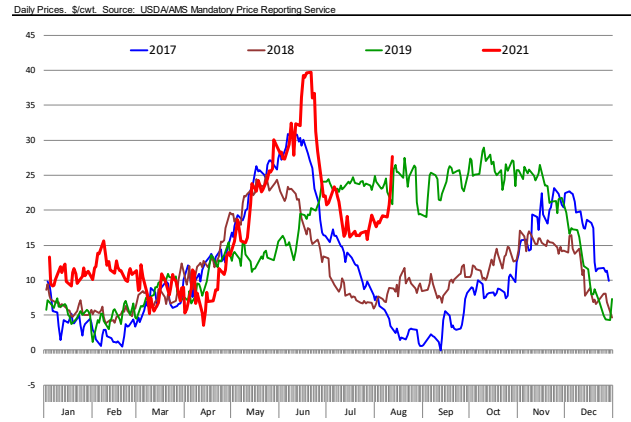


The choice-select cutout spread has jumped by almost \$12/cwt (75%) in the last three weeks and it is now at the highest level for this time of year on record.

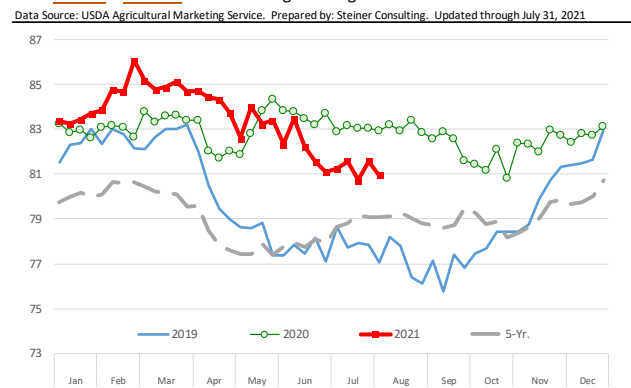
Normally we see the spread tighten in July and August as retail demand slows down, and seasonally fed cattle grading improves compared to April and May. There has clearly been a shift in terms of supply, but we would argue that the reason for the wide spread is more demand related. But **let's look at the supply side first.** We'll compare to both 2020 and 2019 due to the impact of COVID disruptions on feedlots. According to USDA, for the week ending July 31, almost 81% of cattle graded choice or prime. This was down a full percentage point from the same week a year ago but it was still almost 4 points higher than in 2019 and 2 points higher than the five year average. So yes, the choice-select spread is similar to what it was in 2019 at this time but that year we had significantly fewer high quality cattle in the mix. The percentage of high quality cattle still remains on the high end of the range. Fed steer and heifer weights have been lower than a year ago in the last three months but that's not saying much since weights last year were affected by the backlog created by COVID disruptions. Fed steer weights in July were still 2.5% higher than in 2019, which helps explain the difference in grading between this year and 2019. More important from a supply perspective, is the shift in fed cattle slaughter. Fed cattle slaughter has been running below expectations in the last few days and that may have also impacted availability. Mon-Thur. fed cattle slaughter this week was under 90k head/day, about 5k head per day less than the same period a week ago and also down about 5k head per day compared to the same period in 2019.

The five percent reduction in supply may not seem like much until you consider that there was a significant amount of forward booking that took place in mid July. Retailers and distributors took advantage of the pullback in prices to cover needs ahead of Labor Day. Export beef sales, published yesterday, were not particularly good but **export beef shipments** (which is important for current prices) **remain very strong. In the last four weeks, export beef shipments have been 15.5% higher than the same stretch in 2020 and 13.7% lower than in 2019.** We also think that retail demand is having an outsize impact, similar to what we saw going into Memorial Day. As more retailers have shifted to choice and choice CAB programs, promotional activity is now having a more significant impact on the choice-select spread. It used to be that we would see this impact during Memorial Day and Christmas but in the last few years it appears retailers are looking to stretch the promotional windows. And while it would be fair to expect the spread to tighten a bit after Labor Day, that is unlikely to last as preparations for year-end holidays get underway. High feed costs and feedlots getting more current may also impact fed cattle weights in the last three months of the year, which could further exacerbate the competition for high quality beef, especially for prime product.

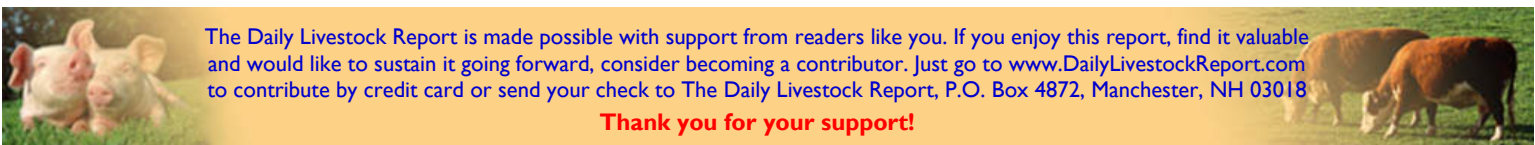
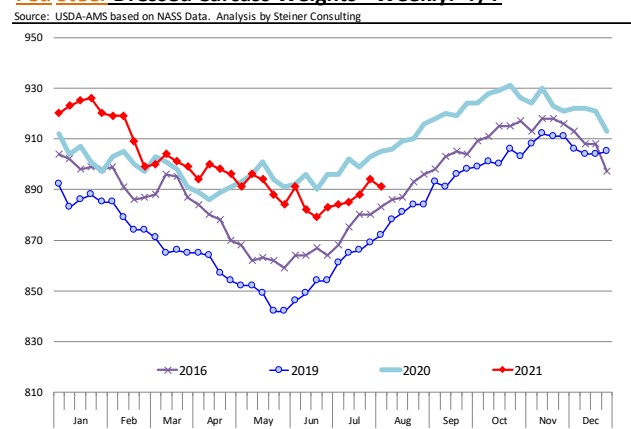
CHOICE CUTOUT MINUS SELECT CUTOUT



% of Prime + Choice Cattle Coming to Slaughter Each Week



Fed Steer Dressed Carcass Weights - Weekly. Y/Y



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