

Daily Livestock Report

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Finally some good news — FAO's Codex Alimentarius Commission finally adopted yesterday a science-based standard for ractopamine, a feed ingredient used to promote leanness and efficient lean gain in both pork and beef. The scientific standard has been established for some time but it took Codex five times to finally adopt it as an international standard for the minimum residue limit. The EU, China, Taiwan and Thailand currently ban imports of pork from pigs fed ractopamine. U.S. producers and packers have supplied these markets with ractopamine-free product but that effort required specialized production and segregation of product.

Ractopamine is sold for use in pigs as Paylean and in beef cattle as Optaflexx. The feed additive was evaluated and approved by the FDA and is used in 26 other countries including Australia, Brazil, Canada, Mexico, the Philippines and South Korea. The Codex panel, which includes some European scientists, has confirmed the safety of ractopamine three times yet Codex had, until this week, rejected the standard four times.

The approval doesn't mean the markets will be open to imports of meat from treated animals any time soon but it certainly provides more leverage for those efforts by the U.S. government and commodity groups.

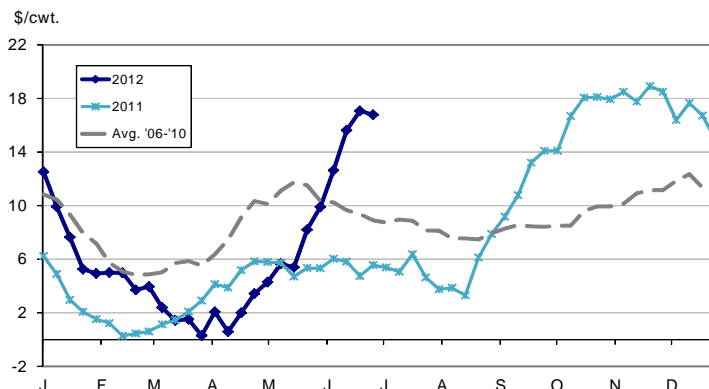
The spread between the Choice and Select beef cutout values has exploded since mid-April. This increase is not a real surprise since the spread usually grows from late winter through the spring. The unusual aspect of this year's seasonal shift is its magnitude. The normal increase is \$6 to \$8/cwt. and the spread usually peaks in mid-May. This year's increase has been \$18 and the peak, we think, occurred two weeks ago.

The spread between the two most common grades of beef is, as is any price, driven by relative supplies and demands. The supplies of Choice and Select beef depend, of course, on the total supply of cattle and the percentages of cattle that receive the grades. Those percentages changed dramatically from 2007 through 2009 due to a number of factors including the adoption of mechanical grading systems, changes in feeding practices, the wider use of Angus genetics and measurement systems that allowed marbling to be observed in live cattle and thus used as a criteria for breeding stock selection.

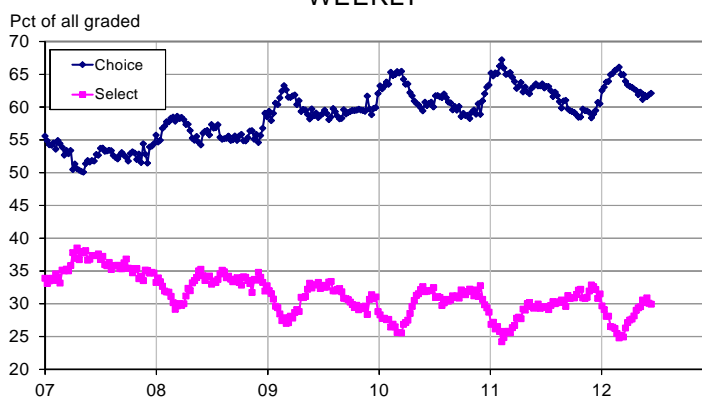
The trend has pretty much ended since 2009 but considerable seasonal variation remains. As can be seen, a primary reason for the normal summer rally in the spread is the seasonal decline in the percentage of cattle that grade Choice. Lower Choice supply means higher Choice prices. At the same time, Select supplies grow driving Select prices lower. This year has followed that normal pattern. If that holds, we will see the Choice percentage increase for a few weeks before decreasing further through September.

But is that the driver this year? We don't think so because the shift in values has not been driven by all Choice cuts. In fact, the main drivers have been the prices of Choice middle meats. The chart at right shows the 55% increase in boneless strip loins. The price of ribeyes has increased by about 25%. Both —and the spread — appear to be peaking. A demand impact of record high temps?

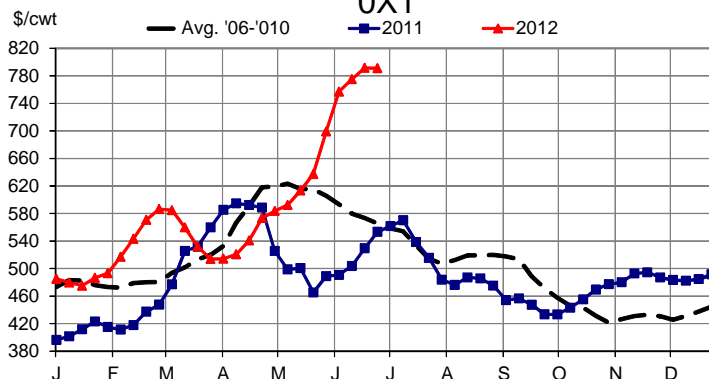
600-900# CHOICE - SELECT SPREAD



CATTLE GRADING PERCENTAGES, WEEKLY



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