



CAB[®] Insider

September 5, 2018

MARKET UPDATE

by Paul Dykstra

The federally inspected cattle harvest last week was 635K, just under the prior week and in line with seasonal expectations ahead of Labor Day, including a greatly truncated Saturday harvest. Labor Day week, of course, brings on a greatly reduced weekly head count—but look for a big week to follow as packers need to fulfill orders. Last Friday's cash cattle trade at \$107/cwt. was a few dollars under the prior week, but still fairly strong for the period and with large fed-cattle supplies in the system. Combined steers and heifer carcass weights remain just 1 lb. heavier than a year ago because of more heifers in the mix (34.7% YTD), two full percentage points higher than last year at the beginning of August. Cattle supplies look to be ample for a few weeks moving forward and packer profits should drive cattle harvest head counts during this time.

The week of August 12th marks the largest ever for Certified Angus Beef[®] brand accepted carcasses, along with one of the highest qualifying rates at 33.8%. In fact, the whole of August is a lead-pipe cinch for the largest ever one-month CAB production (see next page).

The boxed beef market saw prices cool off a bit, after any last-minute holiday buying for quick-ship early in the week. August delivered its expected price up-tick, \$5/cwt. higher on Labor Day demand. Seasonal odds now point to weaker cutout values through September as we've experienced in recent years. Packers have plenty of room to acquiesce on either beef asking prices or fed cattle bids.

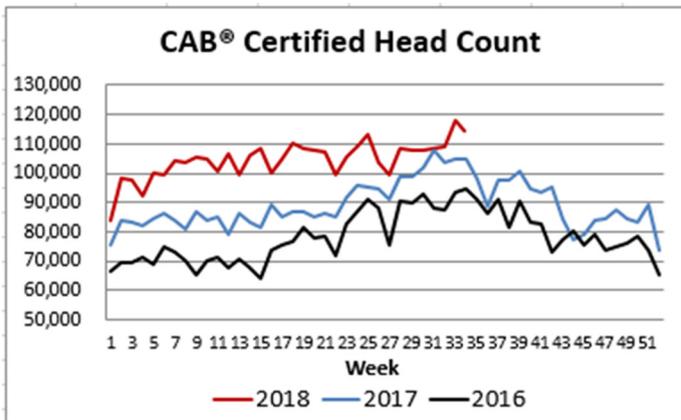
A more detailed review of cutout values shows tighter spreads last week between CAB, Choice and Select, with the brand declining most relative to Choice and Select. The \$7.84/cwt. CAB/CH spread is almost \$2/cwt. lower than the prior week but, more importantly, at \$3.66/cwt. narrower than a year ago, an advantage for CAB sales prospects. All CAB primals marked lower values, led by the rib primal with CAB ribeyes down 15¢ at \$8/lb., still 93¢ higher than a year ago. Loin subprimals were varied with strips pricing at \$6.05/lb. vs. \$5.35/lb. a year ago. Top sirloins are definitely on a lower price trajectory and could remain steeply lower into October if history is any guide. Tenderloins saw a price surge last week; a September dip may follow if the total CAB cutout weakens, but the 4th quarter portends heightened demand.

Chuck subprimals were sideways to lower last week, the total just \$1.12/cwt. lower. Clods were cheaper but steady there, while chuck rolls at \$3.09/lb. compare to \$2.70/lb. a year ago. Teres majors remain a value, while flat irons draw record demand at \$4.18/lb. Round subprimals were generally cheaper. Briskets remain in an unseasonably upward pricing pattern at \$2.73/lb. compared to \$2.15/lb. last year. Flank steaks and inside skirts fit that exception, too. Grinds were up last week, but look for prices to fall moving through this month.

	This Week	Previous Week	Previous Year
Weekly Slaughter	635K	636K	623K
Fed Cattle Price	\$107	\$109	\$105
Steer Carcass Wt.	886	881	884
CAB cutout	\$216.51	\$219.58	\$201.53
Choice cutout	\$208.67	\$209.82	190.03
Select cutout	\$200.12	\$201.86	\$187.12
CH/SE spread	\$8.56	\$7.96	\$2.91
CAB/CH spread	\$7.84	\$9.76	\$11.50
Beef Index	\$206.87	\$208.09	\$189.42
Pork Cutout	\$67.01	\$67.97	\$84.03
Chicken Index	\$57.48	\$57.88	\$81.20

August sees record CAB production

Two weeks ago, I suggested August would set a new single-month production record for the CAB brand. Data for the final week of August is yet to be posted but it's a formality at this juncture, given the pace of CAB-qualifying carcasses in the first 3 ½ weeks. As noted, the

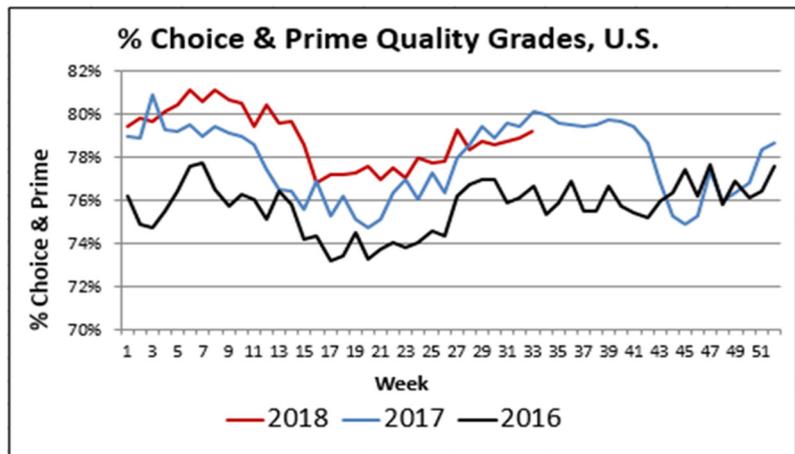


August 12th week was a record-breaker, easily setting a new single-week high of 117,711 CAB certified carcasses, 4% higher than the still-fresh high tallied this June of 113,188 head.

Since big numbers just look like big numbers, let's put this all into context by pointing out that the weekly average in 2017 was near 89,000 certified carcasses per week, the largest of those marked in July at 107,000 head. That set a weekly high that would hold until this April.

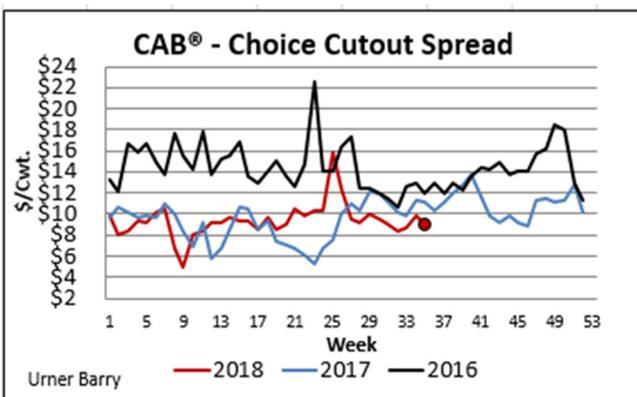
The new record in August came in conjunction with a time when, ironically, the percent of carcasses grading Choice dipped two points lower than a year ago, pulling the combined Choice and Prime grade share 1 percentage point below a year ago. Somehow the

successful share of CAB eligible carcasses (5,000 head more numerous that week than in 2017) increased to near 34%, defying the slightly lower marbling trend and seeing the CAB "accepted as specified" approval stamped on the largest weekly head count ever, simultaneously cementing this August as the largest CAB production month in the brand's 40-year history.



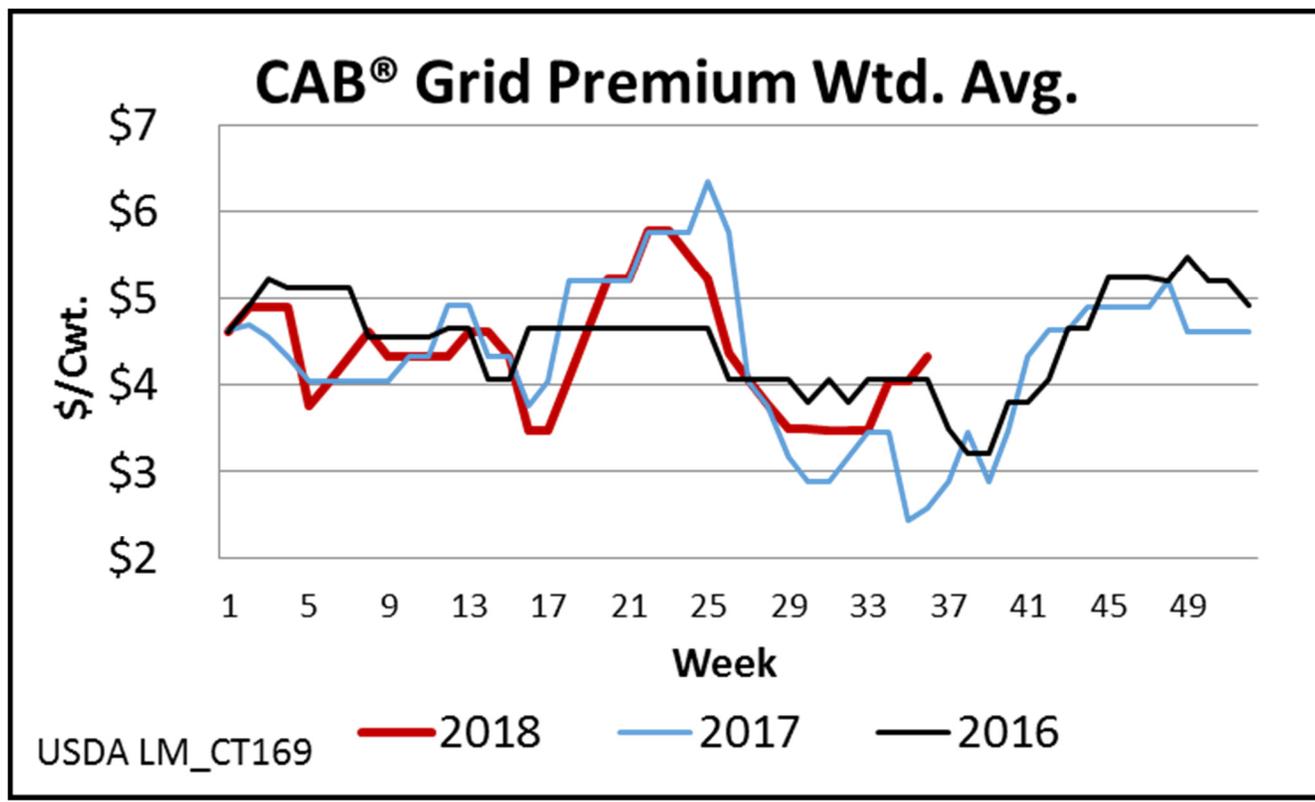
CAB grids pay well in face of larger supply

The previous section's focus on record CAB carcass counts is impressive from a quality supply standpoint but immediately calls to mind the potential economic antagonism of lower premiums for qualified carcasses. Carcass weights this year have ridden slightly ahead of



2017 and, as pointed out earlier, CAB carcass counts are far and away higher than a year ago. Even so, the CAB cutout premium to Choice has worked either side of the 2017 trend line thus far in 2018, most recently trading \$2/cwt. below the 2017 line for most of July and all of August, averaging \$9.15/cwt. for the period. The market tends to "price in" additional premiums, although somewhat erratically: The 4th quarter's holiday middle-meat demand differentiates more based on higher quality for those premium CAB middle

meats. Despite larger production for the brand, packers have reported larger grid premiums paid to cattle feeders over the past three weeks, averaging an added \$1.30/cwt. above a year ago with a \$4.14/cwt. average. We'd expect a combined Choice/Select spread increase coupled with higher CAB premiums in the 4th quarter to spell continued healthy grid settlement sheets for the groups of cattle hitting a high CAB acceptance percentage on the rail.



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