



CAB[®] Insider

August 8, 2018

MARKET UPDATE

by Paul Dykstra

The fed cattle market last week saw impressive cash trade late Friday with what appears to be roughly a \$114/cwt. market average. Market-ready fed cattle supplies are said to be a bit tighter in Kansas and Texas as compared to the Nebraska and northern areas of the feeding region.

Carcass quality grade trends remain strong when comparing the combined Choice and Prime, but the Choice grading rate alone has dipped to the 2016 level at 72%, compared to 74% this week last year. The Prime grade is slightly underpinning the effect, soaking up most of that decline in Choice product. Prime was as much as 7% in last week's report, 2 points higher than a year ago. CAB acceptance rates have ratcheted fractionally higher, returning to 33% of the eligible carcasses and yielding 108K head certified for each of the latest two weeks.

Last week's federally inspected cattle harvest was 4,000 head smaller than the same week a year ago, making the second week in a row with harvest levels smaller than last year for the same time period.

Boxed beef prices are behaving very seasonally at this time with a lower trend in place. Looking back at the 5-year trend, even including the wild price pattern of 2014, cutout prices have firmly fallen lower heading to October 1. However, 2018 has been a very firm demand year, so it may be too bold to predict the weaker market all the way to October—even though it's useful to know that seasonal trend. Last year's CAB cutout price declined to a low of \$200/cwt. in early September, and Choice was down to \$190/cwt. before mounting the rally into the 4th quarter.

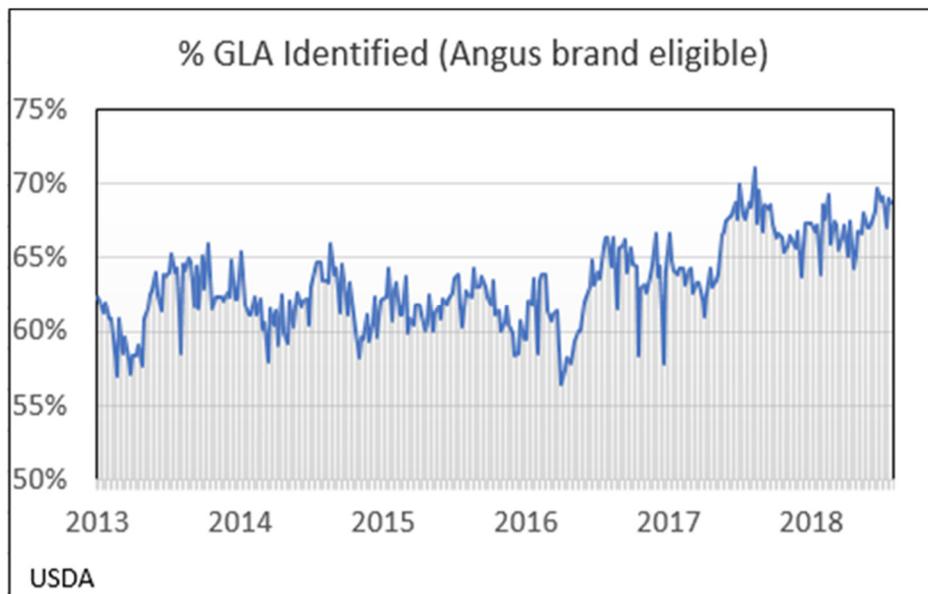
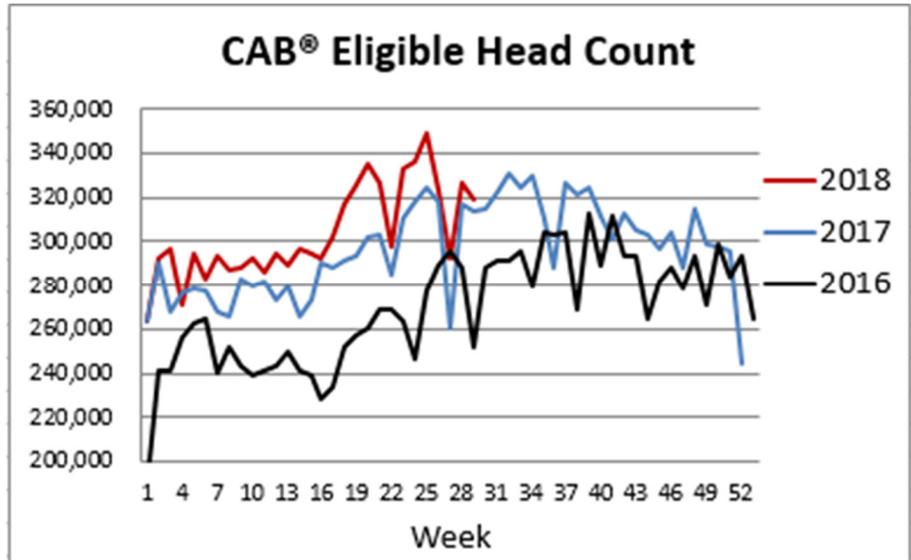
The subprimal sales report for last week shows a \$2/cwt. decline in the CAB price, while Choice fell just \$1/cwt. and Select was down roughly 50¢. Heavy CAB ribeye rolls were higher by 50¢, just 8¢ higher than a year ago as they finally firmed up after multiple weeks of lower prices. Loins continue to seek the annual demand low with a very steep price decline on 0x1 strips most recently. CAB peeled tenderloins were 67¢/lb. cheaper than a year ago at \$9.54/lb., likely nearing their annual low very soon with 4th quarter holiday demand set to change that pattern. Top butts are similarly weaker than a year ago and should be trending lower for the time being. The end meats had been firming up at a very slow pace most recently but were pricing sideways in last week's spot market. On the thin-meat side, the outside skirt price was trending lower, still just under \$7/lb., while insides were trending higher. CAB grinds were picking up some with ground chuck showing a 20¢ increase last week to \$1.86/lb. and really no direction to go but up from \$1.65/lb. Ground round was just 3¢ higher at \$2.59/lb., compared to \$2.82/lb. a year ago. Finally, ground sirloin has been steady for the past month at \$3.12/lb.

	This Week	Previous Week	Previous Year
Weekly Slaughter	626K	640K	630K
Fed Cattle Price	\$114	\$112	\$117
Steer Carcass Wt.	872	867	868
CAB cutout	\$213.71	\$215.15	\$214.02
Choice cutout	\$204.75	\$205.65	\$201.95
Select cutout	\$199.16	\$199.60	\$192.92
CH/SE spread	\$5.59	\$6.05	\$9.03
CAB/CH spread	\$8.96	\$9.50	\$12.07
Beef Index	\$203.71	\$204.46	\$199.98
Pork Cutout	\$76.09	\$80.31	\$97.21
Chicken Index	\$64.86	\$67.28	\$85.25

More fed cattle Angus qualified after 2017 breakout

Eligibility for approved Angus branded beef programs is defined by the "GLA schedule," as owned by the American Angus Association and overseen by the USDA in U.S. packing plants. A minor update implemented in July 2017 requires animals to have a main body that is solid black with no other color behind the shoulder, above the flanks or breaking the midline behind the shoulders,

excluding the tail. The update replaced previous verbiage that required a hide color that was 51% solid black, as a means to add more clarity in making that judgment. This background information is just a lead-in to the fact that this week a year ago marked the 2017 high point



for the percentage of cattle identified as eligible for CAB and other Angus brands under the GLA. A theoretical suggestion could be kicked around about seasonality of black-hided, Angus-influenced cattle marketing becoming more dominant in the summer, but that's not the goal. The focus is that 71% of all fed cattle were deemed eligible this week a year ago, an all-time weekly high and,

while the 68-69% level has been commonplace this summer, we've not breached the 70% mark again as of yet. 2017 seems to be the breakout year as the multi-year pattern, steadily at 62% Angus-eligible, was violated with a wild leap to 66%. The year-to-date average in 2018 stands at 67% Angus-eligible, 2 percentage points higher than the same period last year.



August 28-29 • Sioux City, IA

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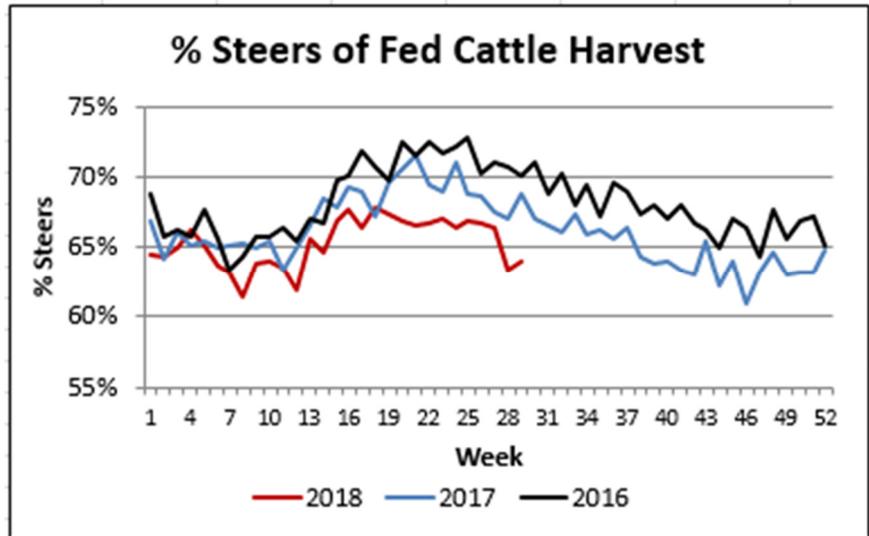
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<https://www.cabpartners.com/events/fqf/2018/>

Where are the fed steers?

The May 30th Insider covered the increasing role of both heifer and cow harvest in 2018. Year-to-date (YTD) harvest head counts then showed beef cows up 10.9% and fed heifers up 5.6%. In late May, we also focused on changes in the steer harvest which, at that time, was a quizzically low -0.65%. My theory suggested the remainder of the 2nd quarter would see a boon in steer harvest, outpacing 2017 where we'd encounter those large anticipated numbers.

However, at this point in early August, we've added the June and July head harvest counts only to see steer harvest not only failed to increase in the year-over-year numbers, but actually declined in the weekly USDA estimates to -0.93% in the YTD stats. That places the June-July steer weekly count at approximately 334,332 head, down 1.8% for the period on 2017. The decline in steer harvest is a bit challenging to



understand since January 1, 2018 inventory showed an increase in steers on feed, a whopping 4% larger than January 2017. As well, the broader measure of the 2017 U.S. calf crop showed 2% growth. Given the shortage of Southern Plains grazing availability last winter and the large feedlot placements late last year through the 1st quarter, it certainly seems logical that many of those steers would have shown up in the fed cattle harvest. A final point, more centric to CAB, is the idea that heifers jumping up to 36% of the fed-cattle harvest in the past two weeks, compared to 32% a year ago, would move the U.S. carcass quality grade percentage above a year ago. That would be a great inclination, but also wrong, since the combined % Choice and Prime currently rests just fractions of a point lower instead, at 78.5%.

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- On Target: Weaning diet options
https://www.cabpartners.com/articles/news/3391/On_Target_08-2018.pdf
- Feeding Quality Forum all new in Sioux City Aug. 28-29
https://www.cabpartners.com/articles/news/3386/FQF_PreEvent_NR.pdf

Video news releases:

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