



# CAB<sup>®</sup> Insider

August 22, 2018

## MARKET UPDATE

by Paul Dykstra

Last week's federally inspected cattle harvest was one of the year's largest at 660K head, and 15,000 head larger than the week prior. Packers needing to meet sold-ahead obligations for Labor Day demand may explain the larger head count through their plants. Cash fed cattle trade in the country was lackluster, as packers were able to hold prices just under the prior weekly average.

Overall carcass weights are up just 1 lb. compared to a year ago, but heifers most recently have been up 8 lb. over the week in 2017. More numerous steers in the weekly harvest are pulling the carcass-weight average lower, steer weights even with year ago. CAB acceptance rates remain in the 33% area but CAB-eligible animals (identified) as a percentage of the fed cattle mix are near an annual high at 69% of fed steers and heifers.

The boxed beef market caught a bit of a lift last week with the Choice cutout moving up \$2.28/cwt. while the CAB cutout was up \$2.60/cwt. The timing was right for the market to take a reprieve from the seasonally downward trajectory in place through most of late summer. The "right" timing has to do with the upcoming Labor Day holiday and the associated beef demand that comes with it, although generally more muted from a price perspective than what is typically associated with the December holidays and the spring grilling holidays.

We've watched the rib complex pull prices up over the last few weeks, and another \$11.37/cwt. was added to the CAB rib primal last week, to \$3.74/lb. at the packer level, 36¢ higher than the same week in '17 and higher for that week than any of the past five years. Loin prices offer less to write home about as that primal, while 11¢ higher than a year ago, is much weaker today at \$2.86/lb. than the years 2014 through 2016. CAB strip loins at \$5.80/lb. are steady in the spot market. Tri-tips typically see their annual low in October but are nearing the price trough that has stretched from mid-August until mid-October in 2015 and 2017 with 2016 showing a later pattern of low prices until December.

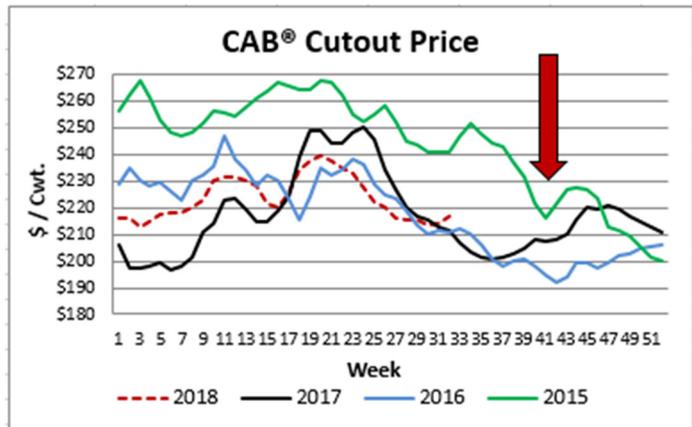
Positive pricing on the chuck last week saw an overall lift in the primal price of \$2.56/cwt., primarily driven by chuck roll wholesale values at \$3.08/lb. compared to \$2.52/lb. a year ago. Thin meats have been moving with outside skirts still pricey at \$6.59/lb. but descending the mountain of demand built since last February and peaking in June at \$7.93/lb. Pectoral meat as well as cap and wedge meat are priced stronger, providing more support. CAB grinds are a mixed bag but following their primal source values with stronger ground chuck prices and weaker ground round and sirloin. Fresh 50% lean trim is breaking to the high side at 93¢/lb., up from the early-July low of 61¢/lb. Fresh 90% lean trim, cheap at \$2.11/lb., is a cinch to get cheaper as cull beef cow numbers through fall are likely to be larger than a year ago, considering the drought areas of the western and central U.S.

	This Week	Previous Week	Previous Year
Weekly Slaughter	660K	645K	635K
Fed Cattle Price	\$110	\$111	\$110
Steer Carcass Wt.	880	874	880
CAB cutout	\$216.73	\$214.13	\$208.97
Choice cutout	\$208.12	\$205.84	\$196.97
Select cutout	\$201.01	\$199.70	\$192.34
CH/SE spread	\$7.11	\$6.14	\$4.63
CAB/CH spread	\$8.61	\$8.29	\$12.00
Beef Index	\$206.57	\$204.61	\$195.95
Pork Cutout	\$71.47	\$74.19	\$92.43
Chicken Index	\$58.26	\$61.29	\$83.24

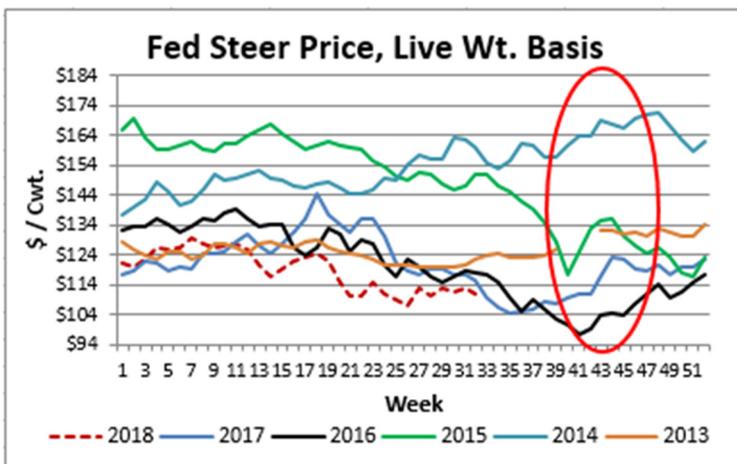
# September trends

With the Labor Day holiday less than 2 weeks away, beef is positioned to sell at retail counters. The three-day weekend is the last stop on the summer grilling cycle, and beef demand is as important now as at any time of the year. The fall seasonal trend strongly implies lower beef carcass cutout values after Labor Day through the middle of October. Cattle feeders are anticipating

a 4<sup>th</sup>-quarter rally in fed cattle prices, which have developed plainly in 4 out of 5 of the most recent years. The point from which the market rallies sets the stage because the late-September to early-October timeframe defines the fall low for the comprehensive cutout. This, in part, may determine the depth of the fed-cattle price low prior to the anticipated rally – let's



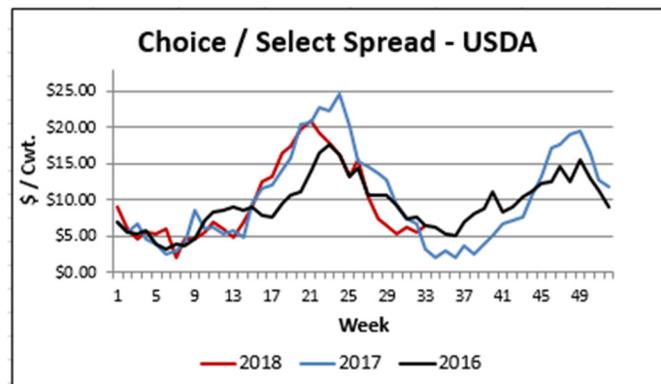
keep in mind packer margins are exceptionally wide, providing them flexibility should they need to procure cattle. Recent CAB cutout prices have been supportive to the retailer as the spot market value has just moved ahead of 2017 prices in the past couple of weeks. Beef retail ad features are currently pegged at 12¢/lb. lower than a year ago over an 8-week period, according to Cattle Fax, with beef dominating front-page ads at just over 50% of the three competing proteins. Timing is



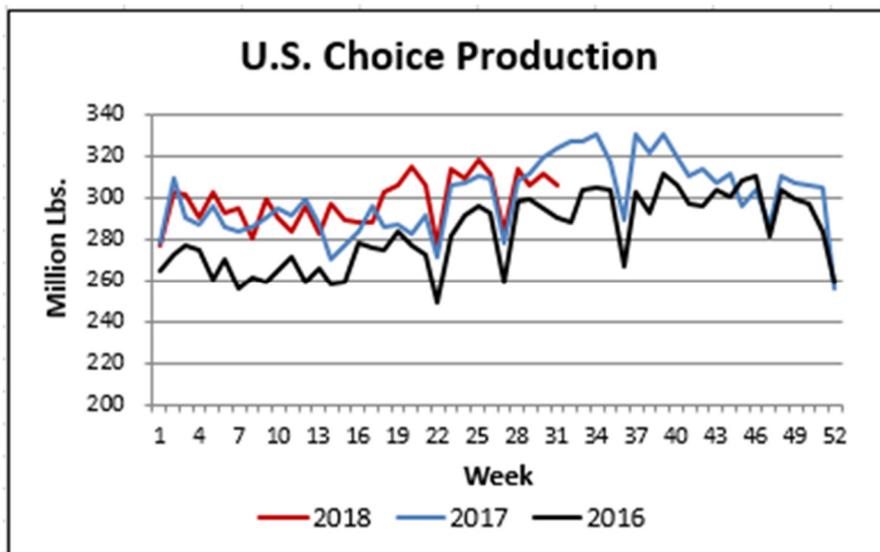
important: Fed cattle carcass production should ramp up with large weekly total harvest numbers expected through September, basis packer profitability.

## Choice production and that Choice/Select spread

In 2016 and 2017, the month of August brought on the largest fed steer and heifer harvest counts of the year, yet the 5-year average favors the month of June as the largest marketing month. August steer carcasses weighed 26 lb. and 31 lb. heavier, respectively, than their June-harvested counterparts as well, creating a significantly larger August fed cattle carcass tonnage in both years.



The month of August is typified, too, by Choice quality grade percentages reaching their annual high, a contrast to the June grading pattern when Choice grading rates are normally just recovering from the spring lows. Combined impacts of higher quality grades and larger



fed cattle numbers resulted in a Choice/Select price spread moving to the annual low in August over the past two years, remaining there through September. This year we see generally the same pattern with the August CH/SE spread working toward a low at \$5.52/lb. two weeks ago yet avoiding the sub-\$3/cwt. range visited last year. Yesterday's \$9.49/cwt. Choice premium is uncharacteristically high for

August, likely spurred by old-fashioned demand but also recognizing that the Choice tonnage earlier in the month was not as large as a year ago. Let's recognize the total picture in quality grades though. Some of the explanation for lower Choice tonnage – at 72% of the mix, 2 points lower than last year at this time – comes from displacement by the currently higher Prime tonnage.

CAB production set a single-month sales tonnage record last August at 107 million lb. and this August is shaping up to be yet another record. That's influenced by annual peak brand eligibility of fed cattle identified at packing plants (69%), high acceptance rates of eligible carcasses (33%) and large total fed cattle carcass tonnage. The CAB/Choice cutout spread was last quoted by Urner Barry at \$8.61/cwt., just \$1.88/cwt. below the same week last year.

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