



CAB[®] Insider

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MARKET UPDATE

by Paul Dykstra

Without question, the talk amongst cattle producers in recent days has been about the upturn in fed cattle prices. All parties upstream of the packing sector are elated, and likely relieved, to see the price break free from the furrow between \$120 and \$125/cwt that the fed cattle trade had been digging for 19 weeks.

Last week's average was \$128/cwt., but trade on Friday came in with many sales at \$130/cwt. The latter price represents a \$6/cwt. improvement in a two-week period. To say that this rally stands in stark contrast to multiple weeks leading up to it is an understatement.

One of the primary reasons for the strength in fed cattle prices is that feedyards in the four major feeding states (TX, NE, KS, CO) are showing the fewest market-ready cattle of 2021 at this time. The downtrend is within seasonal expectations, as fed cattle supplies tend to be smaller in November.

This is all relative to packer capacity or willingness to harvest cattle six days out of the week. But the recent two weeks have also

featured very healthy harvested head count totals. The 668K head total seen the week of October 25 is very near the perceived upper-end of the range for weekly capacity for the industry. There are very few weeks in the past five years equaling or surpassing that number.

Reports early this week indicate that feedyards have upped their bids to the \$132 to \$134/cwt. level, but packer bids are at \$130/cwt. with little trade developing. The premium in the north has re-emerged, with packers seeking higher grading cattle to fulfill holiday demand.

Demand for boxed beef pulled carcass cutout values slightly higher last week, as prices increased for CAB and Choice product. Early this week the Select price narrowed the gap on Choice, but the spread is quite wide as a starting point. CAB traditional, CAB Prime and USDA Prime carcasses are all in high demand and the price spreads show this.

With cutout values relatively steady, the adjustments across the carcass are subtle. It looks like ribeyes have ticked a bit higher with the return to holiday demand buying. Strip loins are seeing an uptick, rightfully, as they are becoming a focus of buyers, with the price spread between ribeyes and strips historically wide in recent data.

A practical look at cutout values suggests that fourth-quarter demand is firm at this time. The market will likely see a cooling period just ahead of Thanksgiving, with retail focus momentarily shifting to turkeys.

	This Week	Previous Week	Previous Year
Weekly Slaughter	650K	668K	652K
Fed Cattle Price	\$128	\$126	\$107
Steer Carcass Wt.	918	922	929
CAB cutout	\$305.04	\$303.43	\$225.28
Choice cutout	\$287.85	\$285.32	\$207.96
Select cutout	\$266.54	\$266.98	\$196.44
CH/SE spread	\$21.31	\$18.34	\$11.52
CAB/CH spread	\$17.19	\$18.11	\$17.32

Prime Sets Sail

It's an interesting time in the beef business. We can't speak about a specific aspect of the market or supply chain without drawing upon several other factors across the beef supply chain that influence the first.

A close inspection of boxed beef prices and the difference between quality grades and branded beef programs is a multi-factorial discussion. Supply and demand are the basic economic influencers on price. Yet, what we knew 15 years ago about industry production volume of each quality grade and CAB carcasses didn't provide insight to the mix of carcasses produced today. The change in quality has been nothing short of revolutionary, as producers responded to economics and consumer preference.

The CAB brand has seen supply grow from 1.8M carcasses certified in 2006 to 5.9M in our fiscal 2021 data, as the share of eligible animals qualifying under the brands 10 specifications more than doubled.

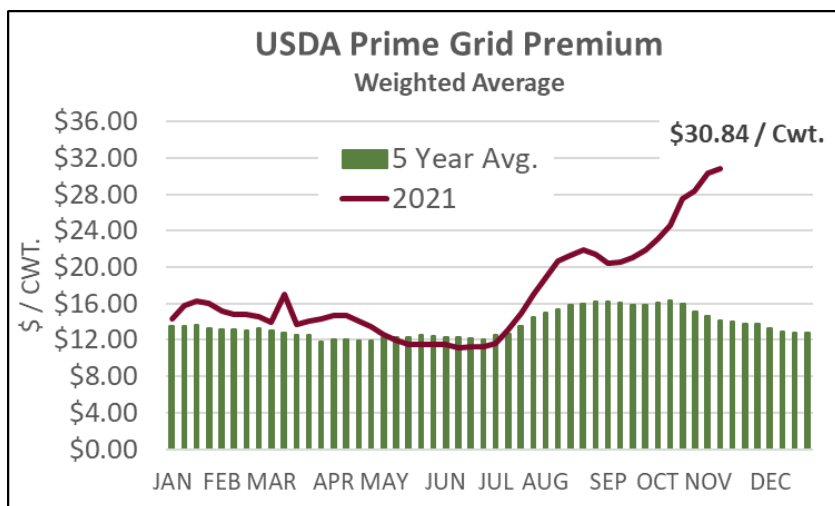
Just as brand-qualified carcasses were dramatically more plentiful, the CAB cutout price continued to elevate above commodity Choice. In the period from 2008 to 2021 the whole CAB carcass premium (cutout value) above commodity Choice increased by 178%.

Bringing the discussion into the fourth quarter of 2021 has us looking back at the pricing sheets with regard to the Prime quality grade. In September of this year, we shared that the packer-reported Prime grid premium had doubled that of a year ago, reaching just over \$20/cwt. This, at a time when the Prime share of all fed cattle carcasses, just over 9%, was on par with the record-large 2020 proportion for September. CAB Prime carcasses have increased by 140% in the past five years.

Since our [September Insider](#) report, the Prime grid premium has amazingly increased by an additional 50%. The latest \$30.84/cwt. weighted average packer premium sets the record for the highest reported number in the report.

Seasonality is such an important feature of fourth-quarter boxed beef pricing that it deserves a nod in regard to the discussion around Prime. Most purchase orders for Prime boxed beef items are for middle meats. Of course, consumers want high-quality middle meats for holiday celebrations in December. This means that price spikes are normally a common feature of the fourth quarter. Yet last week's Prime cutout price was \$82/cwt. higher than Choice, according to USDA. That's 2.5 times the price spread for the same week a year ago.

The supply side of the picture shows that Prime carcasses are relatively abundant, second only to a year ago, gauging by the late-October data. A couple of dynamics come to mind influencing the pricing scenario. The most glaring is that packers need to fill orders for Prime cuts, either in the spot market, forward contracted, or likely both. Second, although cattle are achieving the Prime grade at a very high rate, the slip down to the 9% range, just below last year's 10% at this time, is not quite keeping up with demand.



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