

The Choice boxed beef cutout value (negotiated trade calculated and reported by the Market News Division of USDA's Agricultural Marketing Service) has eroded since last Friday when it reached \$232.12 per cwt. Yesterday's value was \$231.03 per cwt., still that made for seven consecutive days over \$230.00. Last year's Spring surge in wholesale beef prices is not repeating in 2018; still, values are above the prior 5-year average (2012-16); see the graphic below.

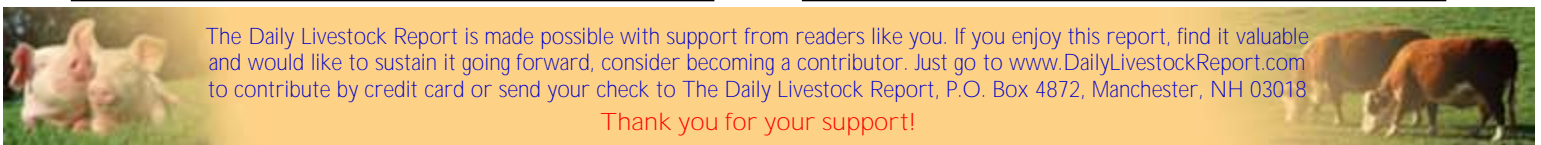
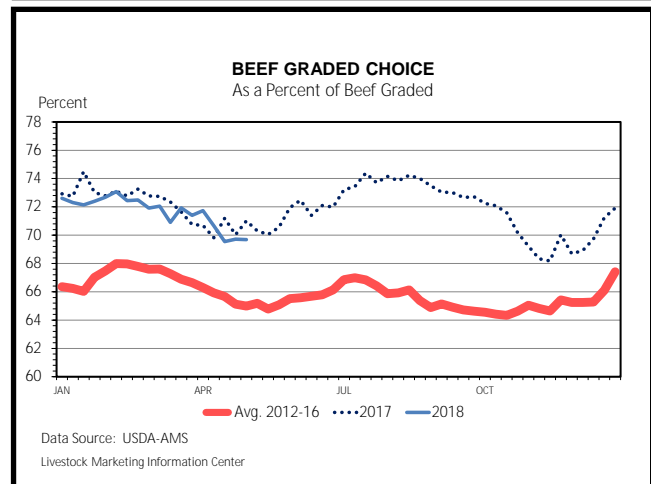
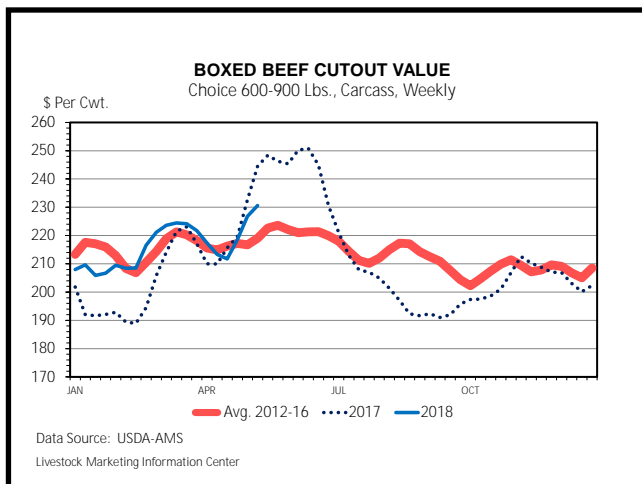
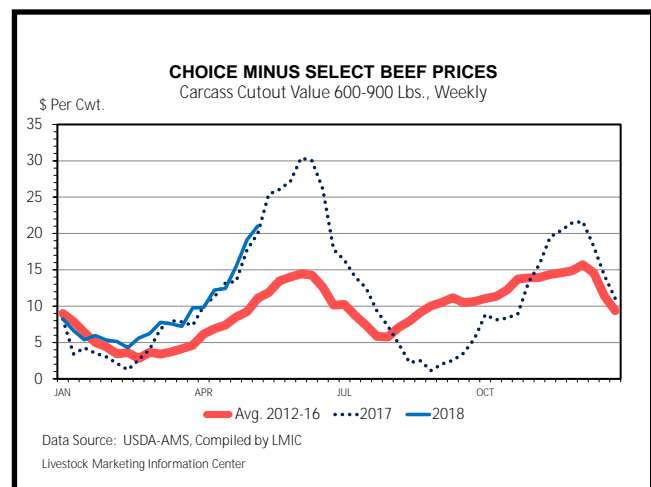
So far this year, the wholesale market premium of Choice over the Select cutout value has tracked 2017's; see the second graphic. And just like last year, the seasonal move-up since February has been more extensive than typical. Four fundamental economic moving parts underpin the Choice/Select price difference. A useful, but simplistic, view is that there are two markets, one for Choice beef and another for Select. In each market, supply and demand relationships are interacting to establish price. Of those economic factors, any one, up to all four, can change causing the price difference between Choice and Select to adjust.

In the prior paragraph, we stated that the two market view is a bit simplistic. That is mostly concerning the actual Choice wholesale beef marketplace. The multi-year trend has been of segmentation within the Choice quality grade essentially into thirds. For example, price differentiation of the upper one-third of that beef category, the top two thirds, and bottom one-third.

The fundamental long-term seasonal pattern in the Choice premium over Select is caused by within-year changes in the

percentage of cattle graded Choice and the demand for products (e.g., Choice steaks for grilling in the Spring). The proportion of beef carcasses classified as Choice is seasonal, see the third graphic. The latest weekly data showed that the percentage was down 1.3% year-over-year. However, by itself, the percentage graded Choice is not the full story, because the tonnage available to the market also depends on the number of animals harvested. Steer and heifer slaughter has mostly been above 2017's level, increasing 1.8% for the last three weeks of data.

So, we infer that the wider than historical (i.e., 2012-16 average) premium (Choice minus Select) has been mostly demand driven. That assessment applies to both this year and last.



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