



# CAB<sup>®</sup> Insider

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## MARKET UPDATE

by Paul Dykstra

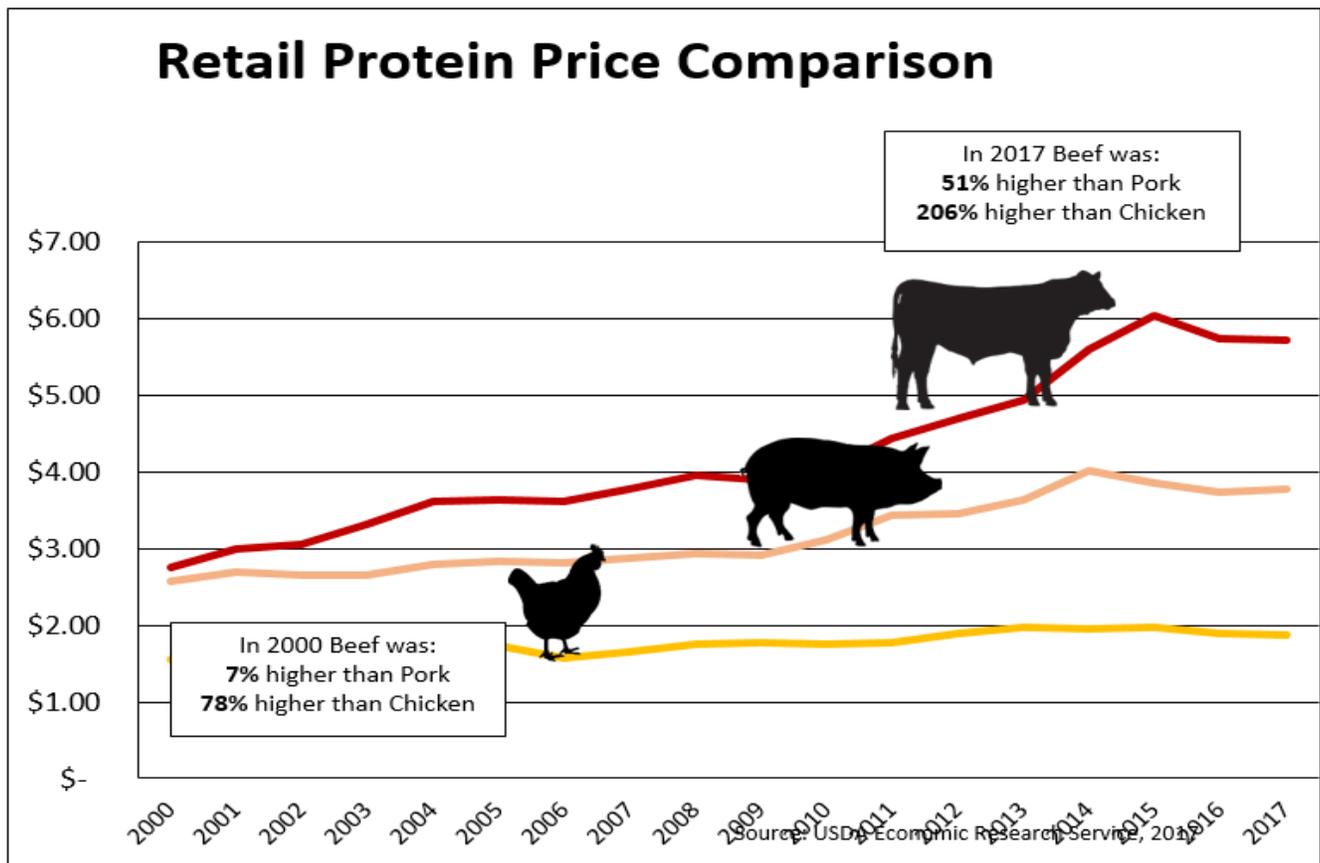
Last week brought new life to the fed steer/heifer trade as packers came up a little short of cattle to fill their needs late in the week. As a result, the negotiated market on Friday heated up a good deal, packers paying from \$112 to \$115/cwt. on a live basis. That was a nice shot in the arm for sellers, but the seasonal July marketplace expectation is for softer fed cattle prices following boxed beef prices lower. We shouldn't anticipate additional price strength for fed cattle in the immediate term.

Marbling and quality grades for steers and heifers this summer have been quite strong when looking at both Choice and Prime rolled up together. The share of Choice dipped to 69% in late April, fractionally lower than a year ago, but the trend has been steadily higher ever since, although primarily just below last year's figures. The Prime grade trend has been more impressive this year with a year-to-date (YTD) increase of 1.9 percentage points higher than 2017, moving the YTD figure from 5.6% Prime to 7.5% Prime as of this mid-year point. The combined Choice and Prime grade

percentage is up 1.47 points to a 78.9% YTD avg. The increase has all been in Prime while Choice is down 0.45 points. The Choice/Select spread narrowed last week to \$9.96/cwt., a better proposition on the sales side as we compare CAB product price down through Choice and Select. The Prime cutout premium is near \$10/cwt. above USDA's branded beef price.

Boxed beef cutout values were lower last week, fulfilling expectations coming off Independence Day, likely compounded a bit by the holiday falling on Wednesday. Beef trend expectations for a seasonal July pattern are starting the month off on pace. We expect to see middle meats lose favor in the marketplace, which they have, with ribs and loins down 2-3% in price last week. The CAB rib primal was priced lower by \$12.36/cwt. and loins were down \$7.15/cwt. The next big decline on the week was on briskets, with the slight June demand push now relenting as the market for briskets heads in the expected direction closer to annual lows out through August. The seasonal switch away from middle meats brought some added buying interest to the end meats which, as we've discussed at length, have been quite discounted moving into summer. Items from the chuck show mixed price direction on the weekly report with chuck rolls and 2-piece chucks pricing slightly higher to net a small chuck primal price increase. While not substantial, the round primal was the darling last week with an increase of \$3.19/cwt. and the price change was "in the green" across the primal. Thin meats were a mix of value directions last week while grinds eased lower and remain a value.

	This Week	Previous Week	Previous Year
Weekly Slaughter	562K	646K	547K
Fed Cattle Price	\$113	\$107	\$117
Steer Carcass Wt.	858	856	855
CAB cutout	\$219.84	\$222.13	\$229.07
Choice cutout	\$210.30	\$213.16	\$216.10
Select cutout	\$200.34	\$200.78	\$200.50
CH/SE spread	\$9.96	\$12.38	\$15.60
CAB/CH spread	\$9.54	\$8.97	\$12.97
Beef Index	\$208.11	\$210.41	\$212.34
Pork Cutout	\$85.83	\$86.27	\$103.38
Chicken Index	\$70.47	\$70.47	\$89.05



## Beef delivers more value at higher price

Average beef carcass cutout values in 2018 so far are just slightly higher than a year ago with the comprehensive cutout up just a penny over the first half of 2017 at \$2.14/cwt. First and 2<sup>nd</sup> quarter trends contrasted each other, with 1<sup>st</sup> quarter beef up 11¢ while 2<sup>nd</sup> quarter prices were 10¢ lower compared to a year ago. The key sales months of May and June brought on a collective discount of 15¢ under the '17 market, providing opportunity for ample beef movement.

We may argue that pork and chicken aren't really substitutes for most beef items, but let's face it, for many Americans they are definitely alternatives, especially for lower grade beef and grinds. That's why it's notable to see production volumes across all three species record high, with head counts and carcass weights colluding to increase tonnage. Unlike beef, the added supplies have spelled much weaker markets for pork and poultry this summer.

The Urner Barry pork cutout price, quoted this Tuesday at 85¢/cwt., is 19% lower than a year ago and 8% lower than the 3-year average. Lean hog futures were violently lower early this week, reacting to China and Mexico implementing significant tariffs against U.S. pork. Even so, the pork cutout discount pattern was in place beginning in February this year, prior to global influences on the tariff front.

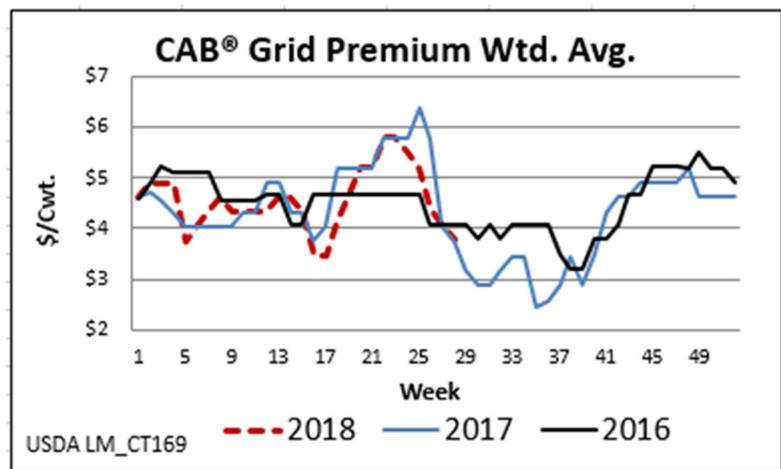
Urner Barry's chicken index sits at 20% lower than a year ago but just 5% under the 3-year average. Record broiler counts and total chicken harvest, so far second only to 2008, will combine with record live weights (currently 6.25 lb. for all birds) for a forecast record tonnage in 2018.

The accompanying chart shows a growing spread in the retail price differential between the three species so far in the 21<sup>st</sup> century. With beef moving from a 78% premium to chicken in 2000 to a 206% premium in 2017, it's clear that consumers expect a lot more from their beef eating experience today than ever before. The comparison to pork isn't quite as stark but

a leap from the 7% beef premium to 51% last year is still a tremendous gain. It's clear that all proteins are not created equal, each satisfying differing demand points in the market, but the growing premium commanded by beef only confirms that beef producers must offer the highest quality eating experience to satisfy heightened expectations. Flavor, juiciness and tenderness are the traits that remain our advantage.

## **Quality spreads cool as summer temps heat up**

The holiday-laden months of May and June are hot spots for quality grilling steaks as this year illustrated. The unique combination of seasonally lower overall marbling levels in the lightest, youngest calf-fed cattle matched up with the anticipated grilling demand this spring to bring out a robust Choice/Select spread, averaging \$20/cwt. on packer grid premium sheets during May and June, although a few dollars short of the \$23/cwt. average a year ago. Last week's Choice premium declined quickly by \$4.32/cwt., signaling the likely end of such tall cotton until fall middle-meat demand sends it higher again. The "dog days" of summer always bring on a different feel to the beef markets as outdoor temperatures run higher for July and August across the U.S. With consumers eating lighter fare and opting for cooler cooking environments, demand for highly marbled middle meats turns seasonally lower. CAB grid premiums have maintained quite nicely though, averaging \$5.09/cwt. above Choice in the USDA weighted average through the May/June time period with the top of the market set at a \$10/cwt. premium the last week of May and first week of June.



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