



# CAB<sup>®</sup> Insider

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## MARKET UPDATE

by Paul Dykstra

The two weeks encompassing the Christmas and New Year holidays were relatively predictable in terms of fed cattle market price performance. Weekly average prices drifted lower from the early December \$140/cwt. mark to the month's low of \$135/cwt. during the week of December 20.

This pattern has been similar in three of the past five years, where the fed cattle market declined beginning in early December only to catch an upward trend again in the second half of the month. The repeat of this pattern seemed predestined given that the run-up in early was the apex of a nine-week continuous bull run.

A \$3/cwt. recovery developed last week, generating a \$138/cwt. six-state steer average as packers purchased cattle to resume full slaughter this week.

Steer carcass weights finally dropped five pounds in the latest report the week of December 13. The previous week's high of 929 pounds was just two shy of the October 2021 record high of 931.


The heaviest carcass weight in 2021 came quite late in mid-December. The historical pattern shows carcass weights typically topping in October and November.

Exceptionally dry and warm weather patterns in the cattle

feeding regions kept cattle weight gain above expectations, pushing average weights higher into December. This, coupled with the premium in the futures market, also prompted cattle feeders to hold cattle longer as the price outlook was positive.

Cutout values in December also followed suit with a lower trend. As holiday middle meat demand at the wholesale level wrapped up early in the month, rib prices began a downward price adjustment in earnest. The CAB whole carcass cutout value moved 6% lower from December 1 through the week of Christmas. The heavy CAB ribeye roll price dropped 15.8% from the beginning to the end of the month, capping what has been the most volatile six months of ribeye pricing in modern history.

Furthering the theme of seasonal December tendencies, the quality grade and premium branded carcass price spreads narrowed to conclude the month. Market focus quickly shifts in January toward the lower cost carcass cuts, bringing along a smaller buyer focus on marbling-rich meats. Yet, quality still finds a premium opportunity for buyers to purchase CAB brand end cuts with customer loyalty to the brand adding value on many chuck and round items.

	This Week	Previous Week	Previous Year
Weekly Slaughter	475K	488K	515K
Fed Cattle Price	\$138	\$135	\$110
Steer Carcass Wt.	924	929	922
CAB cutout	\$278.93	\$276.66	\$227.01
Choice cutout	\$262.45	\$261.40	\$208.45
Select cutout	\$251.24	\$250.22	\$199.44
CH/SE spread	\$11.21	\$11.18	\$9.01
CAB/CH spread	\$16.48	\$15.26	\$18.56

## Carcass Premium Structure Advanced in 2021

Cattle and beef market dynamics in the past year were nothing if not volatile, and in some ways, unprecedented.

Wholesale and retail beef prices occupy a space near the top of the list for a record-setting year. The brief period in May 2020 should hopefully hold the record one-time cutout price for a very long time. But the sustained higher price plateau of 2021 proved that beef inflation would not wane. The past year's comprehensive boxed beef price came in 18% higher than the prior year, even though the priciest week of 2021 was 21% shy of the May 2020 high.

Supply chain imbalances and processing sector issues have been the focal point of beef price inflation in the past two years. Processing concerns have garnered attention from the President, prompting an announcement last Monday to provide financial aid to bolster the packing sector – which deserves heavy consideration and is impactful to the future of the beef business.

But let's shift focus to what has been working well and what our consumers are voting for with their dollars.

It's counterintuitive to an amateur economic mind that customers will react to record high beef prices by paying a larger premium for the highest quality. As we've said so many times before, they are doing so also in spite of the fact that the quality mix is as rich as it's ever been, with high-quality carcasses in the premium Choice (CAB) and Prime (including CAB Prime) categories.

Sales volume and price combined create the demand story. In 2021, demand was firmly higher for the more premium grade and premium branded products (like CAB). Starting with USDA Choice, the year brought on a two-fold increase in the Choice/Select spread, jumping from \$8.75/cwt. in 2020 to \$16.44/cwt. in 2021. Recent volatility suggests looking further back for reference, revealing a previous five-year average of \$10.47/cwt. Estimated Choice carcass tonnage was simultaneously up 2.8%.

Moving up the quality spectrum, the calendar year for CAB saw certified carcasses up by almost 7% through mid-December. The CAB boxed beef cutout value advanced four cents, up to \$17.74/cwt. over Choice for the year. The tight two-year average is more aptly compared to the 2016-2019 period with a CAB premium average of \$10.75/cwt. Granted, this 65% leap is the smaller spot-market pricing during two volatile years.

<b>Carcass Cutout Price Spreads, \$/Cwt.</b>			
	2021	2020	5-Year Avg.
Prime-Choice	\$45.71	\$18.74	\$23.25
CAB®-Choice	\$17.74	\$17.71	\$12.14
Choice-Select	\$16.45	\$8.75	\$10.47

Similarly, Prime and CAB Prime trends point higher. The Prime grade-out in 2021 was flat with the prior year at roughly 10% of fed cattle carcasses. Prime carcass tonnage was up 2.8%, the same as Choice. With much smaller carcass utilization at the Prime level, premium prices are reduced to a smaller portion of the carcass. Historically, the largest Prime production volume yielded an annual average \$45.71/cwt. premium over Choice. This compares to the prior five-year average Prime/Choice spread of \$23.25/cwt.

## Carcass-Friendly Management Remains Key

It seems a bit oversold to suggest that beef producers should pursue further carcass quality measures at a time when quality, i.e. marbling, continues to run record-high. The 2021 numbers show a very steady, yet fractionally lower percent Choice and Prime trend for fed cattle. The broader perspective is that the year and a half in the rearview saw marbling achievement reach record proportions with a large push from the fed cattle backlog.

Industry dynamics will rapidly shift moving into 2022. Higher corn prices and a much more current fed cattle supply will tend to pull at finished cattle weights. These will be healthy features for cattle prices, while also challenging the industry to maintain quality grade achievements.

Particularly, cattle feeding economics are bottom-line driven and management will be matched as much as possible to maximize profit. Feeding technology and management to optimize cost of gain are rightly positioned near the top of the priorities. Yet, with leverage shifting toward the producer, there may likely be more seasonal swings in packer demand for quality cattle. An argument could be made that higher fed cattle prices (and margins) may shift feedlot management psychology away from managing to optimize carcass quality and focus on carcass premiums.

However, the market opportunity to capitalize on quality genetics and management may become even more ripe in the coming months and years. As the cattle supply tightens there will be fewer high quality and, hopefully, fewer ultra-heavy cattle to go around. This suggests a bright future for the quality-focused producer and a very clear need from the end user to secure adequate supply of premium product.

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