CAB® Insider

July 25, 2018

MARKET UPDATE

by Paul Dykstra

The price of fed steers and heifers through this point in July has been inspiring in the fact that we've not only averted prices below $100/cwt., which many had feared would happen, but have built a stronger market than the late-June low of $106/cwt. If you're not watching these markets closely, that may seem like splitting hairs—but given the large fed-cattle supplies thrust on the market in June, it's definitely a win for the cattle feeder moving through the "dog days" of summer. Carcass weights have not escalated this summer at the pace that some had expected, keeping total steer/heifer carcass tonnage in check within the context of these tremendously large head counts. Last week's cash cattle trade occurred late on Friday at $113/cwt. for the estimated average.

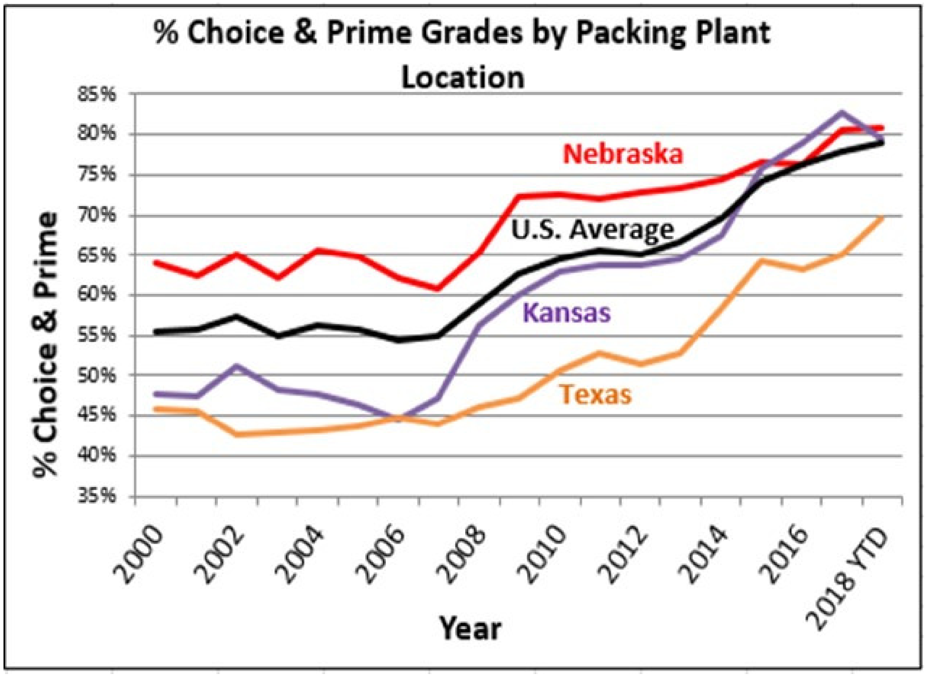
URNER BARRY	This Week	Previous Week	Previous Year
Weekly Slaughter	635K	650K	618K
Fed Cattle Price	$113	$110	$120
Steer Carcass Wt.	867	865	866
CAB cutout	$215.53	$215.93	$217.55
Choice cutout	$205.55	$206.78	$204.69
Select cutout	$198.67	$198.48	$192.77
CH/SE spread	$6.88	$8.30	$11.92
CAB/CH spread	$9.98	$9.15	$12.86
Beef Index	$204.26	$205.20	$202.10
Pork Cutout	$83.10	$84.31	$103.26
Chicken Index	$68.95	$70.40	$89.18

Drawing down on the market moving into the second half of the year is the fact that the July 1st Cattle On Feed Report shows the largest head count in feedyards for July 1, up 4.3% over a year ago but in line with analyst expectations. While the industry continues to work through these large supplies at a breakneck pace, it should not be lost on any of us that packer harvest capacity is pushed to the hilt and only sustainable due to historically large packer profit margins. Heifers on feed were up by more than 7% in the year-on-year comparison, while steers were up more than 2%. Cow-herd expansion has slowed to a standstill as the end of the national herd expansion draws near. We'll see a trailing effect of larger numbers over the next two years but all indications point to an expansion phase that is all but complete. The mid-year cattle inventory report shows all cows and heifers that have calved at 101% of a year ago on July 1st. Severe drought in western and southwestern states has already sent, and will continue to send cows to the packer from now through the fall.

The boxed beef market last week showed signs of giving up the lower-lower July trend and even a potential seasonal summer bottom. The rib primal fell lower by $4.61/cwt., but this pace of price decline was much slower than we've seen in recent weeks. Loins were down $4.33/cwt. and showed a noted lack of demand in the spot market trade. Otherwise, the *Certified Angus Beef®* cutout prices were very much sideways, which could suggest a near-term summer price low. End meats were priced steadier last week and the report shows no notable changes. Overall, we'd look for beef cutout prices to remain fairly stable at these levels as we close out July.

Texas packers cruise to 70% Choice & Prime

Given the importance of marbling to premium beef brands, we keep close tabs on the trends across the production and packing industries. In fact, recent data on hundreds of thousands of carcasses indicates that 9 out of 10 eligible carcasses that fail to qualify are missing the mark because of insufficient marbling. The tremendous improvement in marbling in the nation's fed cattle, coupled with the implementation of camera-assisted grading by USDA at many packing plants a decade ago has seen quality grades climb at an astounding pace. The accompanying graph shows progress in the three largest packing-plant volume states of Nebraska, Kansas and Texas as well as the total U.S. combined. Dating back to the beginning of this evolution in 2006, we see that Kansas has logged the most improvement of these states, up an incredible 38 percentage points (ppt) through 2017. Not only was Kansas most improved, but also surpassed Nebraska for the combined % Choice and Prime in 2016 and 2017. Nebraska is back on top so far in 2018 with a huge move to more than 8% of fed cattle harvested in the state grading Prime while its share of Choice is down in the first six months by about 1 ppt. The average of the cattle harvested in Texas has never been as rich in terms of marbling due to a different mix of genetics in the region as well as those coming from Mexico. However, the past decade shows a 23-ppt improvement in marbling across Texas packers, matching that of Kansas if we use 2008 to the mid-year 2018 figures. As well, the first half of 2018 features quality grade improvement in Texas to the rate of + 5.6 ppt Choice and Prime, while Nebraska is up 1.44 ppt and Kansas lower by 1.41 ppt. Ten years ago, the suggestion that Texas packers would see 70% of their fed cattle grading Choice and above would have been laughable. Take another look; it's happened in 2018.



Year to Date USDA Est. Packing Plant Grade Averages			
	% Choice YTD		
	2018	2017	Difference
Nebraska	72.48%	73.68%	-1.20
Kansas	74.55%	76.86%	-2.31
Texas	66.17%	62.49%	3.67
All U.S.	71.48%	71.99%	-0.51
	% Prime YTD		
	2018	2017	Difference
Nebraska	8.39%	5.75%	2.64
Kansas	4.81%	3.91%	0.90
Texas	3.39%	1.86%	1.53
All U.S.	7.44%	5.53%	1.91
	% Choice and Prime YTD		
	2018	2017	Difference
Nebraska	80.87%	79.43%	1.44
Kansas	79.36%	80.77%	-1.41
Texas	69.55%	64.35%	5.20
All U.S.	78.92%	77.52%	1.40
	Current through week of		7/2/2018

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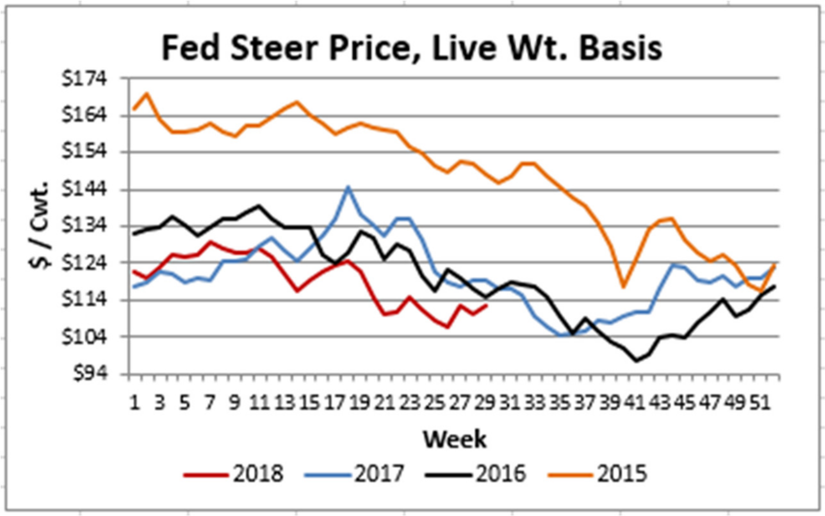
Onward and upward for fed cattle prices

Market analysts—at this late juncture in July—are calling the late June low of $106/cwt in the fed cattle market the absolute low for the entire year. Therefore, it looks like that price will most likely be the summer low at this point, as July tends to bring on the lowest of the summer fed cattle prices, and it seems unlikely that the market will race down to $106 or lower in the near term. Fed cattle supplies moving through the rest of the year argue against the market following the seasonal pattern we've seen develop in recent history. The "summer low" hasn't happened at all in the past three years, giving that honor instead to the fall. September and the first half of October have brought on annual market lows in the past three years. Feedlot placements for this year have shown supplies shifting significantly into the fourth quarter with much fewer cattle placed against that time frame. That certainly suggests a stronger fall market than in recent years.



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