



Market Advisor

by Paul Dykstra, Certified Angus Beef LLC

A tale of two spreads

Those who follow beef supply trends know this year stands out for the rapid increase in premium-quality beef. Four inquiries from cattle producers in the past week prompt me to review the realities of fed-cattle value. In the “brave new world” of 70% or higher Choice in the national average fed-cattle mix, it’s natural to hear those hard questions about the future of producer premiums for Choice, Certified Angus Beef® (CAB®) brand and Prime carcasses.

Contributing factors

We've just posted the three largest CAB sales tonnage months — August, September and July, in order — as the all-time largest in the

history of the brand. Even so, the cutout value difference between CAB and Choice carcasses in the weekly spot market was very close to \$13 per hundredweight (cwt.) in early October.

Fig. 1: Choice-Select spread — USDA

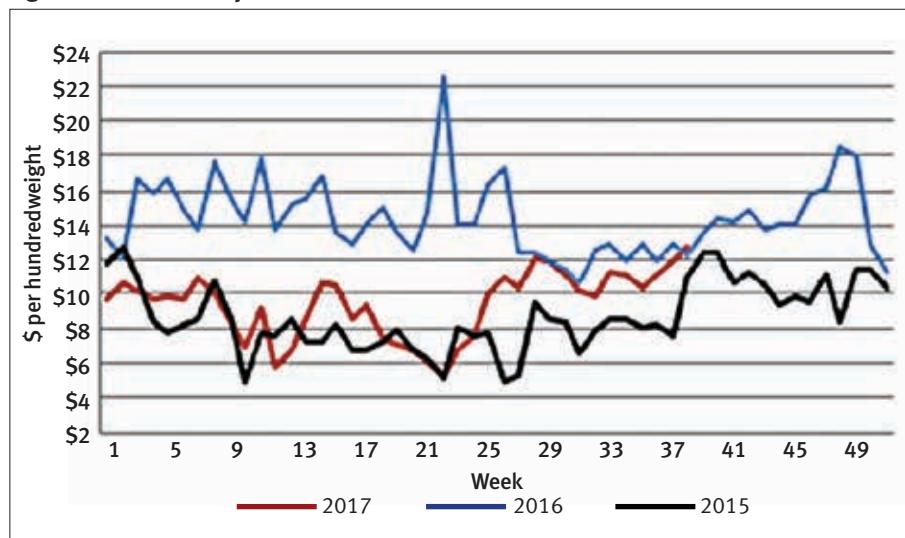
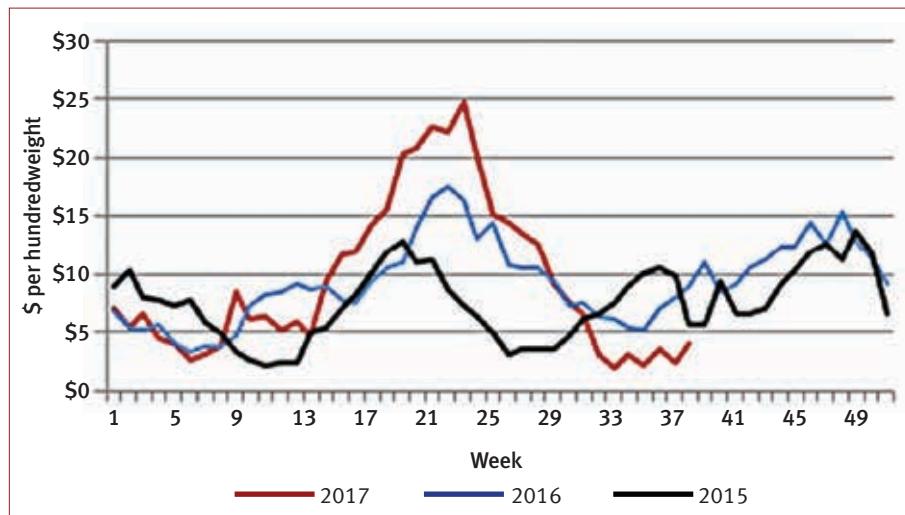


Fig. 2: CAB-Choice cutout spread



Even as production for the CAB brand has outpaced Select production in 21 of the 37 posted weeks this year, demand for the brand has underpinned and supported values for the higher-quality beef. Yes, supplies can become a bit more robust than absolutely required some weeks, depending on the season, but the CAB cutout premium speaks for itself. At the same time the Choice-Select spread has traded under \$3 per cwt. for the past seven weeks.

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That's a two-factor story. Obviously, a record proportion of Choice beef production can get ahead of demand for this broader category. Secondly, normal seasonality of supply and demand affects this spread, as seen in Figs. 1 and 2. We're likely to see holiday rib demand pull the Choice-Select spread wider into the fourth quarter again.

The final two inquiries can essentially be summed up in one question: "Do yield grades still matter, and should I select for ribeye size?"

The one answer is unequivocally, yes. Yield grade is very important, and I'd encourage all premium beef enthusiasts to create as many CAB and Prime, Yield Grade (YG) 2 carcasses as possible. The USDA grid-pricing report suggests that YG 2s are worth a \$3-per-cwt. premium on the average grid while YG 4s garner a net \$9.77-per-cwt. discount. Selection for balanced-trait cattle should always be in style for an attractive bottom line. That applies to carcass traits, too.

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Editor's Note: Paul Dykstra is a beef cattle specialist with CAB. Read more of Dykstra's biweekly comments in the CAB Insider at www.cabpartners.com/news/cabinsider/.