

Note: Due to the Thanksgiving holiday we were unable to prepare the regular weekly price and supply summary table. The data will be compiled and included with tomorrow's report.

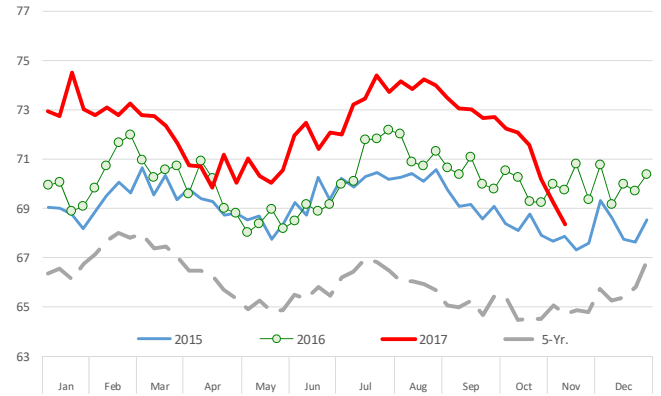
As we noted in our report on October 31, USDA implemented some changes to quality grading equipment at the end of October and the impact from this change has been notable. Before we review the results from recent reports, it should be noted that the recalibration impacted only the new camera systems that were put in place over the summer months. It is our understanding that the changes impacted camera grading systems in nine packing facilities.

Where does one get the grading information and what does recent data say? USDA publishes on Monday of each week (around noon central time), the results of cattle grading two week's prior. The latest report was published on November 20 and it reported quality grading results for week ending November 10. The numbers are presented as **a percentage of the total number of cattle presented for grading**. However, the report the total number of cattle evaluated. The charts to the right put the latest grading numbers in context. There has been a very sharp decline in the percentage of cattle grading choice and a similar increase in the number of cattle graded select. Context is important. There is some seasonality in terms of cattle grading. Over the years, there has also been a shift in the percentage of cattle grading choice, a direct response to market demand and premiums paid for choice grading cattle. However, following the installation of new camera systems last summer one can see a notable shift in the percentage of choice and select cattle (see page 2 for prime and long term charts). That year/year increase has now disappeared and the choice/select grading is actually under 2016 levels. A recent letter from USDA sent to the media indicated that a second minor recalibration was likely done in mid November so it will be interesting to see if that changes the current trajectory. The results of the changes implemented have not been uniform, largely because they only impacted plants that put in place the new systems and those plants are not uniformly distributed. By far the biggest impact has been in Kansas. In the last reported week choice graded cattle comprised 69.81% of total cattle graded, about 5.6 points lower than the same week a year ago. This is quite a shift from mid October, when 78.7% of cattle were grading choice, 6 points above last year. Choice grading in Nebraska is currently 71%, 1.4 points less than last year. In mid October Nebraska choice grading was running 3.9 points above year ago.

**Bottom line:** Current select grading % is back to the same levels it was last year. The difference between 2017 and 2016 select grading during Jun-Oct on average has been 2.4%. Average steer/heifer slaughter during this period was roughly 502k head per week, and 2.4% of that is 12,000 head. Average five year choice premium over select during this period has been \$10/cwt. Average steer/weight during this period was 855 pounds. If select grading this year had been near year ago levels rather than 2.4% less as was the case, it implies a difference of around \$1MM/week (12k head \* 8.55cwt \* \$10 cwt).

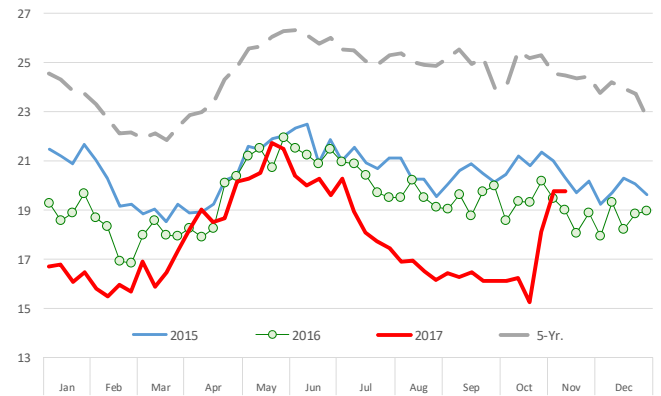
% of **Choice** Cattle Coming to Slaughter Each Week

Source: USDA Agricultural Marketing Service. Report name: NW LS196. Updated through Nov. 11, 2017



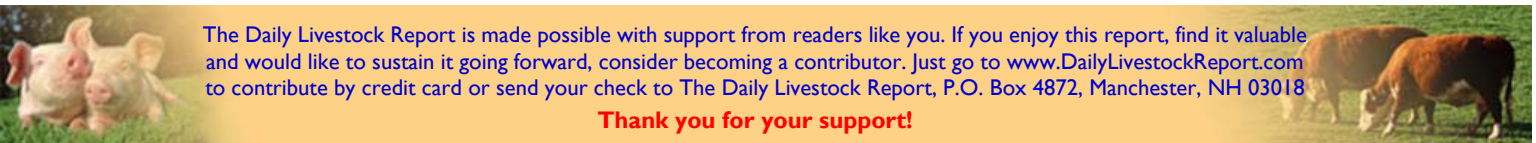
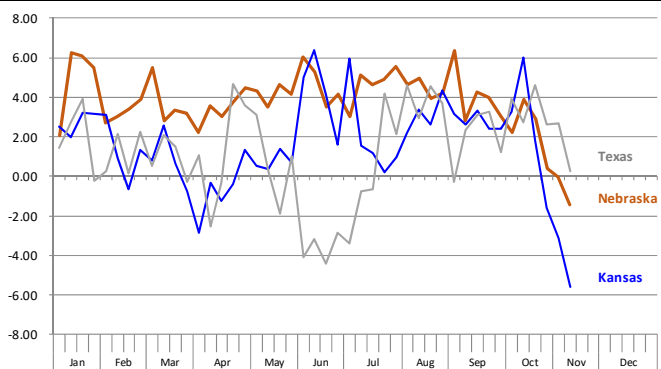
% of **Select** Steers/Heifers Coming to Slaughter Each Week

Source: USDA Agricultural Marketing Service. Report name: NW LS196. Updated through Nov. 11, 2017



PCT POINT CHANGE FROM A YEAR AGO

Source: USDA Agricultural Marketing Service. Report name: NW LS196. Updated through Nov. 11, 2017



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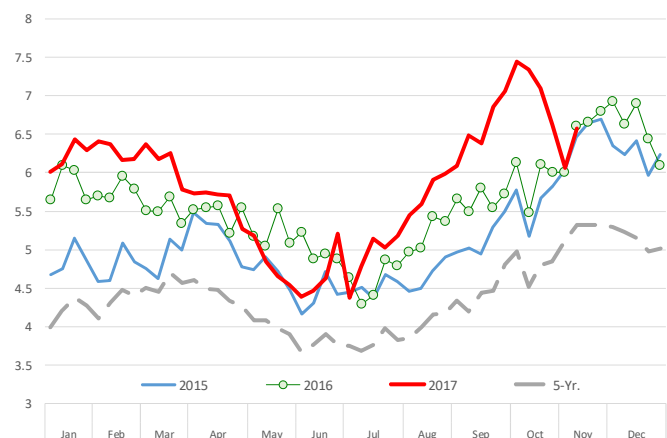
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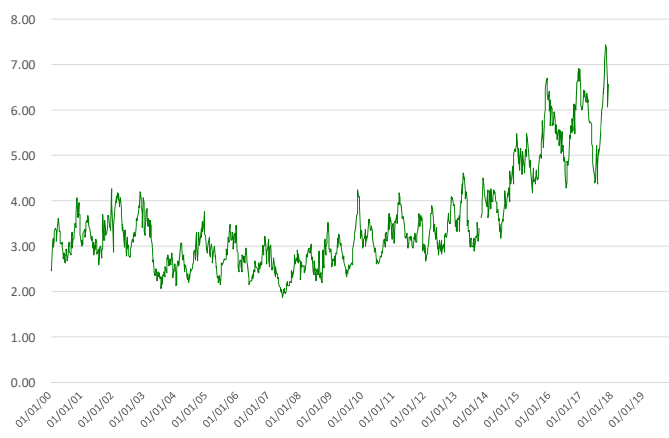
% of Prime Cattle Coming to Slaughter Each Week

Source: USDA



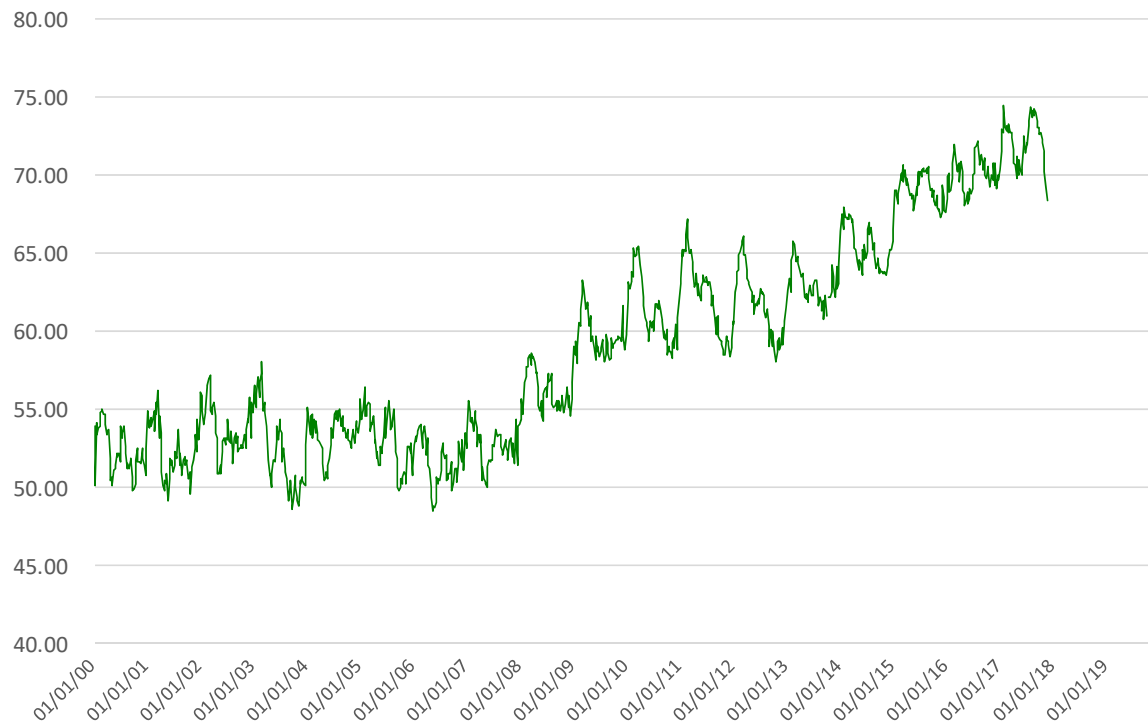
% of Prime Cattle Coming to Slaughter Each Week

Source: USDA



% of Choice Cattle Coming to Slaughter Each Week

Source: USDA



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