

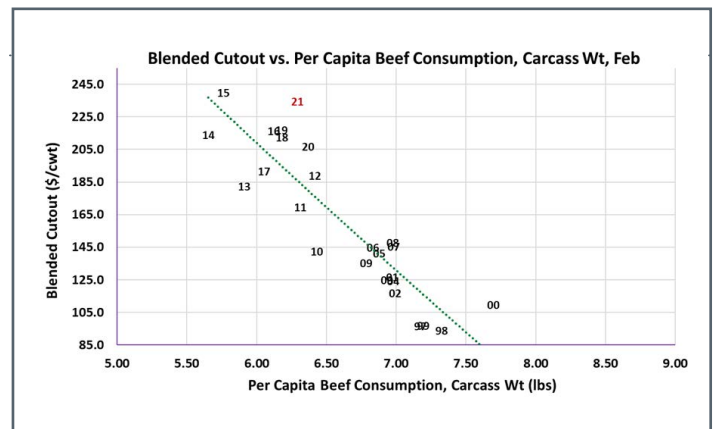
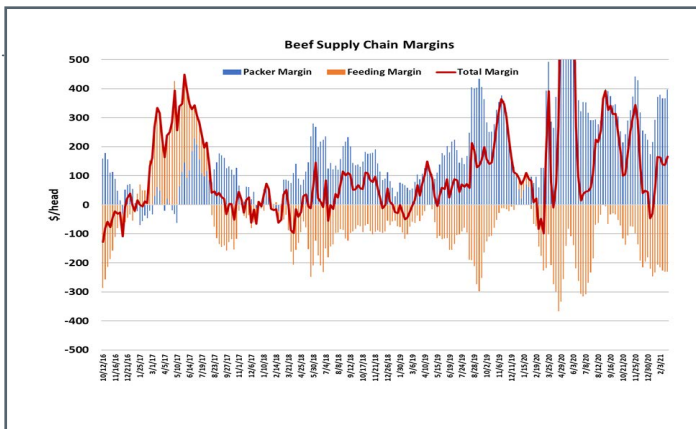
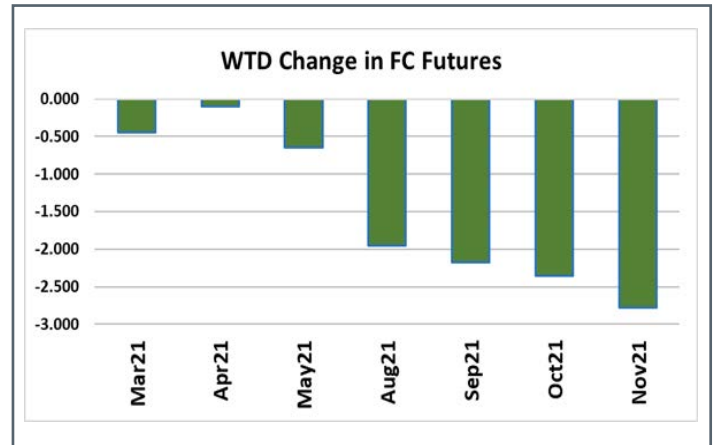
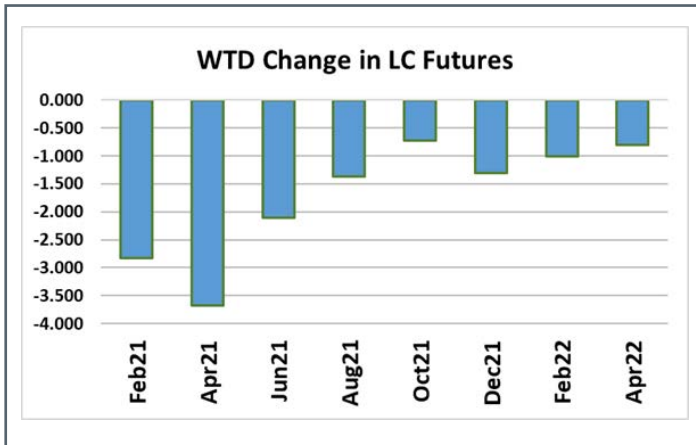


WEEK ENDING FEBRUARY 26, 2021

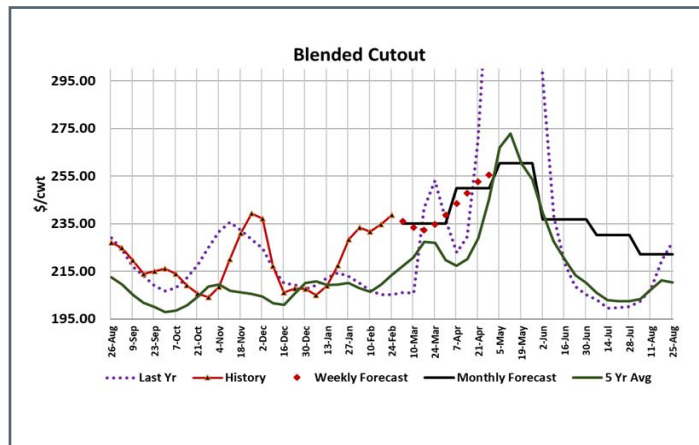
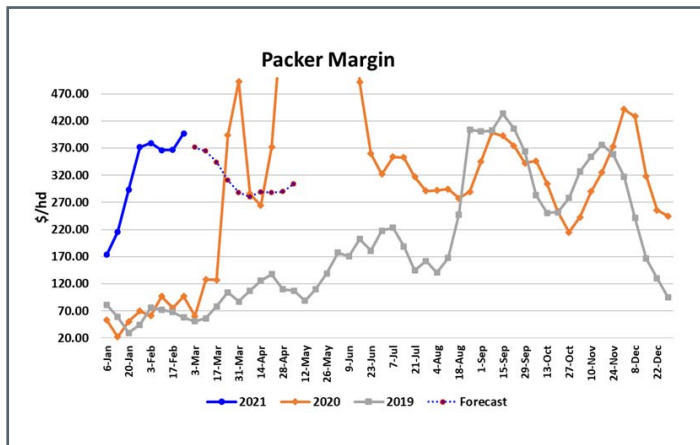
THE BEEF WRAP

The cash cattle market remained stagnant at mostly \$114 this week, although there were a few instances of \$114.50 paid. This is the third week in a row that prices were basically unchanged at \$114.00. The futures market is beginning to lose its patience and moved lower, including a big drop on Friday. No doubt that last week's frigid weather in cattle country and the plant disruptions it caused helped to keep the cash cattle market in check this week. Last week, packers killed about 60k head fewer than expected because of weather-related disruptions. However, packers were busy making up for it this week and the fed kill came in close to 530k, which is about 30k bigger than I would have normally expected in this last week of February. If they do another kill of that size next week, and I think there's a good chance they may, then that will effectively clear out the 60k head that were backed up due to the weather system. Perhaps then, cattle feeders will gain enough leverage to press the cattle market beyond \$114.00. Remember, the industry was able to clear 800k head of cattle that was backed up after the plant shutdowns last spring, but it took almost 7 months to accomplish. Next to that herculean task, clearing 60k looks like a small feat. Steer weights were reported steady at 919 lbs this week, but I am anxiously awaiting next week's weight data because that will be for cattle slaughtered during the deep freeze week. I think those weights could easily drop 7-10 lbs. If that comes to pass, it will go a long way toward restoring cattle feeder leverage. The deep freeze also limited beef availability to the rest of the supply chain, and that caused the cut-outs, which had started to decline before the weather event, to turn higher. For most of this week, the Choice cut-out traded at \$240.00 + change. Some retailers needed to scramble to replenish stocks this week and that supported the cut-out and, also caused the tiny U-shaped pattern on the combined margin chart below. That combined margin had been headed lower until Mother Nature intervened and moved it higher - once again. I think that most of the pipeline refilling should be complete by the middle of next week and that is when we could see some softening in beef prices. However, February is behind us now and March has almost arrived. That means spring grilling demand is just around the corner, and thus the soft spot in pricing might not last long.

My forecast has the cut-out easing slightly into mid-month, and then turning higher. Available cattle supplies are going to tighten considerably when April arrives and that is when the most significant price appreciation is likely to begin. It is quite possible that another, bigger, round of stimulus checks will be hitting consumer's mailboxes by the end of March. That, combined with the tightening of supply, could drive beef prices sharply higher. I'm making the assumption that COVID-19 infections will still be significant and there won't be much improvement in dining out or travel by then. If COVID-19 concerns drop faster than I anticipate and consumers return to activities they haven't been able to do for over a year, then I suspect there will be negative for beef demand and spring pricing might not get as high. In the current COVID-19 environment, consumers are treating themselves to high quality proteins for their stay-at-home meals because they have managed to save so much from not being able to travel or attend large gatherings over the past year. Once those activities become the norm again, they will draw heavily on consumer's disposable income and leave less available for protein rich at-home meals. You can see from the price-quantity scatter below that February 2021 will go down as the strongest demand February on record; way stronger than the 2018-20 years. We know this demand strength is coming from the domestic consumer and not the international consumer because the weekly export data has been a bit soft lately. The export business is not terrible, but just a little softer than what we've seen in recent months. However, China has been a bright spot in an otherwise dull export picture, with movement last week registering almost four times as large as US beef shipments to Canada. Let that sink in for a minute. China, which a year ago was taking an almost insignificant amount of US beef is now taking four times as much as one of our major trading partners. Considering that it is much cheaper to move US beef to Canada than it is to China, makes the accomplishment even more impressive. The Chinese influence on the beef market will be an important factor to watch in the next few years. Next week, watch for cut-outs to start to retreat by midweek as a sign that the weather-disrupted pipeline has refilled. Also, watch those carcass weights on Thursday for a big drop.



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