



CAB[®] Insider

June 26, 2019

MARKET UPDATE

by Paul Dykstra


The fed cattle market remains entrenched in a pattern of lower prices over a number of weeks with Live Cattle futures dampening the feedyard outlook and keeping a lid on the cash market. Last week's fed cattle price averaged \$110/cwt., down a sharp \$3.00/cwt. compared to the week prior, but still \$1.00/cwt. higher than a year ago. Packer throughput is very good as the industry works through the large June cattle supplies.

On June 21st, the latest Cattle on Feed report held few surprises. The June 1st inventory for feedlots with more than 1,000 head capacity was 102% of a year ago, as it was in the May 1st report. This marks the 3rd consecutive month with a record number of cattle on feed. Cattle placements during the month of May were just 97% of a year ago, keeping with predictions based on large April placements which were 9% larger than a year ago.

For the week of June 2nd, CAB acceptance rates were at 34.7%, one point higher than the prior week's 33.8% year-to-date low. The total CAB certified head count was 115,000, a gain of 10,000 head over the same week last year when the share of eligible carcasses accepted hit the spring low and the smallest 2018 percentage at 31.6%.

The boxed beef side of the trade last week featured a CAB carcass cutout value remaining fairly stable, down just pennies in the weekly average. With the CAB cutout reaching a spring high in April, as opposed to the anticipated peak in May or June, we're just now seeing the cutout price coming in line with a year ago where the 2018 price was descending from the exceptional May high. Regardless of these differences in the spring price pattern, the historical trend for summer prices is strong for a lower market from now into September.

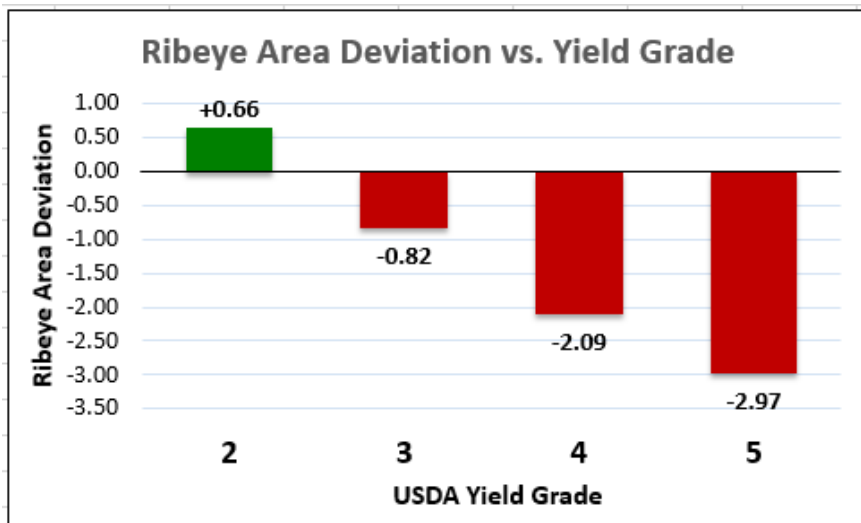
The Choice/Select price spread remains seasonally strong with last Friday's daily quote at \$20/cwt. according to USDA. The Urner Barry CAB/Choice spread at \$8.48/cwt. is lower than a year ago and continuing to provide opportunity for end users to upgrade.

	This Week	Previous Week	Previous Year
Weekly Slaughter	662K	665K	658K
Fed Cattle Price	\$110	\$113	\$109
Steer Carcass Wt.	846	842	851
CAB cutout	\$228.24	\$228.68	\$227.62
Choice cutout	\$219.76	\$220.33	\$218.05
Select cutout	\$203.98	\$206.74	\$202.23
CH/SE spread	\$15.78	\$13.59	\$15.82
CAB/CH spread	\$8.48	\$8.35	\$9.57
Beef Index	\$215.95	\$216.94	\$214.45
Pork Cutout	\$82.96	\$86.21	\$85.50
Chicken Index	\$72.19	\$72.51	\$71.07

Carcass Traits Balanced, But Not Equal

In the pursuit of grid marketing premiums it's important to prioritize carcass traits based on how much each trait influences the bottom line. With that said, producers have rightfully stepped up the focus on marbling to achieve more profitability by simply following market demand and price signals. Quality swings the biggest stick. A balanced approach to carcass marketing suggests an eye toward yield grade to optimize the quality and red meat yield scales. Keeping most of the carcasses in the yield grade 2 and 3 range is optimal for value.

The bar chart shows one producer's data on 61 steers harvested earlier this month. His Angus-influenced cattle were just better than average for each of the quality grades Prime through Select plus 36% CAB.



He would have seen a small grid premium at that, but 47% yield grade 4's and 5% yield grade 5's resulted in a net discount on the grid.

With greater than 30% of the pen posting backfat measurements over 0.8 inches it's clear that the marketing date was later than optimum. That's not his fault, but genetic merit for ribeye size didn't help insulate him from the yield grade pitfall.

The USDA yield grade

formula states an appropriate ribeye area for each carcass according to its weight. This is the "required ribeye area" which impacts yield grade with a favorable adjustment for ribeyes larger than the required size and negative adjustments for those below.

The chart shows a correlation between ribeye size and yield grade. Steers achieving the poorest yield grades 4 and 5 measured average ribeye areas more than 2 inches smaller than the formula requires at their respective hot carcass weights, resulting in insurmountable discounts.

Ribeyes slightly in excess of the required measurement received a yield grade 2 premium, while carcasses slightly deficient in ribeye size landed in the neutrally-priced yield grade 3 category.

Both market timing and genetics were at odds with an optimum yield grade in this case. This cattleman now knows that future Angus sire selection needs to

include a threshold for ribeye size in addition to marbling to keep quality and yield grades aligned. The American Angus Association's \$Grid index is a handy guide for bull buyers to see how young sires stack up for the combination of carcass traits of economic importance.

The CAB *Targeting the Brand* logo highlights bulls that are breed average or better for both the Marbling EPD and the \$Grid Index. Bulls with this designation will get a cow herd on the right track as far as carcass traits are concerned. Balanced trait selection does not have to mean "average" in several traits. Excellence across many traits is achievable.



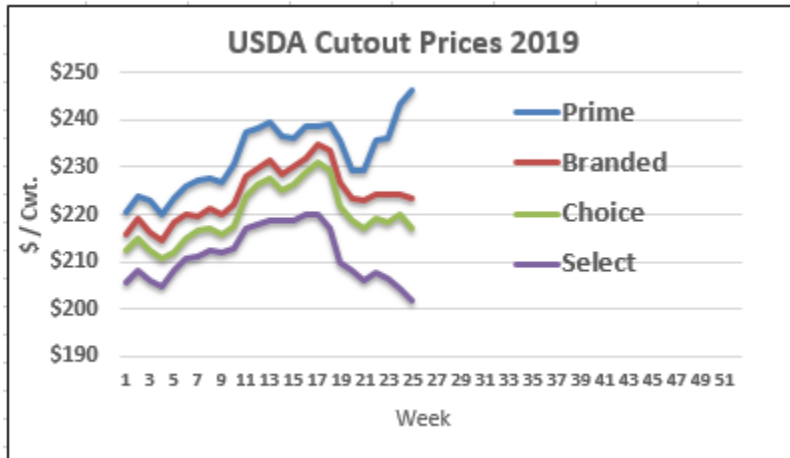
Genetic Recommendations:

	Value
Marbling EPD (Marb)	+ 0.54
Dollar Grid Carcass Index (\$G)	+ 46.0

Prime Demand Pops Under Supply Pressure

A rainy, cold spring may have put a damper on domestic beef grilling attitudes but things are looking up for the highest quality, marbling-rich product. The official arrival of summer is here and we're seeing the market asking for more quality as grading has dropped off.

The USDA grading reports have shown the spring quality grade lows remain in place with 4 consecutive weeks of a combined 77% Choice and Prime mix, a departure from the March highs in the 83% range. The Prime grade category is proving to be sensitive to the shortage most recently as the current 7% Prime share isn't enough to satisfy demand.



The share of Prime carcasses has more than doubled in the past 5 years, spelling greater availability and consequential wider usage among end users. Just like the commodity Prime grade, *Certified Angus Beef*[®] brand Prime product has found happy CAB-licensed accounts willing to upgrade for the ultimate beef in quality.

This larger inclusion of customers in the Prime category has been a testament to demand

for highly marbled product. However, today's short-term supply shortage, specifically in Prime and CAB[®] Prime has sparked a jump in the Prime cutout value. This has been reflected in the Prime cutout value increasing \$10/cwt. in the past two weeks as the average packer grid premium for Prime carcasses improves to \$11.97/cwt.

Don't miss these recent video news releases:

- Belvin Angus receives CAB honors
<https://www.youtube.com/watch?v=cdVP58zx2aY&feature=youtu.be>
- High-quality beef shines in the export market
<https://www.youtube.com/watch?v=FFG1QQ9QID0&feature=youtu.be>

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