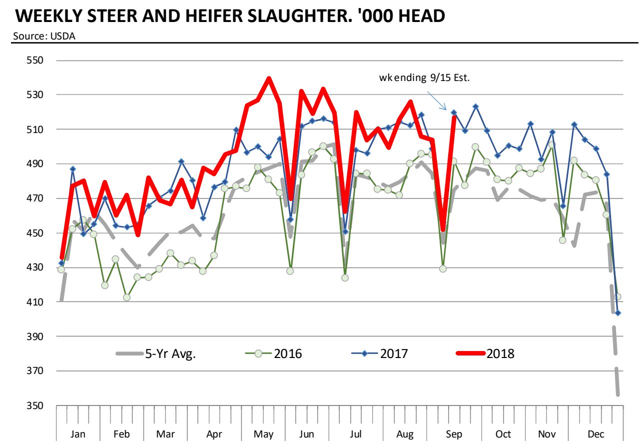
Daily Livestock Report

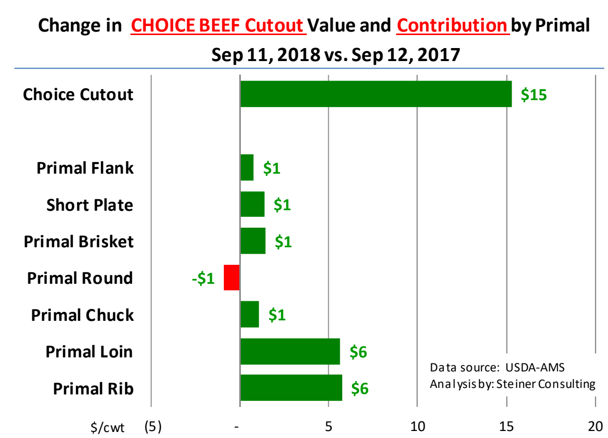
Sponsored in part by CME Group

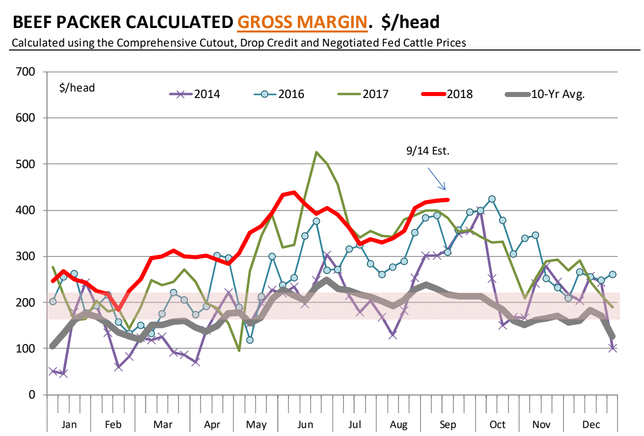
Vol. 16, No. 180 / September 12, 2018

Fed cattle futures were lower on Tuesday as market participants consider **an accumulation of short tern bearish factors**. Front end cattle supplies are much higher than a year ago, which should incentivize feedlots to maintain the marketing pace in September. This will likely be more difficult to accomplish in September than in August, in part because we don't have another long holiday weekend to. **Ample supplies of pork and chicken have provided retailers with plenty of opportunities to diversify away from beef, which was a staple of retail features for much of the summer**. Fed cattle slaughter last week was 452,000 head, 0.9% lower than a year ago. Since the first week of August fed cattle slaughter has been 0.3% lower than a year ago, not exactly what is needed to maintain currentness. The weight data reported by USDA for steers and heifers was last reported for week ending August 25, showing steer weights up 0.2% from last year and heifer weights up 0.5% from last year. One point some have made is that placements of lighter calves earlier in the year may have helped keep weights in check and mask the currentness story. It's a valid point but ultimately what matters for the market is the tonnage of beef available. **So far limited weight gains have keep available beef supplies in check**. More recent data (last two weeks) suggests that weights are have continued to push higher and they are now closer to where they were in 2016 than last year. Our best estimate at this point is that for week ending September 15 steer weights will be over 900 pounds per carcass. Steer weights last year declined in September as packers ramped up slaughter. Will we see the same thing this year or will market ready fed supplies drag into October.

In the short term market participants will continue to **pay close attention to the beef cutout and especially the market for middle meats**. It is not unusual for middle meats (steak cuts) to be softer in September and October, in part because retailers no longer are competing with white table cloth restaurants in running steak features. The choice beef cutout is currently about $15 or 8% higher than it was a year ago. Two items have contributed much of this y/y gain in the cutout: ribs and loins. In recent days both of those items have lost some grounds, part of that accumulation of bearish factors we noted earlier. Packers will likely focus on demand for middle meats before they go out and bid on cattle. **It's a lot easier to pay up for cattle if you know you have a home for those high value steaks**. Since the beginning of September the rib primal has lost $11.7/cwt or 3.3% while the loin primal has declined $5.8/cwt or 2%. These declines have largely happened after Labor Day and given the lofty levels at the end of August they were expected. Still, if the slowdown in middle meat values persists, it could present headwinds for fed cattle prices for the next few weeks. Additionally, ground beef business may be slowing down as well. Fat beef trimmings, which are normally mixed with lean product to make various types of ground beef, have declined sharply in the last two weeks, an indication that packers may not be producing as much ground beef. Last night 50CL beef prices were quoted at $53.5/cwt compared to the high 90s this item was trading in mid August. Despite the recent weakness in teh cutout packer margins remain in excellent shape and this tends to put a floor under fed cattle prices (see chart)







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