

# CattleFax

Industry Insight and Analysis

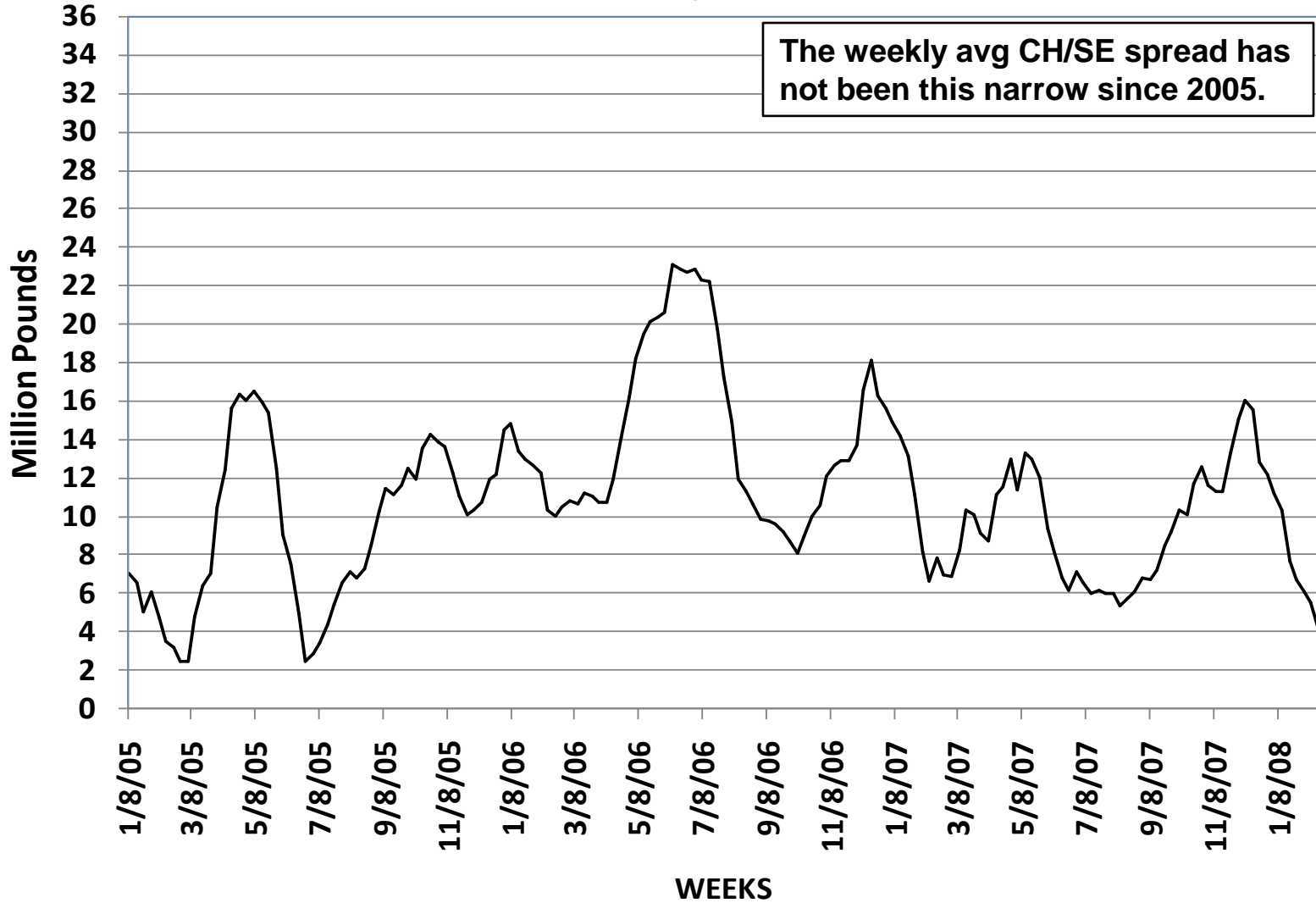
Choice/Select Spread

800-825-7525

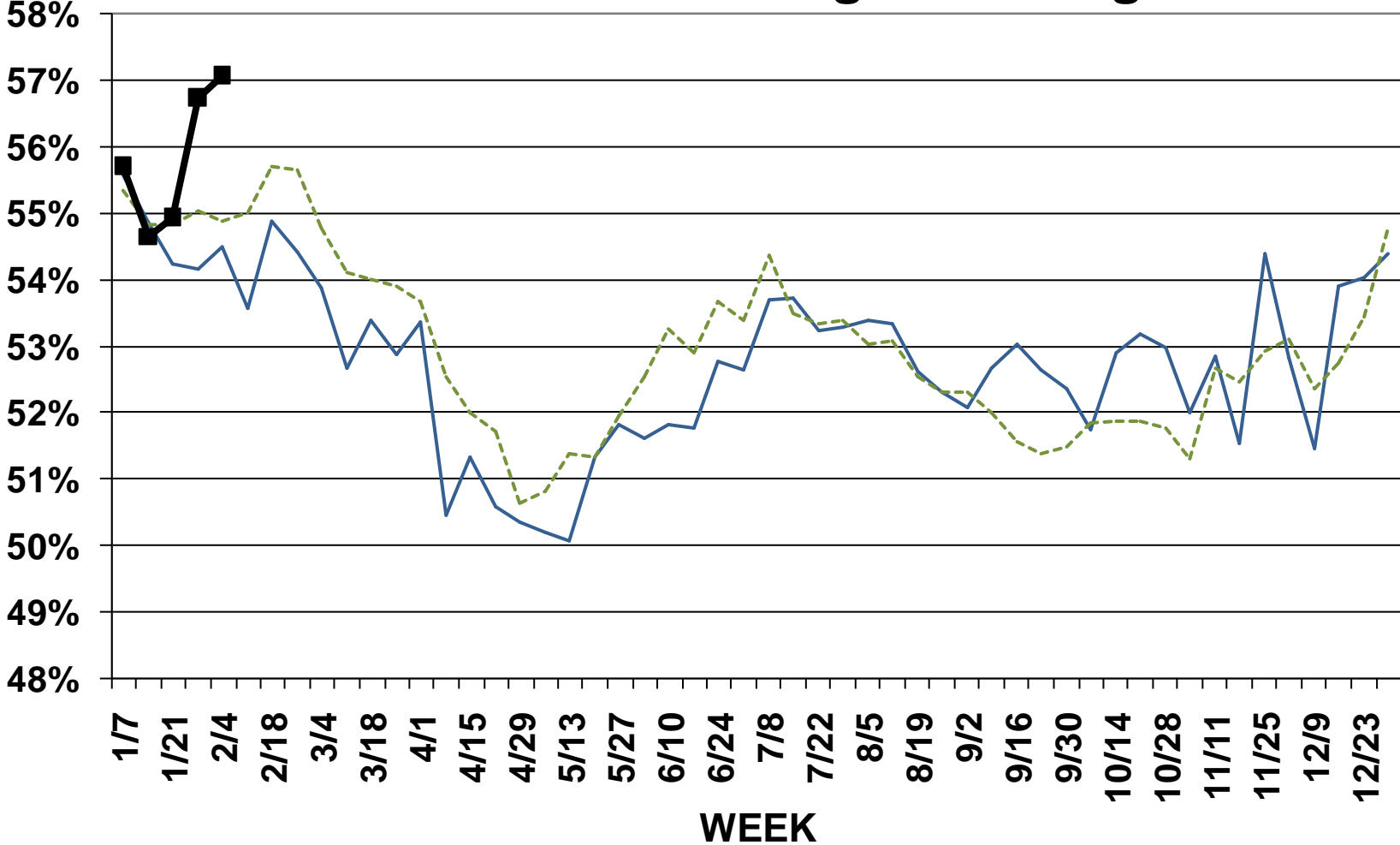
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The choice/select spread has narrowed to 3-year lows. The data in the following slides will assist in explaining this occurrence. The data supports the fact that the economics of the market work, as it relates to this data. Bottom Line: Bigger choice production in relation to select production equals narrowing choice/select spread. Seasonally choice production compared to select production declines from the winter into the spring. For more information please contact Tod Kalous at [tod@cattlefax.com](mailto:tod@cattlefax.com) or Mike Murphy at [mmurphy@cattlefax.com](mailto:mmurphy@cattlefax.com)

# CH/SE Spread



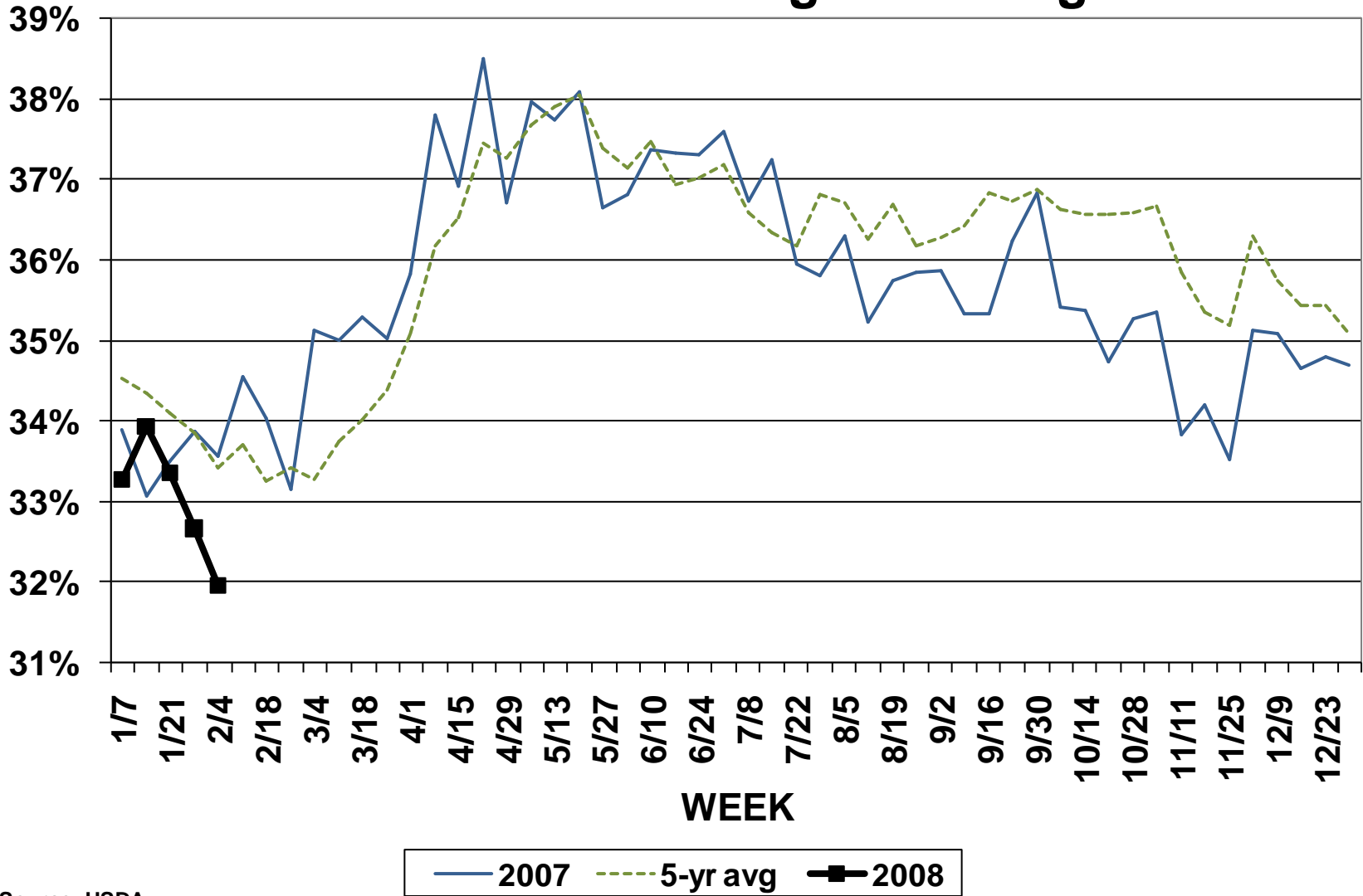
# USDA Choice Grading Percentage



— 2007    - - - 5-yr avg    ■ 2008

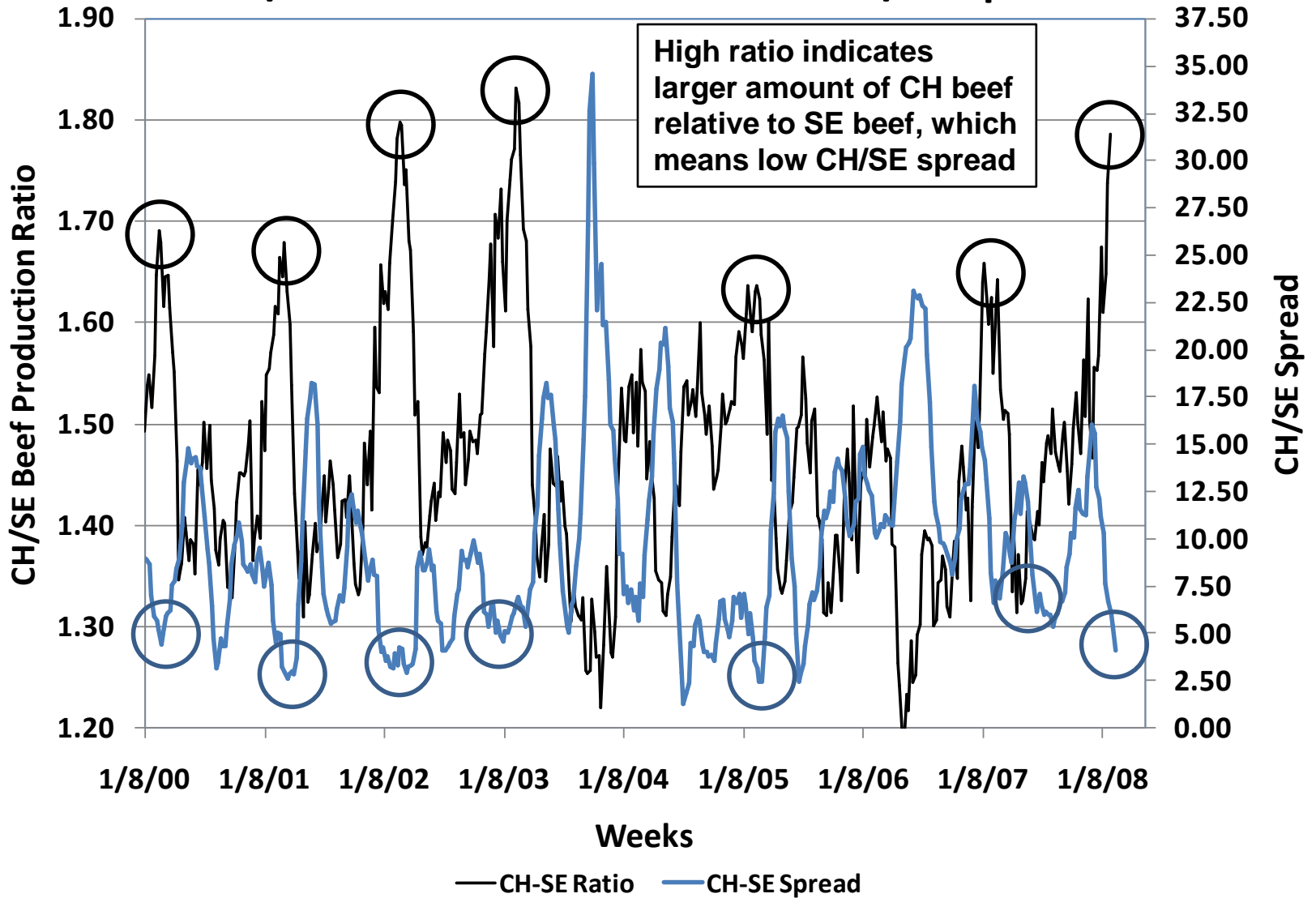
Source: USDA

# USDA Select Grading Percentage



Source: USDA

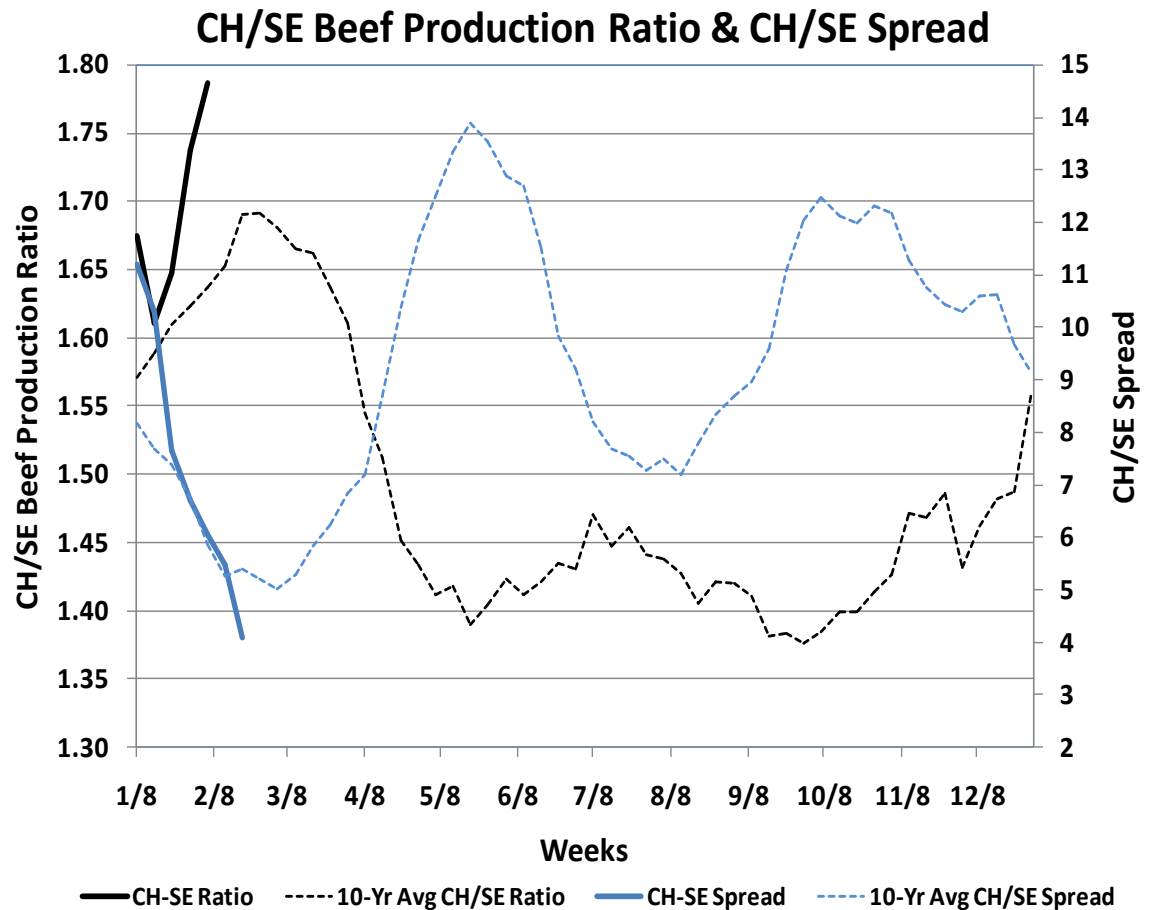
# CH/SE Beef Production Ratio & CH/SE Spread



- Seasonally, we do produce more CH beef relative to SE beef Dec into Feb (black dotted line on chart) and then it turns around through the spring when the CH grade declines. However, this year you can see the ratio is larger than the 10-year average, meaning we are producing even more CH beef relative to SE beef. This is mainly due to the much higher than typical CH grading percentage.

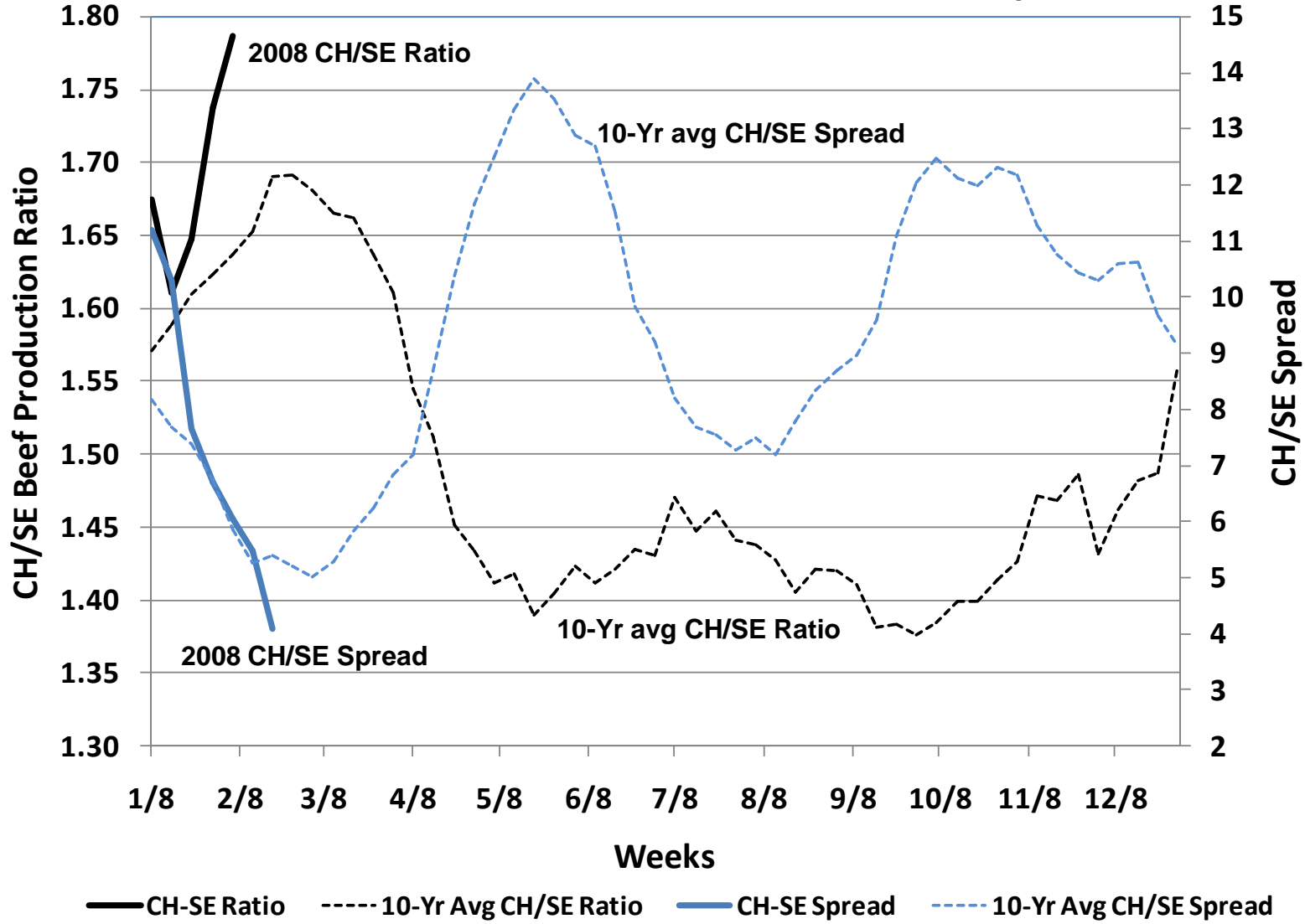
- The result of this production shift is a very narrow CH/SE spread (blue line). You can see in the chart how the CH/SE spread has recently dipped below the 10-year average.

- This shift in CH&SE beef production has likely been the main contributor to the narrow CH/SE spread. Statistically, the correlation is a  $-0.79$  which is very high.



- The spread should be at or very near its turning point as the CH grade starts to decline and we start to see SE beef increase relative to CH beef. A rally in the CH cutout due to lower CH production could be a catalyst to support fed prices into the spring, depending on how demand reacts.**

# CH/SE Beef Production Ratio & CH/SE Spread



Correlation between 10-yr avg CH/SE ratio and 10-yr avg CH/SE spread is -0.79