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In The Cattle Markets

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Choice-Select Spread

The Choice-Select spread has widened in the last few weeks. Although it is occurring slightly early, this widening of the spread is a seasonally expected occurrence. This widening of the Choice-Select spread provides incentives for increased production of Choice beef as compared to Select beef. Over a 12 month period of time, the Choice-Select spread is typically narrowest in the January to March timeframe as the demand for Choice graded middle meats is at its lowest and the supply of Choice graded cattle is typically at its highest. In contrast, as we go into summer, the demand for Choice graded middle meats is higher as retailers fill shelves in anticipation of the grilling season, but the supply of Choice graded cattle is lower as we see more calf-fed cattle being harvested.

What makes the widening of the Choice-Select spread this year interesting is the slightly early occurrence. However, the early widening can still be explained through supply and demand. On the supply side, the industry is extremely current and the average weekly year to date dressed weights for steers in 2017 is down 17 pounds as compared to last year. Beef production however is up almost 4 percent due to increased slaughter. Year to date, the percentage of cattle grading choice is up 2 percent, however, this percentage is starting to slip and in the last month the year-over-year weekly increase in percentage is only up 1 percent.

On the demand side, demand is strong and retailers are struggling with procuring enough product for the summer sales. Additionally demand for Choice quality beef increases relative to Select quality beef in summer. Putting all this together tells us the total tonnage of both Choice and Select graded beef is up this year; and although Choice quality tonnage is up by more than the Select quality tonnage, the demand for Choice beef has increased by even more. Likely one reason for this increased demand for Choice quality beef is the overall decline in retail beef prices. On average, fresh retail beef prices have declined 5 percent over the same period in 2016. This overall decline in beef prices allows consumers to potentially switch from Select quality beef to Choice quality beef while not paying substantially more for a better product.

The widening of the Choice-Select spread is seasonal, and although the widening is a bit earlier than typical this year, it likely will return to normal by mid to late June.

The Markets

Friday, May 12, 2017 saw futures higher thanks mostly to news regarding opening trade with China. Following some technical consultation, China will begin allowing US beef to be imported. However, many of the details of the trade agreement have yet to be disclosed and the price impacts from the news release didn't last long. By Monday morning, cattle futures shifted downward and continue the decline off the contract highs. Beef values are also lower.

On Monday, May 15, 2017 corn prices are down in both old and new crop contracts, while soybeans were up in both old and new crop contracts. Corn planting is at 71 percent for 2017, as compared to 73 percent at this time in 2016.

<i>Data Source: USDA-AMS Market News</i>		Week of 5/12/17	Week of 5/5/17	Week of 5/13/16
5-Area Fed Steer	all grades, live weight, \$/cwt	\$137.28	\$144.60	\$132.56
	all grades, dressed weight, \$/cwt	\$220.33	\$229.80	\$208.39
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$244.55	\$232.55	\$213.00
	Choice-Select Spread, \$/cwt	\$20.00	\$17.75	\$11.28
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$157.45	\$162.58	\$152.26
	Nebraska 7-market, \$/cwt	\$155.85	\$160.52	\$156.49
	Oklahoma 8-market, \$/cwt	\$147.34	\$150.68	\$150.88
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$181.28	\$199.49	\$181.36
	Nebraska 7-market, \$/cwt	\$184.08	\$183.08	\$176.05
	Oklahoma 8-market, \$/cwt	\$171.31	\$170.80	\$177.23
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.43	\$3.38	\$3.67
	DDGS, Nebraska, \$/ton	\$104.00	\$104.25	\$125.00