Your Link to Certified Angus Beef Brand

by **PAUL DYKSTRA,** *Certified Angus Beef LLC*

2017: A relatively stable interlude

Cattle markets in 2017 brought back a sense of stability, if that's not too obtuse in a business fraught with uncertainty. The year began with ambiguous tension, unfolding weekly for marketers made wary by three preceding years of tumultuous price swings. Anyone with a stake in the game felt the pressure of risk rooted in the uncertainty of just how good the market could be, or how bad.

As it turned out, fed-cattle values held together quite well under further industry expansion and larger cattle supplies. No tremendous highs were reached, but the early May fed-steer price of $144 per hundredweight (cwt.) was a seasonally appropriate highlight, $8 per cwt. higher than the prior year's annual high notched in March. On the bottom side, August brought on the dog days of summer, a $104-per-cwt. lower boundary — and relief that it didn't touch the dreaded chasm "south of $100." In fact, that boundary held $7 per cwt. higher than the 2016 lows in October.

Higher highs and higher lows for the fed-cattle complex were considerable wins for the feeding sector in a year that saw the harvested head count increase by 5.2%. The weekly steer/heifer average, at nearly 490,000 head, was up 24,400 from the 2016 average, but partially offset by lighter weights. Steer carcasses came in 14 lb. lighter on the year, while heifers were 11 lb. lighter. Those declines effectively reduced tonnage by the equivalent of 7,330 head per week. Even so, the net-effect weekly increase still added up to 17,000 head.

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Tracking packer profitability through 2017 was easy because those companies maintained positive margins virtually all year. While forced to advance cash bids beyond their sold-ahead product values in the spring, the rest of 2017 saw packers leading the production chain in leverage and profits.

A key element of packer profitability favoring all production sectors was the fact that those firms were willing to maximize production much of the time. This, while industry capacity to harvest cattle had declined in previous years under smaller cattle numbers, only to be met with the current expansion phase and larger fed-cattle availability. Currentness and throughput of market-ready fed cattle kept prices higher than some expected, particularly in the third and fourth quarters, anticipated trouble spots with a potential glut of fed cattle.

The cattle feeder's share of wholesale beef values varied widely in 2017 with a magnified "leverage shift" from the first half to second half of the year (see graph). January kicked off with wholesale beef prices depressed, returning a comparatively larger proportion of wholesale boxed-beef value to cattle feeders than they'd seen in a year. This developed as first-quarter "sold ahead" orders were strong at the packer level, but supplies of market-ready cattle tightened at the transition to the second quarter.

Feeders enjoyed the supply void during that period as packers scrambled to find cattle with enough days on feed to reach the Choice and Prime grades along with enough *Certified Angus Beef*® (CAB®) branded product to fill their commitments. Grid premiums soared as the Choice-Select spread ranged from $20 per cwt. to $25 per cwt. in May and early June with CAB premiums touching $14 per cwt. at the top of the reported range and a USDA average of $6.43 per cwt. the week of June 19.

The situation evolved as June and July fed supplies increased and a seasonally expected stronger marbling trend returned quality grade levels higher. That satisfied the demand side more readily, though still not tempering the quality premium spreads until August. With the fortified cattle supply and flow of Choice-and-higher product offering, the fed-cattle price complex followed a seasonal pattern into the fall.

From early July through mid-October, USDA Choice and Prime grading rates in packing plants began a push to outpace 2016's historically high levels by a combined three percentage points for the extensive period.

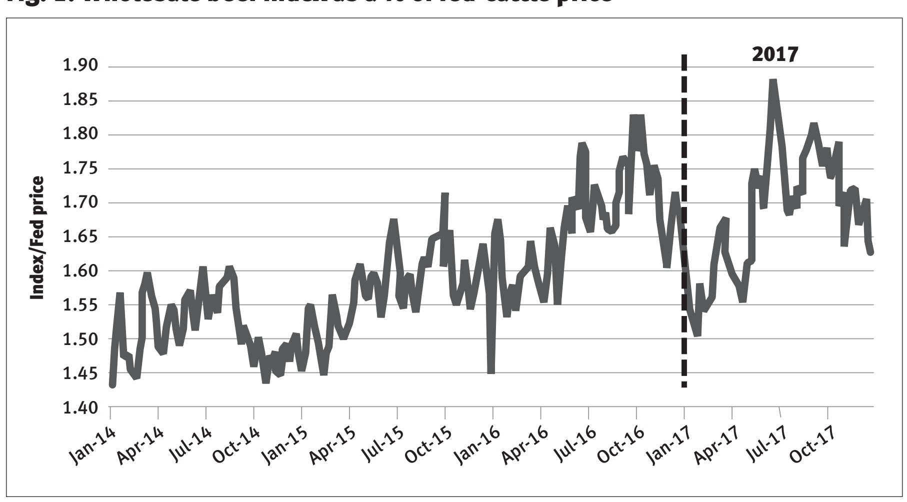
In somewhat related news, October brought about a USDA announcement that adjustments to enhanced camera-grading equipment were necessary in some packing plants as a measure to realign the latest technology with Choice, Premium Choice and Prime grading thresholds. Initial impacts became clear in early November as the U.S. average percentage for Choice dipped to 68%, well below the 72% range seen both a year ago at that time and just weeks prior.

Final tweaks to those changes saw the packing plant average quality mix improve into the end of the fourth quarter, with the Choice percentage matching a year prior at 71%. Prime landed at a historic 7% of the fed-cattle offering throughout December, a percentage point higher than December 2016.

These quality trends were not without influence on the CAB brand, since insufficient marbling (below Premium Choice) is the prevailing factor most responsible for exclusion of eligible carcasses under the brand's 10 carcass specifications. Even so, fiscal 2017 data logged sales at 1.12 billion lb., a 10.4% jump, and the 11th straight year of record sales volume for the brand through licensed partners domestically and abroad.

The 4.53 million carcasses qualified as CAB represent just 29% of the 15.6 million carcasses deemed eligible. By late November, the weekly CAB

Fig. 1: Wholesale beef index as a % of fed-cattle price



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acceptance rate rose again to meet the recent annual average, right at the top of the range in the brand's 40-year history. Availability of eligible cattle looks bright as the share of fed steers and heifers meeting live-animal requirements in 2017 came in at a record 65%, a 3-percentage-point increase for the year.

Female trends

Large weekly cattle harvest rates were not only noted on the younger fed cattle, but on cull cows, as well. Dairy cows were mildly increased at 3.9% but the beef cow harvest was up 9.7% on the year. Three factors likely initiating that beef-cow flow were drought in the Dakotas and Montana, a larger total cow population to cull from and declining feeder-calf values.

Measurable increases in fed heifers entering packing plants, up 12% on the year, provided a signal of slowing herd expansion in 2017. That number alone doesn't prove the case, but taken in contrast with their steer counterparts, up just 2%, it becomes clear that heifer retention was a smaller goal for producers transitioning from 2016 into 2017.

The coming two years are slated to see cow numbers continue to grow at a slowing pace as the expansion phase of the cattle cycle draws to a close. Continued projections for low grain prices will be a factor to watch as diversified producers raising grain and cattle may cast a more favorable eye toward the cow-calf profit centers, prompting some reallocation of farm resources.

Domestic and international beef demand was strong in 2017 in the face of growing total beef and competing protein supplies. A healthier U.S. economy and low unemployment has proven friendly to beef sales, but the international trade balance was just as important. Year-on-year export sales to Japan and South Korea were tremendous despite the disadvantageous tariff position held by the United States relative to our competition. Analysts agree that demand will need to prove out again in the coming year as record protein supplies are in the offing.

Editor's Note: *Paul Dykstra is a beef cattle specialist for Certified Angus Beef LLC.*