

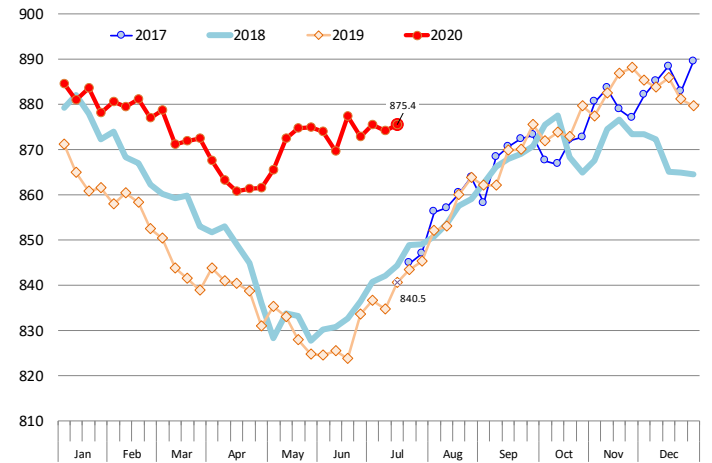
The latest cattle on feed report showed that on June 1 the supply of cattle with + 150 days on feed 971,000 head or 42% higher than the previous year. Limited slaughter capacity in April and May created a significant backlog of market ready cattle and it looks like this backlog will continue through the summer. **While fed cattle slaughter has returned near year ago levels, it will take time to work through the backlog.** Based on initial USDA data we currently project June slaughter to be up about 0.8%. July fed cattle slaughter will likely be lower due to one less slaughter day. At this point our projection is for July fed slaughter to be down about 0.5%. Using these numbers as proxy for feedlot marketings and expecting higher placements in June and July, **we think as of July 1 the number of +150 day cattle will still be about 950k head or 40% higher than a year ago.**

Livestock producers have been forced to rethink feeding operations so as to slow down the rate of growth, an expensive and inexact process. **The backlog and extra feeding time means cattle are coming to market heavier than normal for this time of year and grading trends have shifted significantly.** Official USDA fed cattle carcass weights are reported with a two week delay. However, carcass weight information in the weekly comprehensive cattle report tracks extremely well with the official data so we are using that in the first chart to the right. Last week the average carcass weight of steers and heifers coming to market was a little over 875 pounds, **35 pounds or 4.2% higher than the same week a year ago.** This is the equivalent of 21,000 more fed cattle coming to market than last year. Slaughter last week was down 0.7% and yet fed beef production was up about 3.5% thanks to the increase in weights. With more time spend on feed the quality grading of cattle coming to market has improved. In a typical year we see more select grading cattle during May, June and July. That has not been the case this year. During June and the first week of July (latest data), **only 13.6% of cattle coming to market were graded select.** This compares to 18.8% last year and an average of 20% for the last five years. Conversely, there are more choice and prime grading animals coming to market. **In June and July, the prime percentage was pegged at 10.5% compared to 7.2% last year and just 5.5% in the last five years.** Choice cattle during this time were almost 73% of the total compared to 70.7% last year. Prime beef supply availability was limited in Q3 of last year but that seemed to be a temporary phenomenon, reflecting the stress on calves during the previous winter. The steers and heifers coming to market today are grading as well as they ever have. Indeed, the percentage of prime cattle in the mix was a record 12.5% in late May, higher than the percentage of select grading cattle.

But while the improvement in the quality grade is good news for consumers, packers and (one would hope) producers, the backlog also means higher costs both in terms of feeding but also the deterioration of yield grades. Animals that have too much fat on them do not yield as much red meat and they are more likely to be discounted. USDA does provided some grading data but the data set is relatively small so please use this information with care, it is more an indication rather than something to be used for detailed analysis of beef supply. The latest data on yield grades is for **May, showing the supply of YG4 and YG5 cattle at 14.4%, about 4 points higher than a year ago.** This is not as high as what we saw in the fall of 2015 but the normal trend is for yield grading to continue to deteriorate into the fall, in line with the seasonal increase in carcass weights. In 2015 the peak of YG4 and YG5 grading cattle was in October at 17.2%. It is possible we could see that record broken this year.

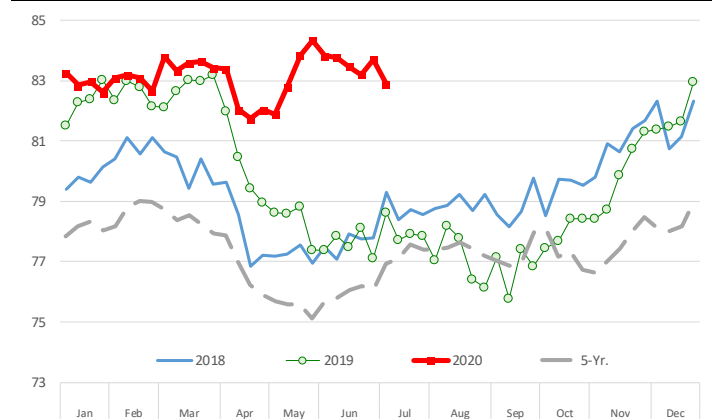
Fed Cattle (Steer+Heifer) Weights from USDA Weekly Comprehensive Cattle Report

Year/Year Comparison. Data Series Started in August 2017. Source: USDA-AMS



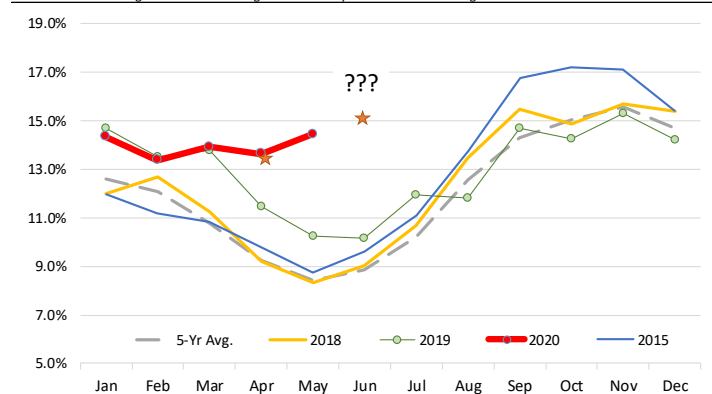
% of Prime + Choice Cattle Coming to Slaughter Each Week

Data Source: USDA Agricultural Marketing Service. Prepared by: Steiner Consulting. Updated through July 3, 2020



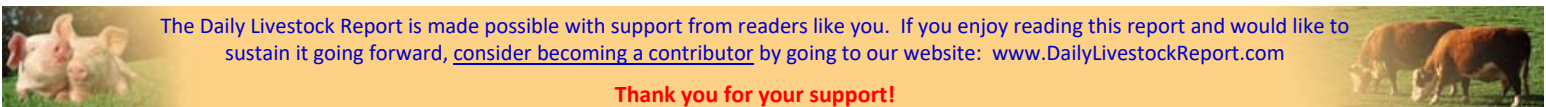
Yield Grade 4 & 5 Cattle as % of All Cattle Graded

Data Source: USDA Agricultural Marketing Service. Analysis: Steiner Consulting



Premiums/Discounts Based on Cutability Yield Grade, Fat/Inches. Report for May 2020

1.0 - 2.0 < 0.10"	2.0 - 2.5 < 0.20"	2.5 - 3.0 < 0.40"	3.0 - 3.5 < 0.60"	3.5 - 4.0 < 0.80"	4.0 - 5.0 < 1.2"	5.0/up < 1.2"
3.79	1.86	1.50	0.00	0.00	-11.21	-17.62



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