



CAB[®] Insider

December 4, 2019

MARKET UPDATE

by Paul Dykstra

Cattle feeders took a firmer grip on the rope last week with a cash fed cattle price more than \$2/cwt. higher than the week prior, although that detail is lost in the pricing table due to rounding. While negotiated cash volume was light, packer demand remains decent.

Tyson Fresh Meats resumed harvest at the Finney County plant this week with trade sources indicating a 2,000 head volume on Monday. Resumption of operations at the facility will provide a bit more backbone to the market moving forward.


The collective packing sector proved higher than expected efficiency in picking up the slack from the 6,000 head/day loss of the Tyson plant capacity since early August.

There has, however, been some loss of currentness during the period with a CattleFax-estimated 80,000 head of front-end fed supplies in the system. A return to full industry harvest capacity will encourage us to work through those supplies but spillover to the 1st quarter of 2020 is to be expected. In the meantime packers should see solid production throughput as orders for larger holiday beef needs in December are needing fulfillment.

Carcass cutout values pulled back in expected fashion over the holiday week narrowing the margin on cash cattle prices. Subprimal values saw some mixed price direction with chuck and rib prices holding steady to higher trends.

While rib and tenderloin prices were lower on the week, the perspective on those holiday favorites is that they're near record highs with CAB tenderloins still around \$14/lb. By comparison, the strip loin and short loins are in bargain territory, priced more evenly with a year ago in the face of an 11% total carcass cutout inflation.

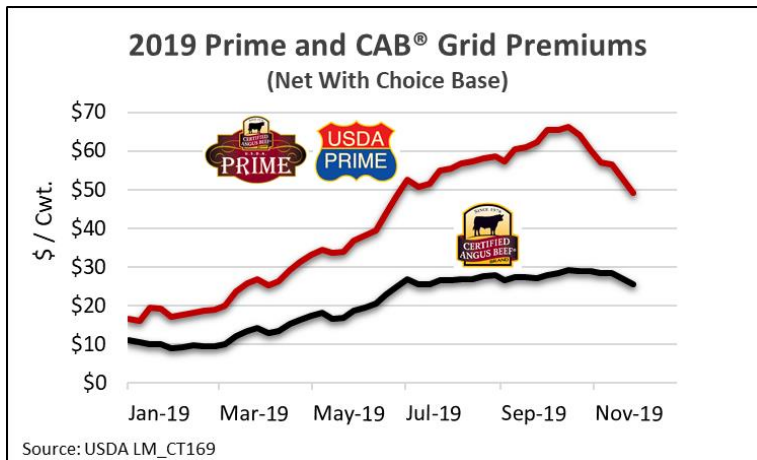
End meats are coming to the forefront with hot demand for chuck rolls. Prices are trending higher for other chuck items as well. From the round, prices were generally lower last week but reflective of the overall higher carcass values.

 URNER BARRY	This Week	Previous Week	Previous Year
Weekly Slaughter	556K	662K	641K
Fed Cattle Price	\$118	\$116	\$118
Steer Carcass Wt.	912	908	900
CAB cutout	\$248.36	\$250.16	\$221.84
Choice cutout	\$232.89	\$237.39	\$213.52
Select cutout	\$209.67	\$212.51	\$197.61
CH/SE spread	\$23.22	\$24.88	\$15.91
CAB/CH spread	\$15.47	\$12.77	\$8.32
Beef Index	\$227.81	\$231.76	\$209.96
Pork Cutout	\$83.78	\$88.07	\$68.33
Chicken Index	\$56.19	\$56.09	\$52.51

Carcass Value Continues to Motivate Sellers

The carcass pricing trend during the second half of 2019 has placed carcass quality and grid value among perhaps the top 3 topics in the market today.

Carcass marbling achievement across all fed cattle has been disappointing since May with the USDA Choice grade percentage slipping below expectations. Keeping that in context, the industry has increased the Choice share of carcasses by roughly 20 percentage points over the past 12 years. The average weekly deficit in Choice grade for the period has been 1.3 percentage points from last year's all-time highs.



This hardly represents a catastrophic shortage, but stands as a testament to how end users have adjusted their requirements in the quality of their beef offering. As pointed out in this week's CattleFax 2020 Outlook & Strategies seminar, end users are penalizing Select product more severely.

Temporary loss of harvest capacity created a further tightening of supplies, driving premiums up further as order

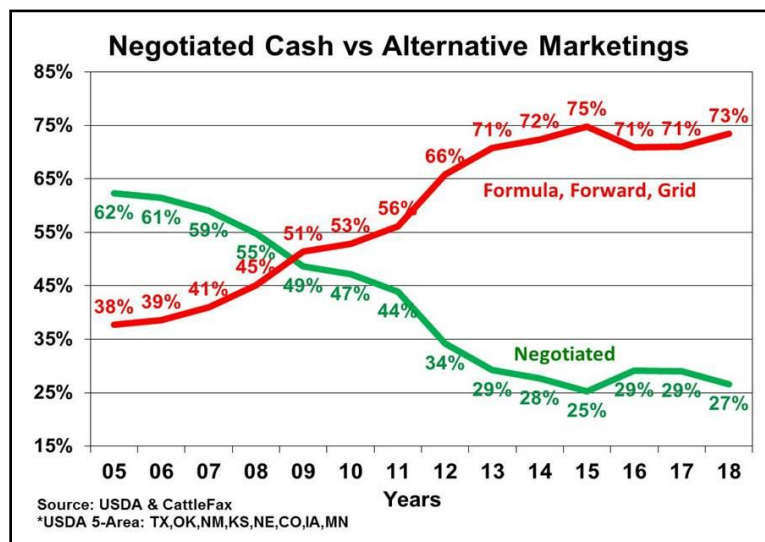
fulfillment for CAB and Prime product became problematic.

As harvest capacity normalizes from now to the beginning of 2020, anticipation is that availability should improve for the more premium grade and CAB product. This being the case, end users won't likely back away from the new paradigm with Choice as the absolute baseline quality expectation.

More notes from the CattleFax seminar on the topic brought to light two telling projections. First, the industry will continue to see seasonal swings in carcass quality premiums and discounts based on supply and demand. This being said, the low end of the Choice/Select price spread may be higher than in years past, potentially spending more time in the \$10/cwt. range. Cattle feeders should consider implications to their businesses with the potential for a higher floor in the quality premium/discount structure.

Second, the larger quality spreads enjoyed by cattle feeders selling on formula and grid pricing arrangements as of late will likely continue to generate interest in these mechanisms.

If that is realized, then the volume of cattle sold in the negotiated cash market would become smaller. The need to further evolve pricing mechanisms away from an increasingly thin negotiated trade may crop up as it has many times in the past.



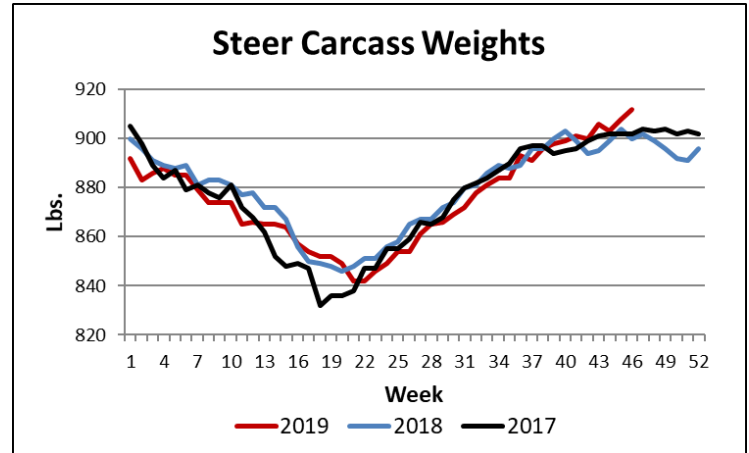
Fourth-Quarter Carcass Weights Surpass 2018

The annual heaviest carcass weights are upon us and we expect the next two weeks to show exactly the “when and what” regarding that annual line in the sand.. On the production end of the business this is less noteworthy as cattle feeders and packers are keenly aware of the trend.

This fall has brought on generally better weather and drier pen conditions than a year ago, providing little performance barrier for cattle to put on weight. Also, the up-trending (recovering) fed cattle market, plus a premium in the deferred live cattle contracts, have kept feeders happy to feed cattle a bit longer. This will likely keep weights above a year ago for a period of time moving forward as well.

On the end user side of the business the annual 4th quarter carcass weight highs are a lesser-known phenomenon generating questions and consternation. Restauranters and retailers clearly prefer consistency in size and weight of their beef offerings. They are unfamiliar with the biology of cattle and industry dynamics generating the largest middle meat cuts during the precise season during which they’d have the most preference for the “down” or smaller middle meat subprimals.

Alas, we still sell beef by the pound and within the limitations of maximum carcass weight penalties there’s no incentive to make animals smaller. It would take a hefty premium, at that, to incentive smaller ribeye sizes against the return to more carcass weight.



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