



# CAB<sup>®</sup> Insider

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## MARKET UPDATE


by Paul Dykstra

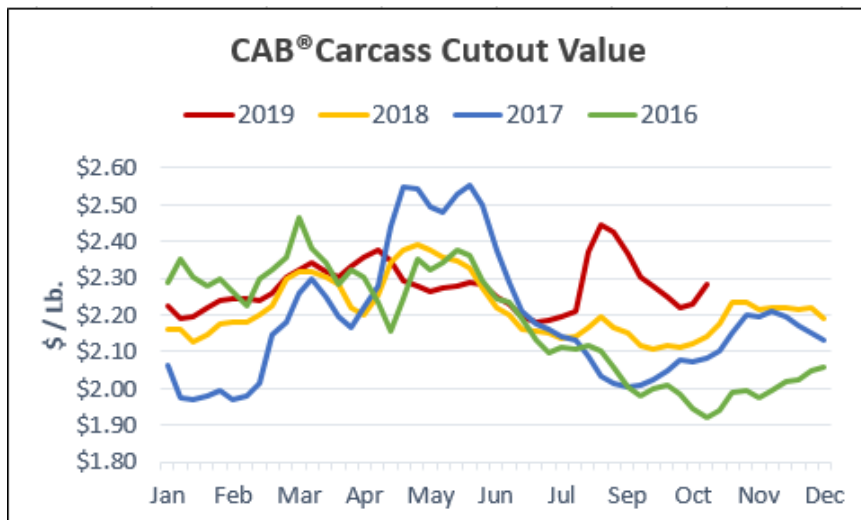
The past two weeks have featured fed cattle prices in a slowly increasing trend with the 5-area weighted average in the range of \$109-\$110/cwt. The higher trending CME Live Cattle futures contracts encouraged a bullish mentality for the cash market up through the middle of last week. The October contract corrected \$2/cwt. lower last Friday from the opening \$112.50/cwt. to \$110.48/cwt. at the close.

The few Texas cattle sold in the live market were \$1.00/cwt. lower for the region at \$108/cwt. but trade in western Nebraska and Colorado through the weekend saw \$110-\$111/cwt. live prices and \$174/cwt. dressed prices in the east.

Stronger carcass cutout values have been building through October and fit nicely into a trend line with the past two years. If the trend continues along this path we can expect higher cutout prices through mid-November prior to a softening beef price from there to the end of the year.

This is not a price projection, rather a review of the late-year trends we've seen in the past two years. It's also justifiable to mention that late 2016 proved an opposite trend with a depressed October CAB cutout price of \$195/cwt. increasing to year's end at \$206/cwt.

|  | This Week | Previous Week | Previous Year |
|---|-----------|---------------|---------------|
| Weekly Slaughter  | 642K      | 645K          | 632K          |
| Fed Cattle Price  | \$110     | \$109         | \$111         |
| Steer Carcass Wt.   | 899       | 898           | 903           |
| CAB cutout  | \$228.58  | \$223.13      | \$214.24      |
| Choice cutout   | \$215.84  | \$212.10      | \$205.41      |
| Select cutout   | \$192.04  | \$189.08      | \$193.89      |
| CH/SE spread  | \$23.80   | \$23.02       | \$11.52       |
| CAB/CH spread   | \$12.74   | \$11.03       | \$8.83        |
| Beef Index  | \$209.98  | \$206.58      | \$202.59      |
| Pork Cutout   | \$78.58   | \$78.04       | \$80.04       |
| Chicken Index   | \$57.17   | \$58.05       | \$54.40       |



The CAB rib primal has been the darling of the 4<sup>th</sup> quarter market again with last week's price action adding a huge \$18/cwt. to the rib. This translates to a heavy, lip-on ribeye wholesale price in the range of \$9.60/lb., 50 cents higher than the prior week.

Tenderloin and sirloin prices also factored heavily as the seasonal upswing gets underway.

# Squaring Carcass Value and Calf Prices

October is the season for weaning and shipping calves for many spring-calving herds. A broad area of western U.S. cow-calf areas experienced one of the wettest summers in memory and with that came a lot of grass growth. Many producers with the option to do so have held calves on the cows longer this fall with intentions of getting a little more weaning weight through extended forage resources. Some are also deciding whether near term calf prices are good enough to pay the bills or if retained ownership represents an opportunity for more net return.

Weighing these options should motivate cattlemen to run a breakeven projection on the retained ownership enterprise. Those raising what might be termed “front end” Angus influenced calves with carcass genetics built in should think about carcass based sales outcomes, not just commodity fed cattle values.

Here’s a quick example of how carcass value could factor into the price of a set of calves at weaning and as a finished steer.

Using a steer weighing 600 lb. on November 1<sup>st</sup>, I ran some numbers using a very standard set of feedyard expectations. Placing these steers on feed against a June finishing date assumes today’s June Live Cattle contract price of \$113.52/cwt.

The ration cost using \$4/bushel corn may be near \$200/ton. With an average daily gain of 3.6 lb./day and feed efficiency of 6 lb. of feed to 1 lb. of gain the resulting cost of gain is \$79.76/cwt. with interest, yardage, health and death loss included. These estimates won’t fit any real outcomes precisely, but they’re fair for this example.

With the above assumptions and a relatively small freight bill, 600 lb. steers should be worth roughly \$154.29/cwt. today when compared to their live, finished steer value at 1,350 lb.

If carcass quality is known to be better than average then value at both weaning and finishing needs to adjust higher. Using 3-year USDA weighted average grid premiums and discounts for June provides some guidance.

The carcass quality and yield grade achievements I’ve used in the table to the right are above industry averages yet quite conservative in relation to some of the top tier outcomes observed across elite pens of Angus cattle. The quality-focused cattle represented would have brought back a total premium of \$9.04/cwt. to the carcass price and given up a fraction of that (\$2.01/cwt.) in yield grade 4 and heavyweight discounts. The discounts may be overstated, particularly regarding yield grade, when marketing timing and sorting are well-managed.

Converting the \$7.03/cwt. net carcass premium to a live animal basis results in a \$4.15/cwt. price increase or \$56 per head. Working our way back to the 600 lb. weaned steer price equates to a \$9.33/cwt. premium from that projected \$56/head carcass value. It may be difficult for buyers to bid that much higher with all of the weather, health and market risk implied with 208 days on feed it will take to finish the steers. Even so, a bid of \$162.66/cwt. is justified for this example of high quality steers at 600 lb. This conservative exercise is just the tip of the iceberg relative to what’s possible.

| Carcass Trait    | Grid Premium or Discount \$/CWT | Percent of Carcasses | Net Impact \$/CWT |
|------------------|---------------------------------|----------------------|-------------------|
| Prime            | \$12.96                         | 20%                  | \$3.88            |
| CAB <sup>®</sup> | \$4.99                          | 45%                  | \$2.25            |
| Choice           | PAR                             | 72%                  | \$2.91            |
| Select           | (\$21.43)                       | 8%                   |                   |
| YG 1             | \$5.72                          | 0%                   | \$0               |
| YG 2             | \$2.99                          | 20%                  | \$0.60            |
| YG 3             | PAR                             | 65%                  | \$0               |
| YG 4             | (\$9.78)                        | 15%                  | (\$1.47)          |
| YG 5             | (\$14.96)                       | 0%                   | \$0               |
| Over 1,050 lb.   | (\$22.79)                       | 5%                   | (\$1.14)          |
| <b>Total</b>     |                                 |                      | <b>\$7.03</b>     |

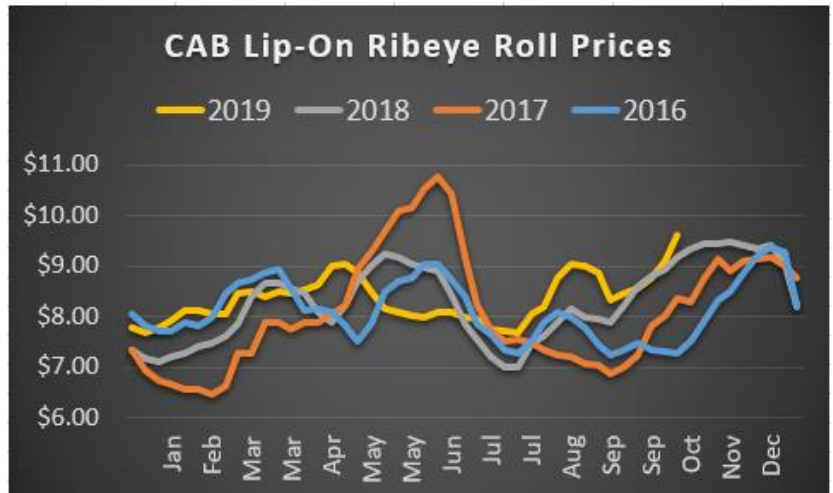
# More Quality Demand in Store

The subject line may strike the reader as predictable, considering the source. That's fair but let's look at building a case for exceptionally strong Choice and higher (i.e. CAB, Prime, and CAB Prime) middle meat price spreads in the 4<sup>th</sup> quarter. If we haven't impressed upon readers the 4<sup>th</sup> quarter impact of marbling-rich middle meats to cutout prices it's not for lack of trying.

Choice and CAB ribs are currently at record high October prices, second only for the all-time highest price to the record set in June 2017. Both circumstances are characterized by seasonal demand spikes outstripping supplies. This sets the market up to place an exceptional premium on the marbling-rich middle meats.

Today's fed cattle quality grade mix continues to disappoint packers with U.S. average Choice grade at 68% vs. 71% a year ago. This, coupled with slightly reduced weekly fed cattle harvest numbers of late has pulled back available supplies of Choice and CAB product.

The current rib market has CAB ribs pegged near \$9.60/lb. There are three more weeks of earnest rib and tenderloin buying demand potential before beef takes a back seat to turkeys in mid-November. It appears today that carcass marbling achievement won't magically right itself in the coming weeks so CAB rib prices are going to continue higher. Accompanying that we'd expect to see continued very wide price spreads between the quality grades and for Premium Choice CAB branded product above commodity Choice.



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