



CAB[®] Insider

October 3, 2018

MARKET UPDATE

by Paul Dykstra

Last week's fed cattle market was steady on the week prior, just under \$111/cwt. Finished cattle supplies in Nebraska and Iowa, more plentiful than in the south, moved to Kansas to even that out. Steer carcass weights were even with a year ago and continue to indicate we have moved through the larger September head counts without any catastrophic backup or major price decline. The fourth quarter portends somewhat tighter finished cattle supplies along with a bullish outlook for prices. Live Cattle futures remaining at a premium to current weekly cash fed cattle prices suggest cattle feeders will hold some of their cattle inventory, adding days on feed as expectations for a better market later in the fourth quarter will keep them betting on a better tomorrow.

The September 1st Cattle on Feed number (11.125 M) was the largest September inventory since the beginning of the data series in 1996, also 5.9% larger than a year ago. Cattle placed on feed in feedlots larger than 1,000 head were 7.4%

larger than a year ago, many more than anticipated. The lightest two categories in August were far and away the biggest increase in year-on-year August placements. A cumulative analysis of on-feed numbers says available supplies will be ample on the first quarter of 2019.

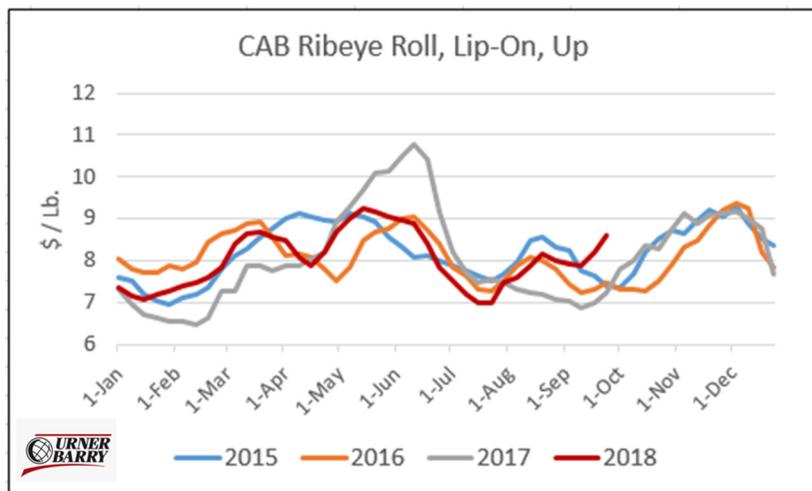
Boxed beef values firmed up last week, perhaps drawing to a close the seasonal decline in beef prices observed through September. CAB and Choice cutout prices increased marginally on the week while Select was slightly lower, providing a much stronger Choice/Select spread

at \$9.61/cwt. vs. \$3.69/cwt. a year ago at this time. The CAB/Choice spread is subdued at \$7.64/cwt. compared to \$12.70/cwt. a year ago, offering an easier upgrade to CAB product for end users at this time, particularly as it impacts the high-value middle meats.

Rib prices have been in our sights through September as they rose steadily. Ribs were the highlight last week as end users came to the table early this year to build fourth-quarter holiday



	This Week	Previous Week	Previous Year
Weekly Slaughter	650K	657K	648K
Fed Cattle Price	\$111	\$111	\$108
Steer Carcass Wt.	896	896	897
CAB cutout	\$211.48	\$210.75	\$204.77
Choice cutout	\$203.84	\$202.39	\$192.07
Select cutout	\$194.23	\$194.79	\$188.38
CH/SE spread	\$9.61	\$7.60	\$3.69
CAB/CH spread	\$7.64	\$8.36	\$12.70
Beef Index	\$201.41	\$200.52	\$191.02
Pork Cutout	\$79.92	\$78.05	\$73.31
Chicken Index	\$57.48	\$57.48	\$69.90



inventory, particularly those able to freeze product. The rib primal was up a whopping \$12.17/cwt. last week, driving most of the strength in the CAB cutout value. CAB lip-on ribeyes were priced at \$8.60/lb. last week compared to \$7.23/lb. a year ago. From the loin, we saw strips, top butts and ball tips discounted, but not enough to outweigh the higher prices on tri-tips and tenderloins. With the changing seasons, end meats from both the chuck and round were either steady or slightly higher last week as end users prepare for colder temperatures and a change in consumer beef preparation methods. Grind prices remain lackluster, and 90% lean trim, priced at \$1.95/lb. is well under last year's \$2.20/lb. because of heavy cull-cow supplies. The 50% fresh trim at 41¢/lb. is nearing annual lows on a par with the last few years. Look for a small spike in late October, then weaker to end the 4th quarter.

CAB marks 12th record year for 40th birthday

With the passing of September, we drive another stake (pun intended) into the ground at Certified Angus Beef LLC. October begins another fiscal year for the brand and, more germane to Insider readers, the opportunity to review trends in high-quality beef. In the limited

Sales Distribution by Division

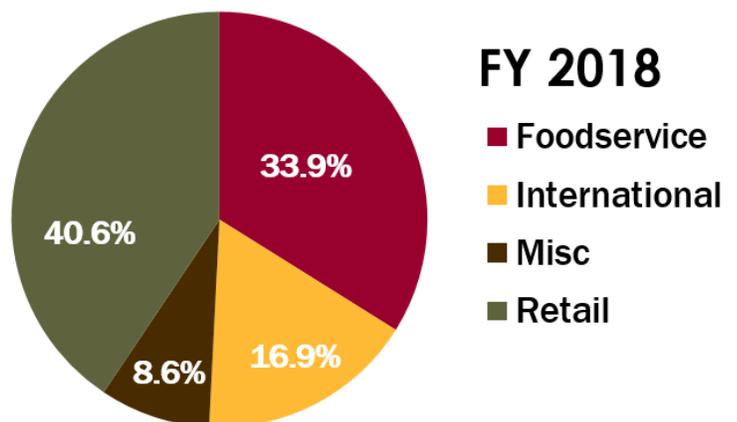
Total Sales – Fiscal 2018 **+8.1% (1.215 billion lbs.)**

	% Change	% of Growth
Retail	8.7	43.8
Foodservice	6.5	27.7
International	15.4	30.3
Miscellaneous	-1.7	-1.9

space provided let's take a quick look at the vitals of the brand. First off, we're elated to have logged the 12th consecutive year of record CAB sales tonnage. Our company had set a goal of 1 billion pounds in annual sales by 2020, but that was reached ahead of schedule two years ago, to the bewilderment of many. While the final figures are not yet in the books, the estimated figure of 1.215 billion pounds for fiscal 2018 was stated by CAB President, John Stika. That was at

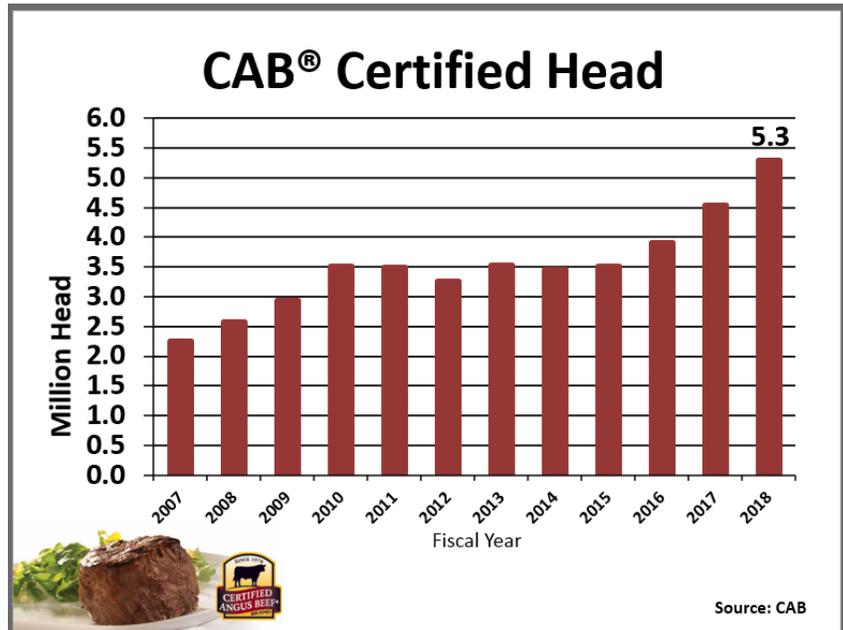
the brand's Annual Conference last week in Hawaii, marking the brand's 40th anniversary. Demand for CAB product has been exceptional, driving loyalty and new business at retail and foodservice venues, both domestically and internationally. Total CAB sales

tonnage changed the greatest in the International division, with an upswing of 15%. That captured 30% of the CAB sales growth last year, with South Korean and Japanese customers highlighting the international increases. Domestic retail sales were larger by more than 8%, however, representing the largest growth percentage for the brand at 44% because of the already-heavy share represented by domestic retail.



The supply side

While sales records are the objective as we meet growing demand, it's the supply side of the fed cattle complex that makes it all possible. The beef business has been transformed in the past 12 years, readily seen through the lens of CAB supply dynamics. In 2006, we saw just 14% of 13 million eligible cattle qualified for the brand, totaling 1.8 million qualified carcasses that year. Not nearly enough supply to fulfill demand at the time, that 14% CAB acceptance was reflective of the rather low 52% Choice grading percentage seen that year. In stark contrast, the past 12 months have yielded a 72% Choice grade average across all U.S. packing plants. Since the CAB brand's standard that requires a quality grade of at least upper two-thirds Choice, lack of marbling normally disqualifies 92% of the all eligible carcasses that fail to earn the logo. So it's understated to say that higher marbling Angus genetics have played a major role in the 12-year transformation that



brought the latest annual CAB acceptance rate to 32%. Greater total fed-cattle supplies have been a growth factor for the brand since 2015, but the drought-reduced cow herd worked against what was still a slowly growing CAB supply from 2012 to 2015. The third factor of the trio is the industry increase from 62% to 67% CAB-eligible carcasses, impacted by restocking of the nation's cow herd through Angus and Angus-based genetics.

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