



WEEK ENDING MARCH 12, 2021

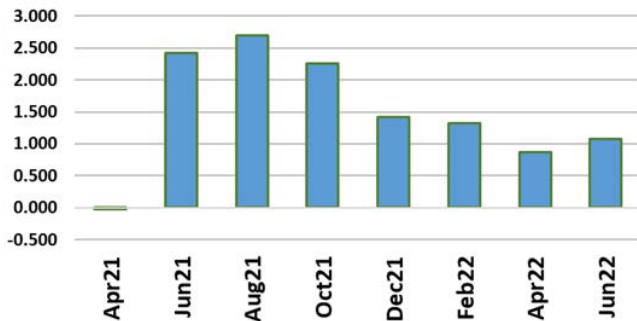
THE BEEF WRAP

Yet another week with the cash cattle market stuck at \$114.00. That's six weeks in a row for anyone who is counting. The cut-outs continued to fall this week, with the Choice down over \$6.00 and Select down close to \$3.00. Packer margins moved lower, now at "only" \$329/hd. The decline in the cut-outs is not unexpected, but there are some disagreements about how long the cut-outs will trend lower. Some think that Choice has risk back down to \$210-215, but I don't see it sliding much beyond \$220.00. I'd look for the cut-outs to bottom and turn higher before the end of March. The daily demand scatters have clearly indicated that beef demand is slipping lower, and we see the same thing in the combined margin chart below. This has not been a very steep drop in the combined margin, I think, this is an indication that demand is going to find its legs quicker this time around. Of course, being on the cusp of spring, is also a positive for beef demand. International demand for US beef is good, but not great. We got the January export numbers from USDA this week and it showed exports almost unchanged from a year ago, but down 40 million pounds from the December total. On the supply side, it looks like this week's fed kill will come in around 510k. This is a bit less than I had hoped for, but still strong enough to clear out a few more backlogged cattle from the February winter storm. Cattle feeders are anxiously watching the weather maps again because there is a big storm forecast to move into Colorado and W. Nebraska this weekend. It will dump a lot of snow in the Rockies, but fortunately there are not a lot of cattle up at those elevations. There might be enough snow to snarl operations at JBS's plant in Greeley on Monday, but other than that, it doesn't look to me like this weather system is going to be anywhere near as bad as the mid-February weather event. As the system moves eastward, it will drop rain rather than snow and that could make feedyards in Nebraska and Iowa more muddy than they already are. Cattle performance could take a modest hit. Speaking of cattle performance, USDA reported steer carcass weights down another 10 pounds this week. That comes on the heels of a 10 pound drop the previous week and highlights just how detrimental the February weather event was to cattle weight gains. Steer weights are now one pound below last year. Finally, it appears as though carcass weights have normalized almost one year after the pandemic broke onto the scene and roiled the livestock markets.

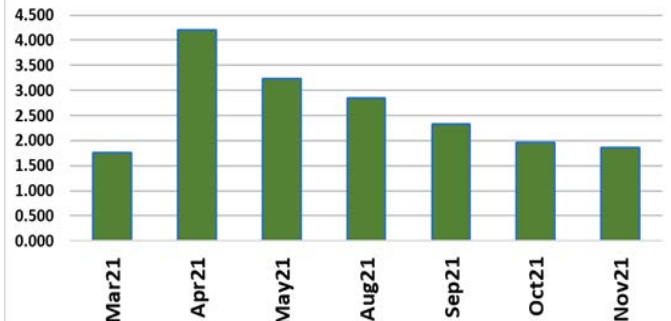
That should greatly help to move the leverage meter back in the cattle feeder's favor, and makes me pretty confident that the next move in the cash market will be higher. It is just a matter of when that will happen. Futures traders appear to be ready to acknowledge that the rally in cash cattle and beef prices might take a little longer to get going than originally envisioned. This was evidenced by a significant reduction in the spread between the April and June contracts. In fact, by the end of the week that spread had moved almost \$2.50 lower and as of the close of Friday, the June contract was carrying a \$1.42 premium to the April. It is a very unusual occurrence for June to trade over April. My fundamental work suggests that the highest cattle and beef prices are likely to occur in May. I also think that the longer it takes to get the cash market rally going, the smaller the rally will be. Packers can see the hole in cattle supplies coming just like the rest of us. It has been well advertised and they have had plenty of time to prepare for it. Markets normally run faster and further when there is an element of surprise involved. Recall the old trader adage, "well anticipated markets never happen." Now, I'm not ready to say that the spring rally won't happen, but it is so well anticipated, that packers will use a number of techniques (like trying to increase the number of contracted cattle) to mitigate the financial impact on their operations. Obviously, when packers are caught by surprise, they don't have those techniques in place. Thus, prices run higher and faster than they would otherwise. The longer cash stays stuck here at \$114.00, the less bullish cattle become. Theoretically, the same thing could happen in the beef market. If buyers have been anticipating a tight supply situation for spring, they will take actions to try and reduce the impact on their operations (ie, forward pricing, building freezer stocks, etc). In general, it seems that packers are much better in tune with these upcoming events than beef buyers are. We could end up with a situation this spring where the beef market soars, and the cattle market gains are unimpressive. That would be a windfall for packers, but by now, they have grown accustomed to huge margins. Next week, watch the progression of the winter storm, particularly snow accumulations in Nebraska and Western Colorado. If the storm is broader than advertised, it might work to reduce carcass weights further. Watch for downtime from the Greeley plant also.



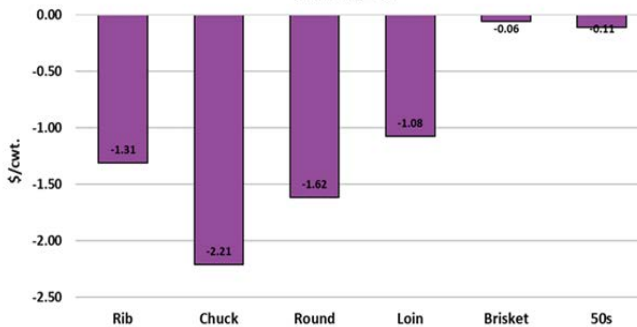
WTD Change in LC Futures



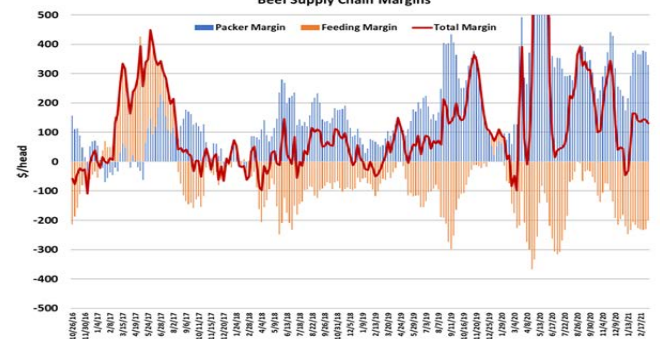
WTD Change in FC Futures



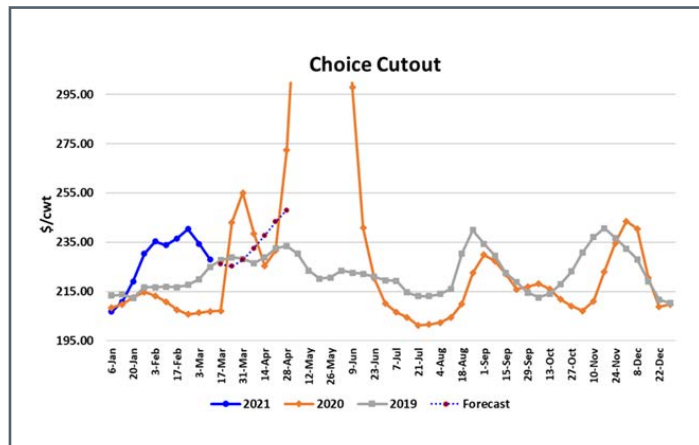
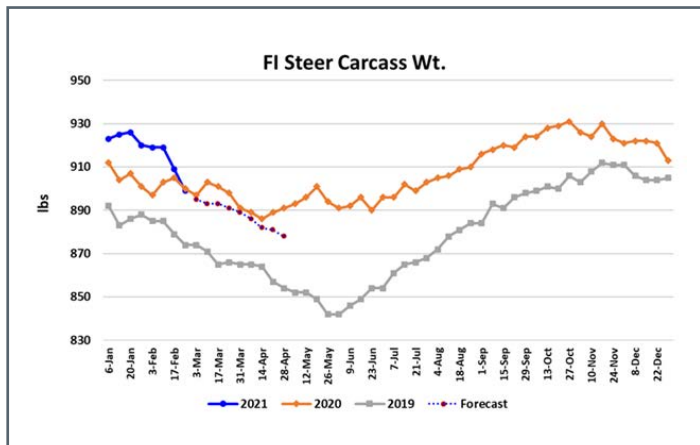
Weekly Avg Primal Impact on Choice Cutout from W/E Mar 5, 2021 to W/E Mar 12, 2021
Cutout Chg = -6.4



Beef Supply Chain Margins



While the information contained in this report has been obtained from sources believed to be reliable, J.S. Ferraro disclaims all warranties as to the accuracy, completeness or adequacy of such information. The information is not a recommendation to trade nor investment research. User assumes sole responsibility for the use it makes of this information to achieve his/her intended results. No part of this material may be copied, photocopied or duplicated in any form by any means or redistributed without the prior written consent of J.S. Ferraro.



DR. ROB MURPHY BS, MS, PhD Agri Economics,
Executive Vice President, Research & Analysis,
J.S. Ferraro

E: Rob.Murphy@jsferraro.com [in](#) [tw](#)

Dr. Rob Murphy is an agricultural economist and business leader with over 29 years in the industry. He has a wealth of experience in the North American meat and livestock industries studying, analyzing and predicting market movements.

SUBSCRIBE NOW for market intelligence