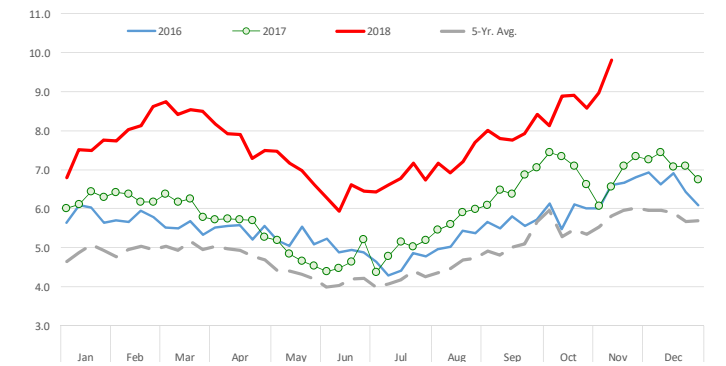


Once the province of fancy steak houses and special order beef marketers, **prime beef is now seemingly everywhere**. It is in local super markets, in the grill or pub down the street and even prepared foods. The reason for this is simple. **We are producing today more prime beef than ever in history**. It was not long ago that servers in those fancy steakhouses would rightly proclaim that the steak they were serving came from the top 3% of the cattle in the country. As the second chart to the right shows, that statement was correct until around 2012. By 2015 the number of cattle grading prime had doubled and it has been on a steep upward trajectory ever since. The most recent USDA steer and heifer grading report (NW_LS196), showed that prime cattle accounted for 9.6% of all the cattle graded, with another 71% grading choice. Thus, in mid November 2018 over 80% of all the cattle in the US were grading choice or better, a stunning shift from even 10 years ago when fewer than 60% of cattle graded choice or higher.

What accounts for the shift and does this mean cattle producers are making a lot more money now that they are bringing to market more prime grading cattle? As is often the case, there are a number of factors at work that help explain this shift. First, there is **the long run trend in upgrading cattle genetics, a trend that accelerated after the liquidation that took place in 2011-2012**. The herd rebuilding that started in 2014 appears to have brought with it much better performing cattle and a sharp increase in the supply of high marbled beef. It is stunning to think that almost 13% of cattle in Nebraska graded prime and another 73% graded choice. The cattle processing industry has also upgraded processes used to grade cattle. While human graders still are employed, **a larger share of grading is now done by computers, with human graders overseeing the process**. This has made for more consistent grading but also more cattle grading choice or higher. Computer grading has also allowed the industry to grade more cattle. In this latest report, just 2.94% of cattle were included in the “other” category, which includes ungraded cattle. Ten years ago the “other” category accounted for about 7% of cattle. Obviously with more cattle grading choice or better there is less select beef in the market. This has tended to narrow the spread between choice and select beef, especially for those products where marbling does not bring any special benefits. Indeed, for some beef processors a higher marbled product may be a disadvantage since it presents lower yields and does not add much to the flavor profile of the final product. **The shift to more prime grading cattle has helped bolster cutout values but not as much as one would think**. As any Econ 101 textbook suggests, the increase in supply has been accompanied by a decline in price. The chart to the right shows the premium of the calculated prime beef cutout vs. the choice beef cutout. The premium last year averaged \$31/cwt, not far from the \$30/cwt average premium of the last five years. This year, however, the prime beef cutout has averaged just \$14/cwt higher than the choice cutout. With more prime cattle in the mix, packers have had trouble realizing the normal premiums on prime ribeyes or loins, which are about half of what they were a year ago.

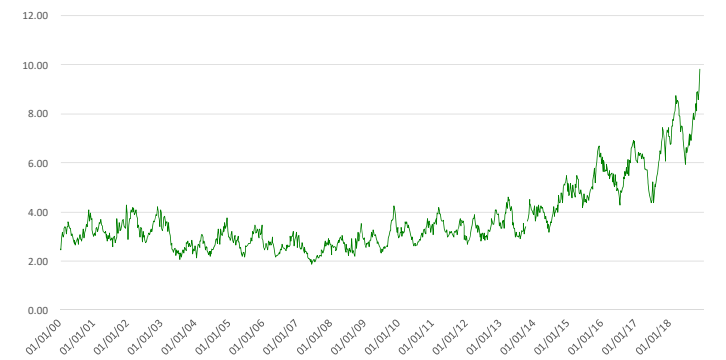
% of Prime Cattle Coming to Slaughter Each Week

Source: USDA-AMS. Analysis by Steiner Consulting



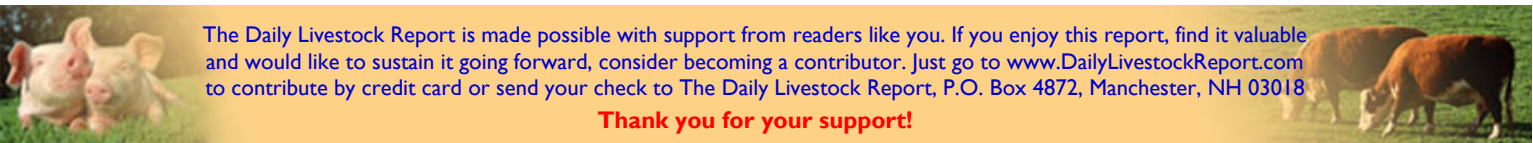
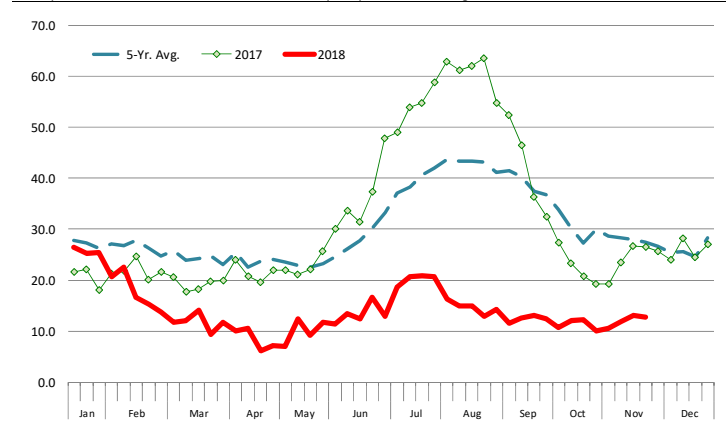
% of Prime Cattle Coming to Slaughter Each Week

Source: USDA-AMS. Analysis by Steiner Consulting



Premium of Prime Beef Cutout vs. Choice Beef Cutout

Weekly Premium in US\$/cwt. Source: USDA-AMS. Analysis by Steiner Consulting.



The Daily Livestock Report is made possible with support from readers like you. If you enjoy this report, find it valuable and would like to sustain it going forward, consider becoming a contributor. Just go to www.DailyLivestockReport.com to contribute by credit card or send your check to The Daily Livestock Report, P.O. Box 4872, Manchester, NH 03018

Thank you for your support!

The Daily Livestock Report is published by Steiner Consulting Group, DLR Division, Inc.. To subscribe, support or unsubscribe please visit www.dailylivestockreport.com.

The Daily Livestock Report is not owned, controlled, endorsed or sold by CME Group Inc. or its affiliates and CME Group Inc. and its affiliates disclaim any and all responsibility for the information contained herein. CME Group®, CME® and the Globe logo are trademarks of Chicago Mercantile Exchange, Inc.

Disclaimer: The Daily Livestock Report is intended solely for information purposes and is not to be construed, under any circumstances, by implication or otherwise, as an offer to sell or a solicitation to buy or trade any commodities or securities whatsoever. Information is obtained from sources believed to be reliable, but is in no way guaranteed. No guarantee of any kind is implied or possible where projections of future conditions are attempted. Futures trading is not suitable for all investors, and involves the risk of loss. Past results are no indication of future performance. Futures are a leveraged investment, and because only a percentage of a contract's value is required to trade, it is possible to lose more than the amount of money initially deposited for a futures position. Therefore, traders should only use funds that they can afford to lose without affecting their lifestyle. And only a portion of those funds should be devoted to any one trade because a trader cannot expect to profit on every trade.

Daily Livestock Report

Sponsored by  **CME Group**

Vol. 16, No. 233 / November 27, 2018

PRODUCTION & WKLY AVG. PRICE SUMMARY

Week Ending **11/24/2018**

Source: Various USDA Agricultural Marketing Service reports. Some data are preliminary. Weekly Avg. Prices

Item	Units	Current Week	Last Week	Pct. Change	Last Year	Pct. Change	YTD	Y/Y % Change	
		24-Nov-18	17-Nov-18		25-Nov-17				
Total Beef, Pork, Chicken, Turkey		mil lbs., cwe	1,809	1,988	-9.01%	1,816	-0.41%	87,258	1.7%
C	FI Slaughter	Thou. Head	570	641	-11.08%	575	-0.90%	29,371	2.4%
	FI Cow Slaughter **	Thou. Head	129	128	0.89%	120	7.12%	5,341	7.2%
T	Avg. Dressed Weight	Lbs.	826	823	0.36%	839	-1.55%	815	0.2%
T	Beef Production	Million Lbs.	469.7	526.3	-10.75%	481.6	-2.47%	23,939	2.6%
L	Live Fed Steer Price	\$ per cwt	115.39	113.00	2.12%	118.97	-3.01%		
E	Dressed Fed Steer Price	\$ per cwt	181.89	177.38	2.54%	189.09	-3.81%		
	Oklahoma Steer (600-700 lbs)	\$ per cwt	146.82	139.53	5.22%	156.79	-6.36%		
&	Choice Beef Cutout	\$ per cwt	213.76	213.85	-0.04%	208.70	2.42%		
	Hide/Offal	\$ per cwt, live wt	9.34	9.30	0.43%	10.53	-11.30%		
B	Rib Primal, Choice	\$ per cwt	408.29	404.07	1.04%	385.23	5.99%		
E	Round Primal, Choice	\$ per cwt	163.51	167.80	-2.56%	170.31	-3.99%		
E	Chuck Primal, Choice	\$ per cwt	168.89	169.38	-0.29%	165.72	1.91%		
F	Trimming, 50%	\$ per cwt	68.20	65.07	4.81%	67.69	0.75%		
	Trimming, 90%	\$ per cwt	192.45	191.22	0.64%	211.56	-9.03%		
	FI Slaughter	Thou. Head	2,273	2,618	-13.18%	2,153	5.58%	110,975	2.5%
	FI Sow Slaughter **	Thou. Head	59.2	61.9	-4.44%	61.8	-4.30%	2,607	2.0%
H	Avg. Dressed Weight	Lbs.	212.0	211.0	0.47%	213.0	-0.47%	211	0.3%
O	Pork Production	Million Lbs.	481.8	553.5	-12.95%	458.8	5.01%	23,456	2.8%
G	Iowa-S. Minn. Base	Wtd. Avg.	51.30	50.90	0.79%	56.81	-9.70%		
S	Natl. Base Carcass Price	Wtd. Avg.	57.80	58.86	-1.80%	62.84	-8.02%		
	Natl. Net Carcass Price	Wtd. Avg.	59.82	60.87	-1.72%	64.75	-7.61%		
	Pork Cutout	205 Lbs.	67.11	69.48	-3.41%	81.86	-18.02%		
	Ham Primal	\$ per cwt	49.91	49.18	1.48%	62.69	-20.39%		
	Loin Primal	\$ per cwt	63.47	65.03	-2.40%	72.24	-12.14%		
	Belly Primal	\$ per cwt	106.89	116.17	-7.99%	138.96	-23.08%		
	Trimming, 72%, Fresh	\$ per cwt	41.86	41.57	0.70%	63.07	-33.63%		
	Hog By-Product Value	\$ per cwt, live wt	3.59	3.59	0.00%	3.96	-9.34%		
C	Young Chicken Slaughter *	Million Head	159.8	163.8	-2.40%	162.1	-1.36%	7,441	-0.2%
H	Avg. Weight (RTC)	Lbs.	4.70	4.77	-1.59%	4.71	-0.32%	6.19	0.9%
I	Young Chicken Production (RTC)	Million Lbs.	750.8	781.7	-3.96%	763.6	-1.68%	35,022	0.7%
C	Eggs Set (19-state)	Million	222.2	215.3	3.20%	221.8	0.20%	10,380	1.6%
K	Chicks Placed (19-state)	Million Head	172.2	173.8	-0.92%	176.0	-2.14%	8,379	1.0%
E	National Composite Whole Bird	Composite	87.07	87.75	-0.77%	86.13	1.09%		
	Northeast Breast, B/S	\$/cwt	83.12	87.22	-4.70%	102.05	-18.55%		
	Northeast Leg Quarters	\$/cwt	29.04	28	3.71%	36.93	-21.36%		
T	Total Turkey Slaughter *	Million Head	4,281	5,389	-20.56%	4,497	-4.80%	193,837	-0.4%
U	Avg. Weight (RTC)	Lbs.	24.85	23.43	6.08%	24.93	-0.31%	31.08	-0.8%
R	Turkey Production (RTC)	Million Lbs.	106.4	126.3	-15.73%	112.1	-5.10%	4,840	-1.0%
K	National Hen (8-12 lb)	8-16 Lbs.	83.46	83.48	-0.02%	87.30	-4.40%		
G	Corn, Omaha	\$ per Bushel	3.47	3.52	-1.42%	3.20	8.44%		
R	Distillers Grain, Chicago	\$ per Ton	145.00	150.00	-3.33%	122.50	18.37%		
A	Wheat, Kansas City (deliv.)	\$ per Bushel	4.79	4.93	-2.84%	3.86	24.09%		
I	Soybeans, Cntrl IL	\$ per Bushel	8.46	8.51	-0.59%	9.84	-14.02%		
N	Soybn Meal 48%, Cntrl IL	\$ per Ton	309.10	308.40	0.23%	320.90	-3.68%		

* Chicken & turkey slaughter. Production, egg sets are 1 week earlier than the date at the top of this sheet.

** Cow and sow slaughter reflect levels from two weeks ago due to reporting lag.

The Daily Livestock Report is made possible with support from readers like you. If you enjoy reading this report and would like to sustain it going forward, consider becoming a contributor by going to our website: www.DailyLivestockReport.com

Thank you for your support!

