



WEEK ENDING APRIL 02, 2021

THE BEEF WRAP

Last week, the cash cattle market traded near \$116 and this week's average looks like it will be closer to \$118. There were even a few trades noted north of \$120, but those were probably special case cattle. Nonetheless, the message is clear: the cattle market is on the move higher. Packers seem to be OK with this since the beef cutouts are now moving upward faster than cash cattle. On a weekly average basis, the Choice cutout gained over \$12 and the Select was up a whopping \$14. To say that those gains are eye-popping is an understatement and it feels like it is just getting started. Just last week I was talking about Choice cutout that tops around \$260 this spring. Well, as of this afternoon the Choice cutout is only \$7 away from that target and April is only just starting! Clearly, that forecast needed to be raised.

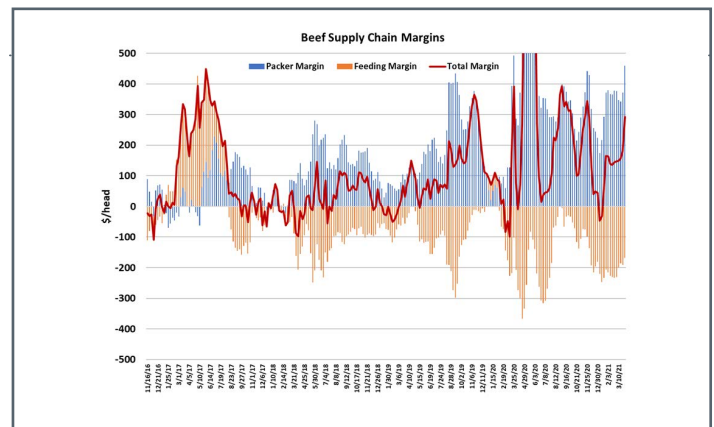
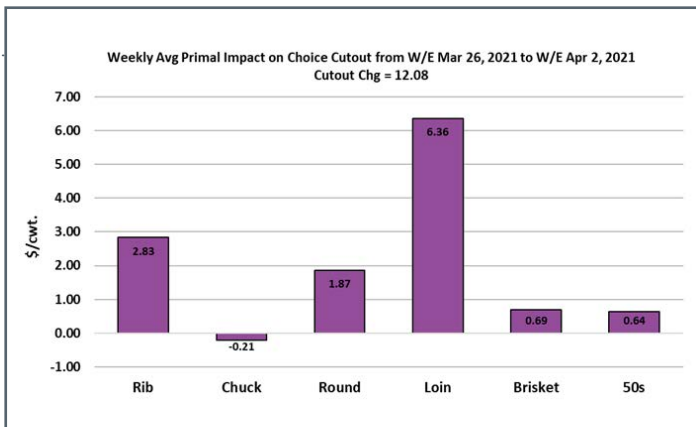
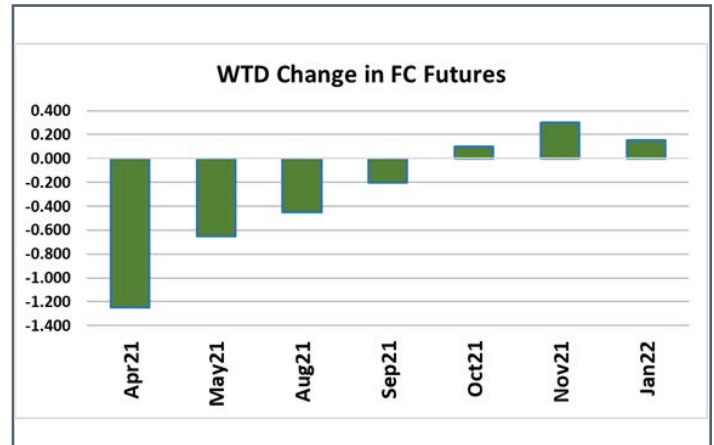
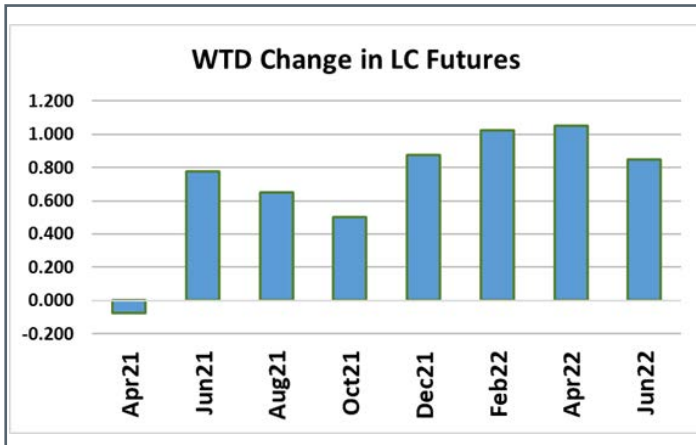
I've now got the top in the Choice coming closer to \$280 and I'm worried that might still be too low. The chart below shows that the middle meats were the biggest contributors to the cutout's gains this week, but the round also made a significant contribution. Fat trim is also adding to the rally, with 50s gaining \$14 from Friday to Friday. The fact that the middle meats led the rally is indicative that buying for the spring grilling season is getting underway. In fact, with pork so expensive lately, many of the retail ads featured beef ribs as an Easter item this week.

That means there could be some fill-in business on the ribs early next week that will move that primal even higher. In all, it just looks really bullish from the beef side. The end meats probably won't be able to keep pace with the middles as the spring rally lengthens, but it is worth noting that the briskets were up almost \$35 in the last five days. Wow, scorching hot! This is a huge demand surge on top of what was already a strong beef market and that can be seen in the combined margin chart below which has gone parabolic recently. This big demand boost has naturally been great for packer margins, which clocked in this week at \$460/hd. Now, here is the real scary part: If my cutout target of \$280 comes to pass, I can keep packer margins at or above \$400/hd and still have cash cattle prices top in the mid \$130s.

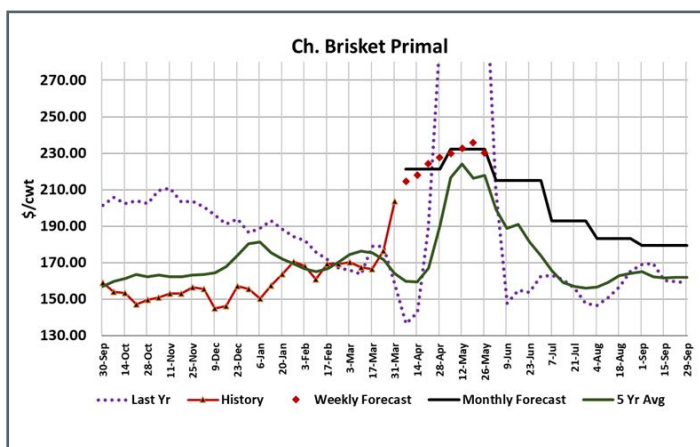
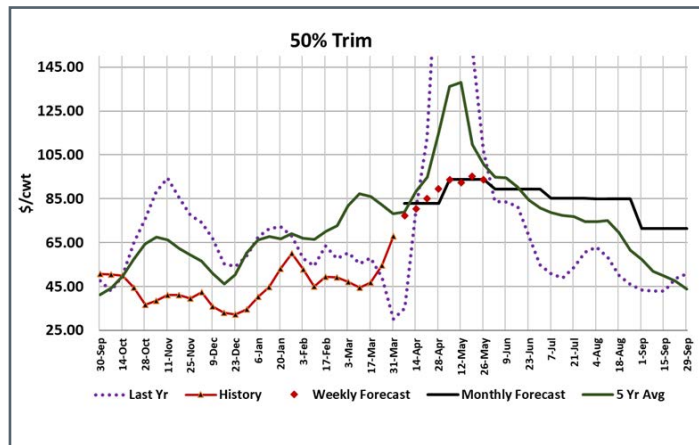
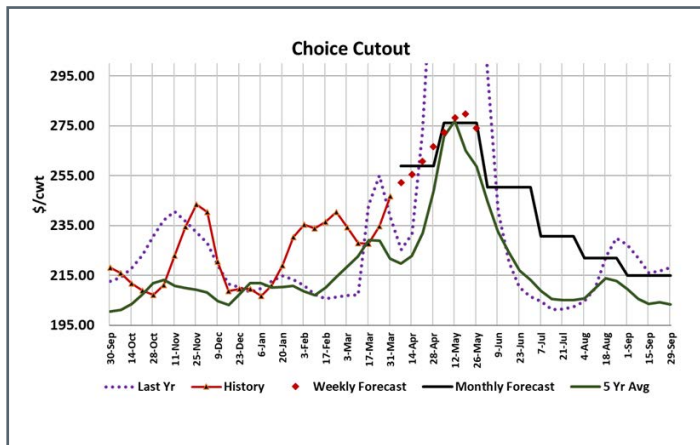
Is it possible that cattle feeders could push the cash market that high in just a couple of months? Yes, definitely. That is because we know from past placement patterns that available cattle supplies are going to tighten in Apr/May and that will give cattle feeders the leverage to move cattle prices upward in big chunks. And packers won't even care very much because they could still have margins over \$400/hd.

It has been so long since feeders have had any leverage at all that I would expect they will try to make the most of any that they will gain this spring. Now some will say that retailers won't pay a \$280 cutout, but they really have no where else to turn. Pork is super expensive and chicken is pricey as well. Besides who wants chicken for spring grilling? Beef is so much better and consumers can't really travel or dine out, so they will spend money for quality beef. Further, with foodservice starting to re-open more fully, retailers will need to fight to retain market share and the only way they can do that is with attractive features. Chicken doesn't fall into the "attractive feature" category. Because retail prices lag the wholesale market by a couple of months, it will be a while before consumers actually have to face the stiff price increases that the wholesale market put forth recently. Consumers will thus be thrilled at the retail prices they are seeing and beef will go in the shopping cart at a strong rate.

This week's fed kill came in at about 480k, down 26k from the week before and likely influenced by the Good Friday and Easter holidays. That means a little less beef next week for buyers to compete for. The kill may expand a bit next week, but I will be surprised if the fed kill does any better than 500k per week between now and Memorial Day. Carcass weights got back on their downward trajectory this week and should continue to work lower until mid-May or so. I fully expect that with the cutouts moving higher so quickly that packers will try to pull hard on the available cattle supply and that will keep downward pressure on carcass weights. I have been warning beef buyers about the potential for a red hot spring market for months now. Now, let the chips fall where they may.



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