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### WEEK ENDING APRIL 23, 2021

# THE BEEF WRAP

The cash cattle market felt soft again this week, but the weekly average cash price for the live trade was only down about $0.70 to $121.36. Part of the reason that it felt soft was that there were some cattle feeders that accepted prices below $120, although the average suggests there weren't too many of those. The dressed trade was decidedly lower, down over $3 from the week before to $192.11. The beef markets were stronger yet again, with the Choice cutout adding almost $7 on a weekly average basis and the Select cutout up almost $4. When the beef goes up and cattle prices go down, that is a sure sign the packer margin is growing larger.

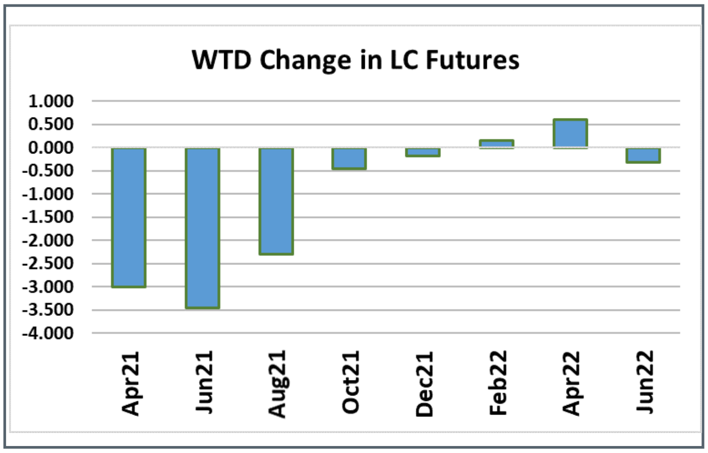
My calculation has packer margins this week at $606/head. The drop in cattle prices has cattle feeding margins now in the red by about $140/hd. Such inequity in this market. I had hoped that as beef prices rose this spring, packer margins would hold around $300/head and that would allow cash cattle to participate in that rally, but apparently the social distancing in plants has reduced throughput enough to where packers don't have to compete very hard to fill their kill schedules. Carcass weights are the one fundamental factor that have been looking bearish lately. I'm really concerned that they might not decline much more from current levels and thus start their seasonal increase from a much higher point than normal. That would be decidedly negative for cattle feeders and decidedly positive for packers. With corn futures now at $6.50/bu, one would hope that cattle feeders would cool down the rations and not put a lot of extra weight on the cattle. So far that doesn't seem to be happening.

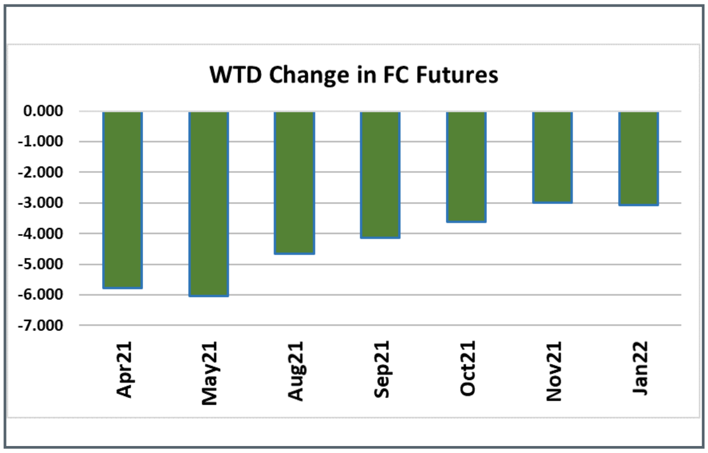
Packers were skillful at anticipating the spring cattle tightness created by limited Q4 placements and they forward booked a lot of cattle for Apr/May delivery. Packers are also pretty skillful at the art of jacking up beef prices in periods of strong demand by forward selling just enough that the spot market stays tight for beef and that runs negotiated beef prices higher and all of the formulas that are based on those negotiated prices also pay up. Packers want to take full advantage of their margin improvement and they did that this week by putting together a huge Saturday kill. The weekly total on steer and heifer slaughter looks like it will be close to 525k–about 30k more than what our flow model suggests should be available right now.

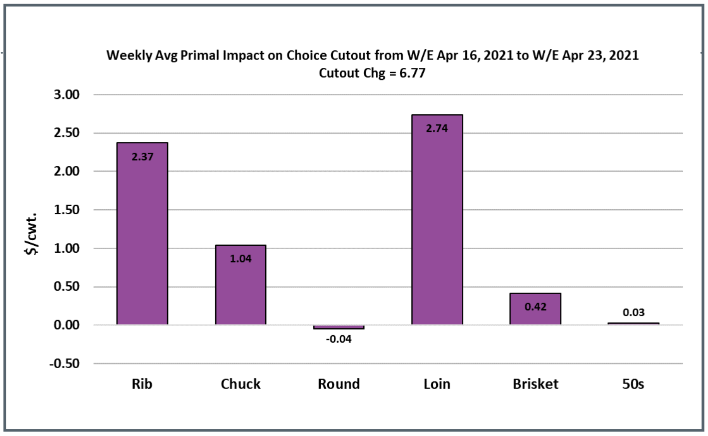
Doing a kill that big before May even arrives creates some risk that it will compress packer margins by lowering the cutouts next week while making feedyards more current and increasing the odds of a cash cattle advance next week. My guess is that demand is so strong that the extra beef will be easily gobbled up by the market, at least on the Choice side, and the cutouts will continue higher next week. The Choice is now only $6 below my (revised) spring top target of $290 and I fear that forecast will need to be raised to $300 soon. The combined margin just keeps working higher and is now higher than the spring 2017 market, which was very strong.

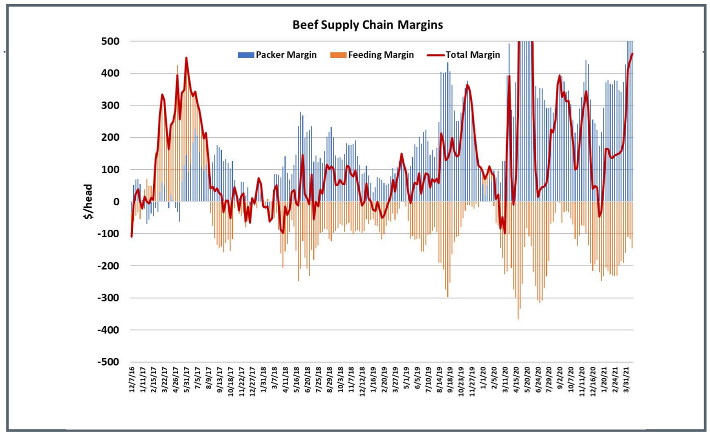
This is going to end up being the strongest demand cycle in the last five years outside of the COVID spike from last year. Pork demand has continued very strong also. Retailers have no cheap options for features this spring. My guess is they have already set their ads for May and beef plays a big role in those. They may have to increase their feature prices to help keep their margins from getting crushed too much, but I really don't think consumers will bat an eye at higher prices.

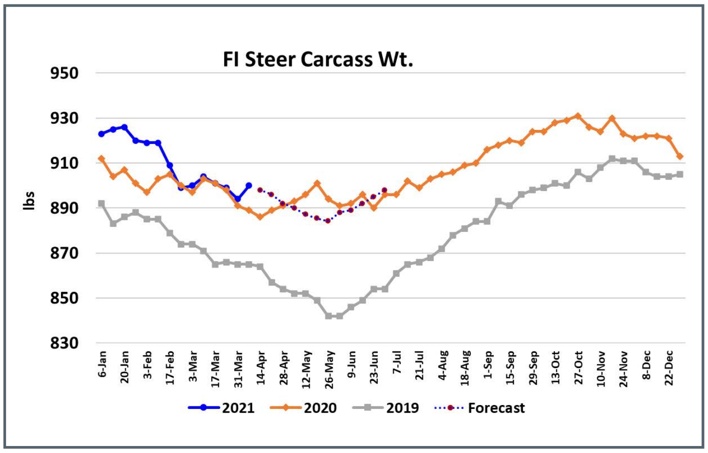
I've said before, there is something very unusual going on in the demand for animal proteins. This does not seem to me to be a normal 6-8 week cycling demand. Demand is very, very strong and will likely stay that way for at least a couple more months and possibly for many more months. Buyers need to adjust and be prepared to pay a lot more than they are used to for red meat items this spring and summer. Adding fuel to the fire, today's Cattle on Feed report showed feedyard placements more than 5% below what analysts were expecting. This week I raised all of my packer margin forecasts in light of recent developments and that, of course, lowered my cash cattle price forecasts. Next week watch those carcass weights and the DTDS for some signs that cattle feeders are seeing improved currentness. Also watch the cutouts as demand gets tested by this week's much bigger beef production.

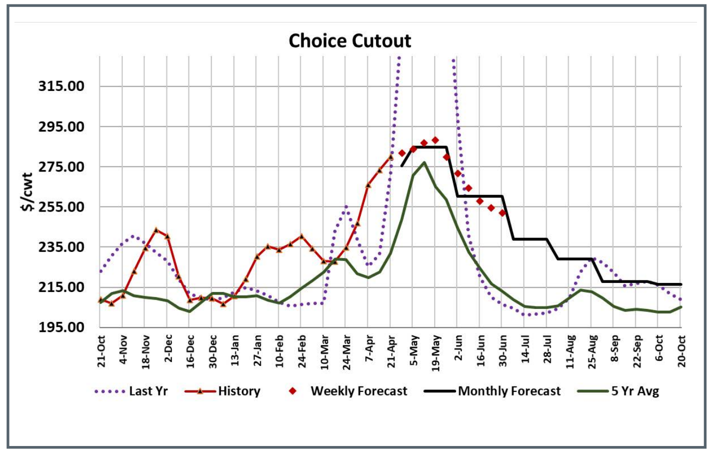

WTD Change in LC Futures
1.000
0.500
0.000
-0.500
-1.000
-1.500
-2.000
-2.500
-3.000
-3.500
-4.000
Apr21
Jun21
Aug21
Oct21
Dec21
Feb22
Apr22
Jun22

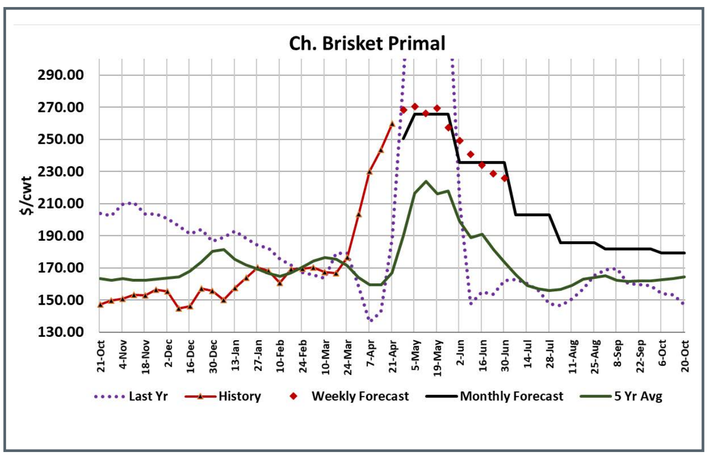

WTD Change in FC Futures
0.000
-1.000
-2.000
-3.000
-4.000
-5.000
-6.000
-7.000
Apr21
May21
Aug21
Sep21
Oct21
Nov21
Jan22

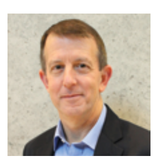

Weekly Avg Primal Impact on Choice Cutout from W/E Apr 16, 2021 to W/E Apr 23, 2021
Cutout Chg = 6.77
$/cwt.
3.00
2.50
2.00
1.50
1.00
0.50
0.00
-0.50
2.37
1.04
-0.04
2.74
0.42
0.03
Rib
Chuck
Round
Loin
Brisket
50s


Beef Supply Chain Margins
Packer Margin
Feeding Margin
Total Margin
$/head
500
400
300
200
100
0
-100
-200
-300
-400
-500



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*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.*

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