



WEEK ENDING APRIL 09, 2021

THE BEEF WRAP

The cash cattle market moved sharply higher this week, with average prices near \$122, up nearly \$4 from the week before. There were even reports of some trade at \$123. So, how does a market go from being stuck at \$114 for seven weeks to jumping \$8 in the last three weeks? You can thank the astounding rise in beef prices for that.

The Choice cutout gained over \$19 this week and the Select added over \$17. It is true that beef availability was curtailed a bit last week due to light kills around Easter, but the primary culprit of the sharp rise in beef prices has been domestic demand. Last week, I said that I had pushed my forecast for the spring top in the Choice cutout to \$275, but we almost made it there this week. The Choice closed today at \$272.17. Needless to say, I had to raise my forecasts again. I am now looking for a top north of \$290 and if I had to guess I'd say its more likely that the top is higher than that rather than lower. The Apr futures got out ahead of the increase in cash cattle and cattle feeders hit the longs with a large number of delivery certificates, but that didn't phase Apr in the least—it just kept moving higher. Clearly some cattle feeders were being too pessimistic. They probably won't make that mistake next week.

This week's fed kill looks like it will be in the neighborhood of 508k, almost 30k more than last week's holiday-tempered kill. I estimate that 508k was at least 20k more than what the available cattle supply would support and so packers are now pulling harder on the available supply. Given that their margin clocked in at \$553/head this week, it is easy to see why they want to kill as many as they can get their hands on. But they now have a problem—the very light feedyard placements from last fall. Supplies are tightening right at the time when demand is surging.

Packers will continue to try to pull cattle forward, but they will have to pay up to make that happen. If there were any lingering backlogged cattle from the February cold snap, they are probably gone now. Carcass weights also suggest a strong pull on the cattle supply. The comprehensive report showed a 10 pound drop in carcass weights last week, and that was a short kill week. That drop will show up in the FI carcass weights next Thursday. Cattle feeder leverage should be increasing by the day. It has been a really long time since we saw a \$4 one-week jump in the cattle market and I guess many observers thought that it would never happen again. But, under the right circumstances, and we have those now, cash cattle prices can move higher in big chunks.

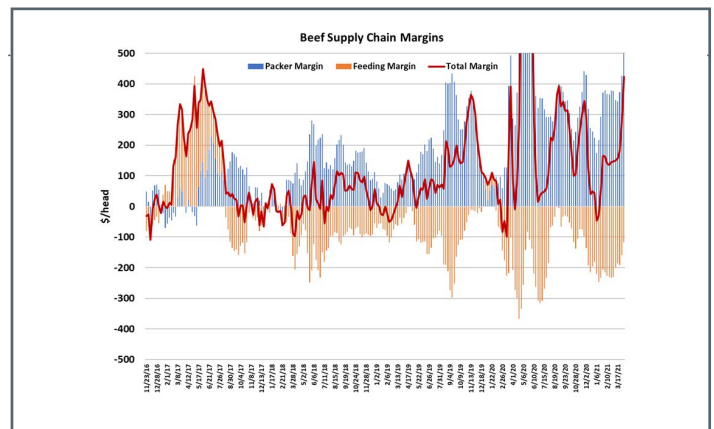
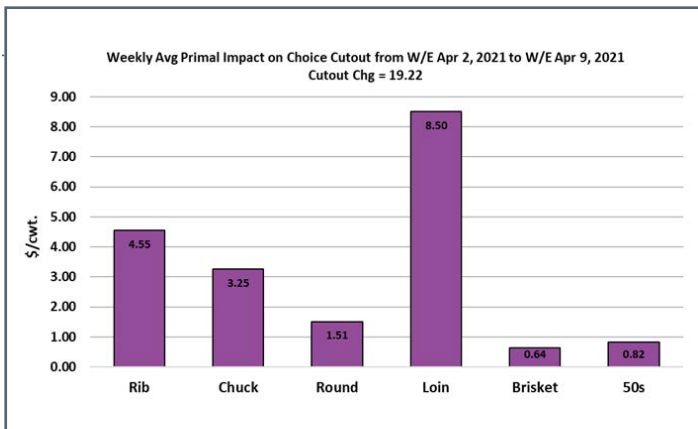
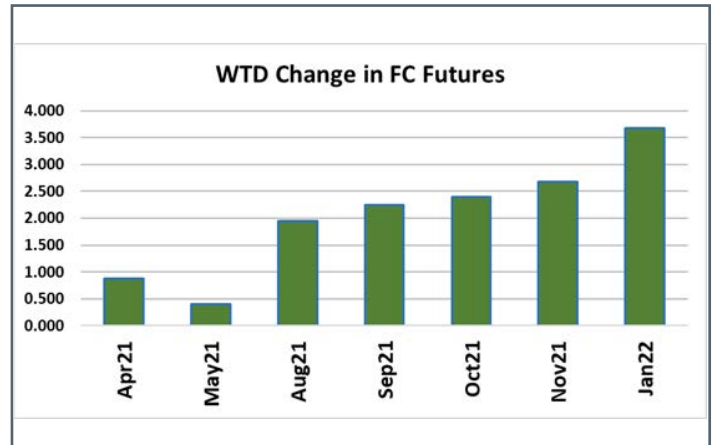
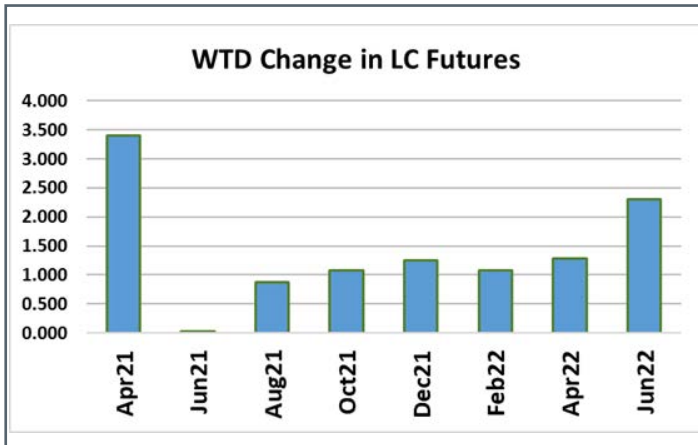
I think it is very likely that cash cattle move over \$130 in May and perhaps even over \$135. Think about this: the packer breakeven, which is the price they could afford to pay for cattle and just barely breakeven with today's cutouts is \$162.50. If cash cattle went straight to \$135 next week they would still have almost \$30/cwt profit (\$420/head) in every animal they kill. All of this is being driven by phenomenal demand.

I've talked about how the current demand environment reminded me of the Atkins Diet craze in the early 2000s. I am taking that explanation more seriously now. Something powerful is going on in the demand side of all the animal proteins. It's not exports. Look at what has happened in pork. The cutout there has been over \$90 for six weeks and is still moving higher (\$113 today). That is not normal. I think whatever got into pork is now into beef. Does anyone really think that the beef cutouts are going to turn around next week and lose the \$20 they put on this week? No, of course not. It hasn't played out that way in pork and is unlikely to play out like that in beef. More likely, beef keeps grinding higher for weeks on end.

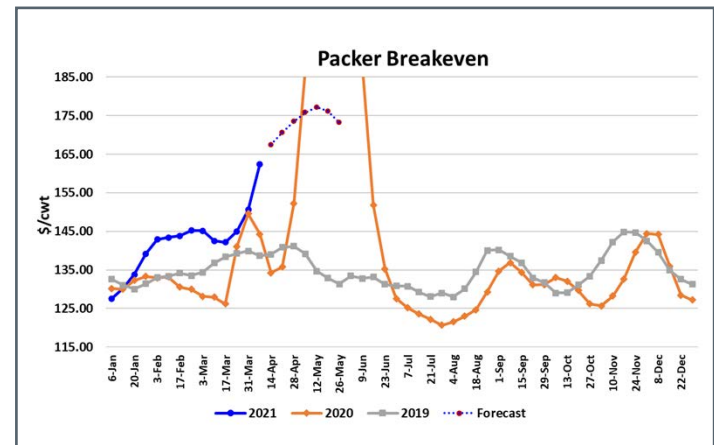
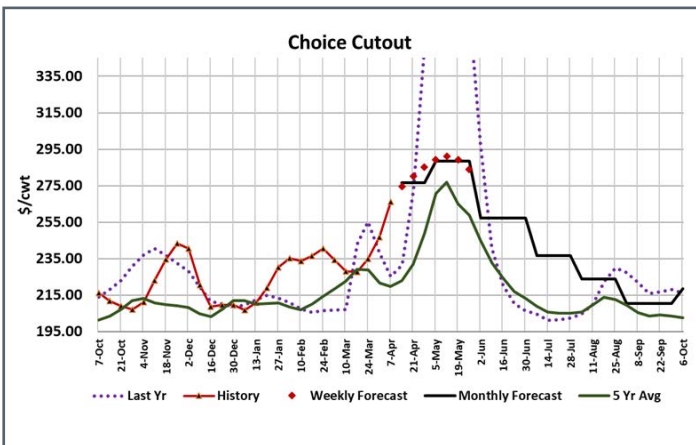
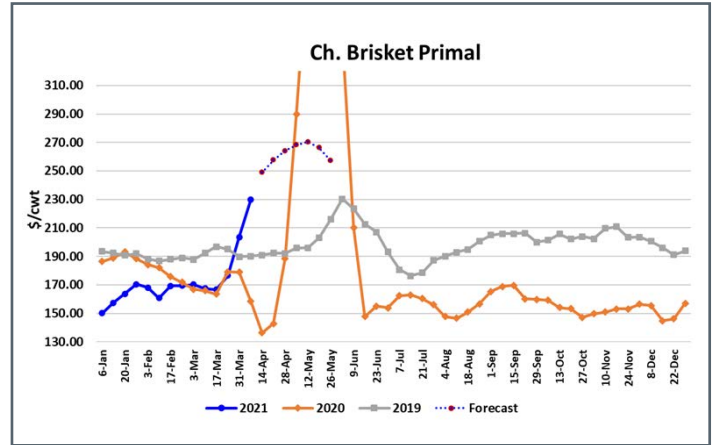
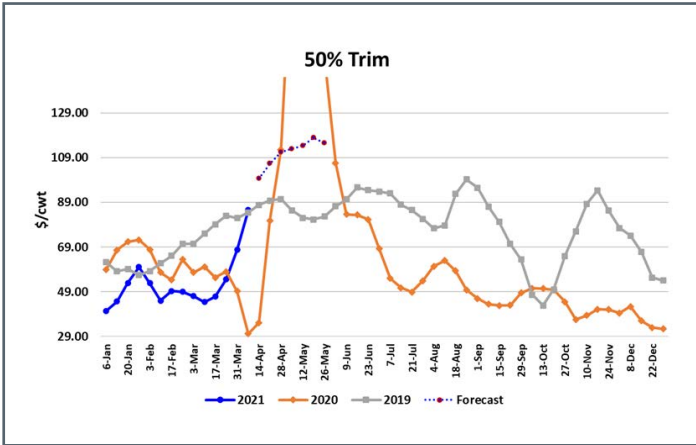
Retailers are notoriously slow in raising retail meat prices so the consumer is not seeing retail prices that equate to a \$270 Choice cutout. Retail pricing is probably more in line with a \$230 cutout. As a result, consumers will continue to snap up the beef until retailers can raise the prices that consumers face to a level that is more reflective of the current cutouts. When consumers snap up beef rapidly, that sends the poor retailer back into the wholesale market to restock, further driving up the cutout.

Another serious positive for beef demand is the calendar. This is the time of year when warming weather boosts grilling demand. That is just barely getting started now, but will accelerate from now until the end of May. So, clearly I am now wildly bullish. How could one not be? I think pork holds the blueprint for beef. Look at what has happened there. The price of hogs has not remained stagnant, but rather has increased right alongside the cutout until now they are over \$100. It doesn't make sense to expect cattle to remain stagnant while the beef cutouts move higher, especially given that placements last fall were so light. Next week, watch the cutouts. If they work even higher, that is an ominous sign that this rally is just getting started.

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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.

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