Even so, the seasonal decline should be very much anticipated this time of year, specifically in May, by anyone looking at the history.

The boxed beef side saw more demand and cutout price advances last week. Let's keep our perspective and recognize that beef prices are well below a year ago, which has to feel good to all end-users. At the same time, we recognize that last May was a phenomenally high-price time for beef as we faced a worse shortage of finished cattle than we are now. Nonetheless, the CAB cutout was \$3.16/cwt. higher while Choice was up \$4.28/cwt. and Select increased just 62¢/cwt. The Choice/Select spread widened even more to \$18.72/cwt. on the Urner Barry (UB) weekly and \$22.28/cwt. on the USDA report for Friday's pricing. The CAB/CH spread remains very workable for end users at \$8.55/cwt.

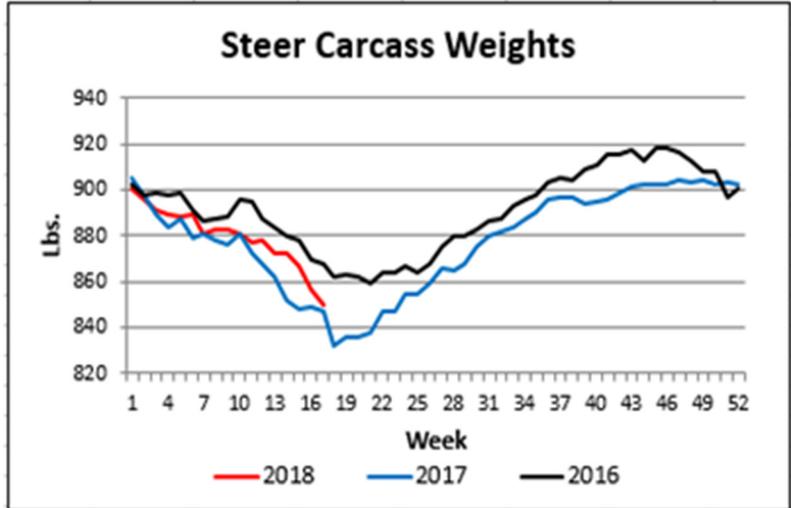
Middle meats continue to drive carcass values, with ribs and loins way out front on the UB report, up \$10.77/cwt. and \$7.19/cwt., respectively. I'm can't paint the scenario any differently than states the past 3 weeks: seasonal demand separates the carcass primals based on grilling items versus end cuts, with Memorial Day weekend now less than two weeks away.

Chuck rolls traded at a discount last week, part of the unchanged total chuck price as all other chuck items were a few cents higher, and chuck flap was up 15¢/lb. to earn a decent spike on the graph. Round items were also priced a few cents higher, with decent demand for top round. Grinds are providing some demand; CAB ground chuck was up 6¢/lb. last week and just beginning to get a seasonal increase, with ground round unchanged at \$2.86/lb.

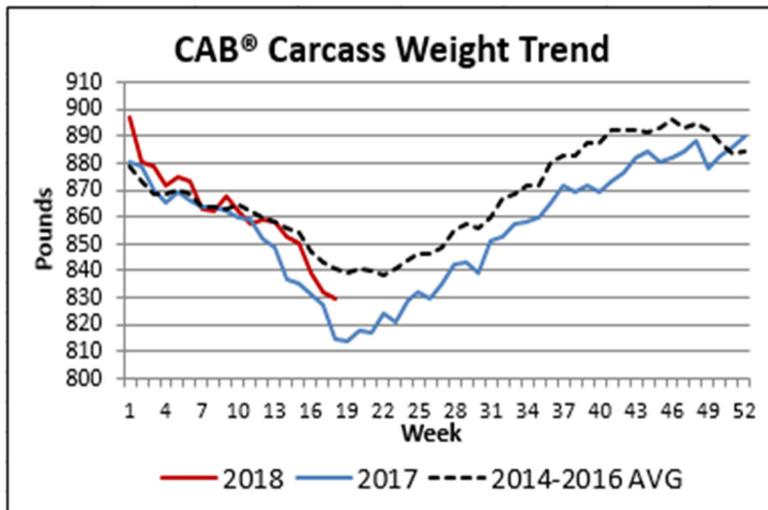
	This Week	Previous Week	Previous Year
Weekly Slaughter	645K	647K	619K
Fed Cattle Price	\$122	\$126	\$138
Steer Carcass Wt.	850	856	847
CAB cutout	\$237.45	\$234.29	\$255.09
Choice cutout	\$228.90	\$224.62	\$241.53
Select cutout	\$210.18	\$209.56	\$222.43
CH/SE spread	\$18.72	\$15.06	\$19.10
CAB/CH spread	\$8.55	\$9.67	\$13.56
Beef Index	\$224.20	\$220.79	\$235.83
Pork Cutout	\$72.89	\$70.61	\$79.81
Chicken Index	\$73.47	\$73.08	\$82.79

Light weights, heavy impact

The latest USDA carcass weight data for the week beginning April 30th brings us ever closer to the lowest anticipated fed steer and heifer carcass weights of 2018. It's commonly understood that the youngest calf-fed, spring-born animals comprise much of the fed-cattle harvest in May. That brings carcass weights down to their annual lows, as seasonal data has proven time and again. In the past five years, the exact week marking the annual low has varied from early to late May and we have no certainty as to exact timing. The USDA report on actual carcass weight is always two weeks in arrears, but last week's estimated weights show dressed weights still declining, down 6 lb. on the week prior. The graph depicting CAB carcass weights matches very closely with the USDA fed steer and heifer report, with CAB carcasses running just 4 lb.



heavier than the average of all steers and heifers so far this year. That disparity comes from the fact that the lightest carcasses often represent leaner cattle with fewer days on feed. Those carcasses would have two strikes against them in terms of probability of reaching the ever-important Premium Choice marbling requirement needed to earn the CAB



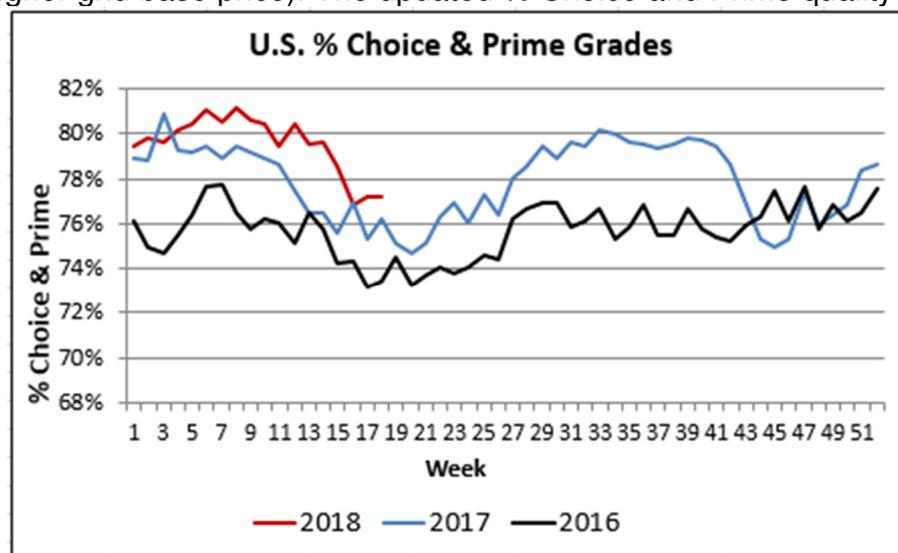
brand. Although CAB does lose some carcasses due to excess carcass weight above the 1,050-lb. limit, that's not an important factor this time of year.

Two other features that are important to the rapid carcass-weight decline these past few weeks are weather and market conditions. We've discussed the weather in recent editions of the Insider, focusing on that late April storm. It hampered fed-cattle performance with results now becoming evident in lighter finished

weights, especially for contracted cattle that must be harvested on time. Just as important, however, is the historically strong (record wide) June basis (the difference between futures and cash). With the June Live Cattle contract in a range around \$105/cwt., last week's \$122/cwt. cash market gave cattle feeders a huge incentive to market cattle early to capture the premium that existed between the available cash price and the much lower price represented in the June contract. That made them very willing sellers and also quite profitable for cattle that fit the timing of this marketing scenario, cattle just barely finished enough to market to packers hungry to build carcass numbers in May. A scenario much the same played out last year at this time.

Bullish cash, bearish futures provided opportunities

The aforementioned currentness of fed cattle supplies (i.e., lighter finished weights and early marketing of fed cattle) has some implications for the high-quality cattle market as well. In last month's *Insider*, I suggested the percentage share of Choice and Prime grading fed cattle would be resilient, not declining into early May to the degree that they did a year ago. It took only a few weeks to prove me wrong, and it all makes sense today based on these factors pushing carcass weights rapidly lower. Cattle contracted by feeders to packers have to ship in the specified contract month, so even if feeders would like to add days to the feeding period for cattle performing below projections (due to winter feeding conditions for instance), their hands are tied by the contract in most cases. Such cattle likely fall short of their optimum backfat thickness and marbling scores, depressing quality grades and CAB acceptance. As well, feeders motivated by higher market prices and favorable basis levels may choose to forego higher marbling scores and grid marketing returns in favor of the attractive cash price (or higher grid base price). The updated % Choice and Prime quality grade chart shows that grades recently dipped to year-ago levels more so than the early 2018 pattern suggested they would. Late April CAB acceptance percentages show 34-35% CAB qualification for eligible cattle, slightly off of the 36% from mid-April but still holding strong ahead of the May data, which is yet to come.



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