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WEEK ENDING APRIL 30, 2021

THE BEEF WRAP

Cash cattle averaged close to $119 this week, down about $2 from last week's average. The cutouts were headed in the other direction, with the Choice gaining $11.60 on a weekly average basis and the Select up $7.68. At the end of the week, the Choice cutout was approaching $297 and yes, I had to revise all of the beef price forecasts upward once again. The scary thing for beef buyers is that the calendar is now rolling into May, which is when the really strong beef demand normally appears.

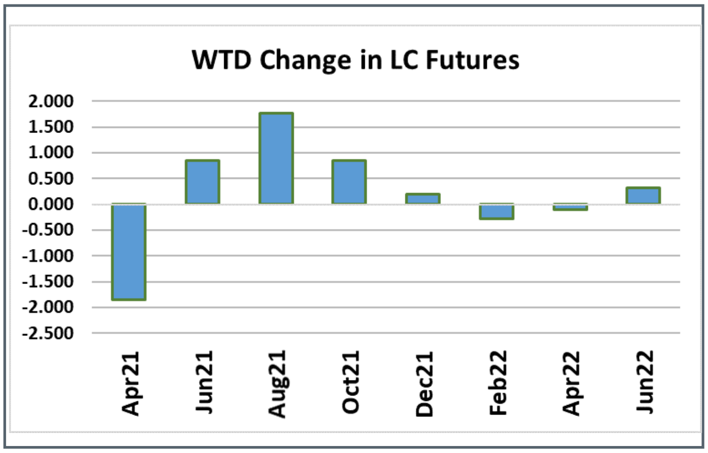
I calculate this week's packer margins were close to $735/head and am forecasting next week's margins near $800/head. It is really good to be a beef packer these days. One interesting aspect of this rally in the beef market is that the end meats are moving higher at a time of year when they are normally shunned by consumers. I think that fits with the idea that renewed consumer interest in high protein diets is helping to fuel this incredible spate of demand strength. Consumers following high protein diets will often deviate from the normal seasonal consumption patterns, simply because they are consuming so much protein that variety is desirable. The 50s were the only item that didn't contribute strength to the cutout, but by the end of the week 50s prices were starting to move higher once again. 90s have been on a solid upward trajectory for months. With the muscle cuts getting so expensive, I would look for retailers to start putting more grinds in their ads over the next couple of months and that should keep the trim markets relatively firm. The recent weakness in the 50s may be tied to carcass weights not declining in normal seasonal fashion this spring.

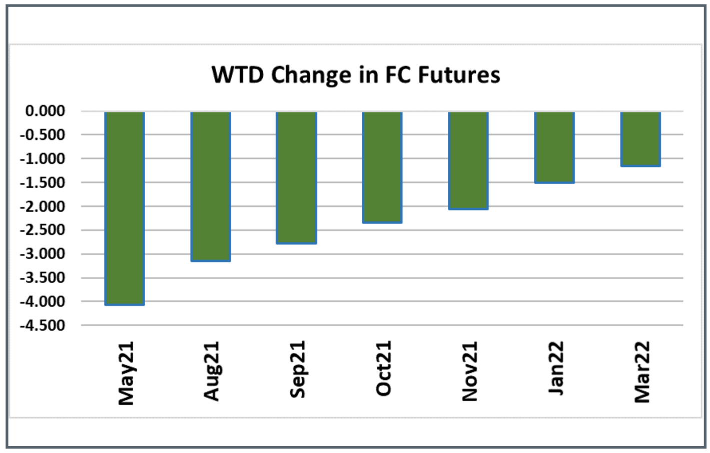
This week, USDA reported steer carcass weights down 2 pounds, but heifer carcass weights up 8 pounds. That means the blended carcass weight moved higher–something that is not normal at this time of year. The YOY chart below shows that blended weights appear to following last year's abnormal weight pattern rather than declining rapidly toward a bottom in mid-May. To me, that is somewhat confounding because nearby corn futures closed the week at $7.40/bu and one would think that high corn prices would prompt cattle feeders to tone down the energy component in rations somewhat and that would be reflected in weights. That is not the only unusual thing that cattle feeders are doing in this period of high corn prices. They are also placing a high value on lighter weight feeder cattle.

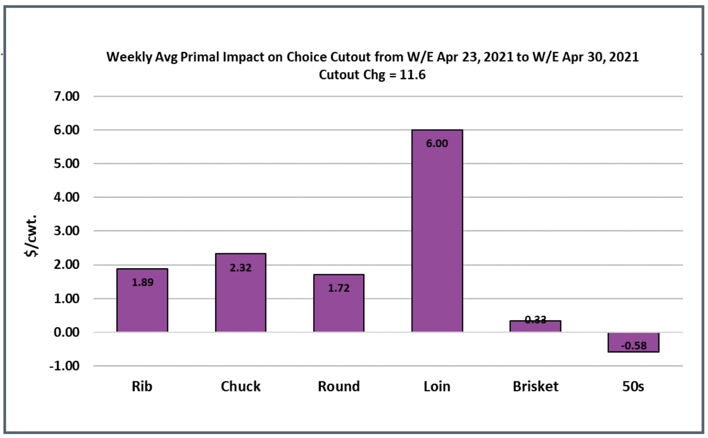
Data from feeder cattle auctions over the past few weeks shows that the price spread between light and heavy weight feeder cattle is hovering near traditional levels. In times of high corn prices, it makes financial sense for cattle feeders to shun the light weight feeders and increase their demand for heavy weight cattle, which require less corn to reach market weight. So, there are a lot of things going on in the feedlot sector right now that don't seem to make a whole lot of sense.

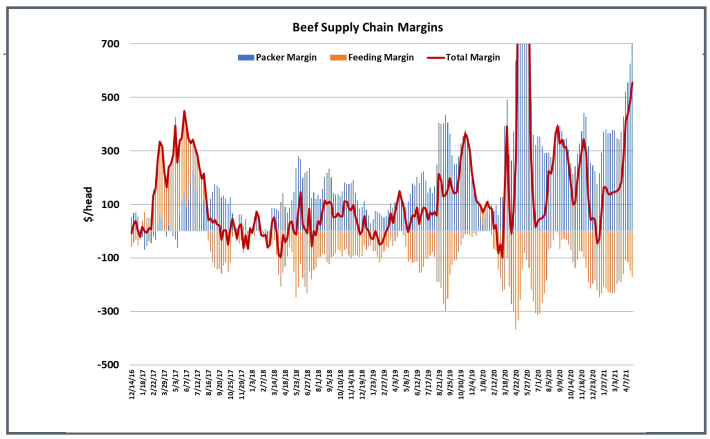
This week's fed kill registered 509k, down sharply from last week's total. It was still a little more than the flow model suggests should be ready for slaughter at this time. We know that packers can slaughter at least 525k of steers and heifers, because they have achieved that level several times during the pandemic. So, why didn't packers attempt to reproduce last week's 523k fed kill this week when margins were well over $700/head? One would think that with margins that strong, they would be trying to push every animal they could through the plant this week. It is not like the extra production is going to dampen the cutouts much, given they way they have been roaring higher. More cattle will become available during June, but the market has to make it through May first. I don't see any reason why the cutouts should soften much over the next few weeks, but can see several reasons why they should be stronger.

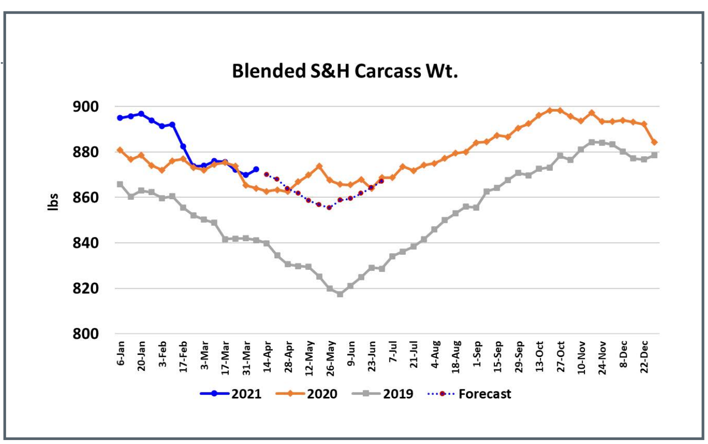
We are right in the midst of the explosive spring beef markets that I have been warning about for months. Further, I suspect that beef prices might come down some in June as kills expand, but they are not likely to plummet and so beef buyers might find themselves paying stronger-than-normal prices for a long time to come. Export demand may soon come under pressure as many importing countries such as Mexico, won't be able to afford as much US beef at these price levels. We saw a modest decline in export movement in this week's data. The futures market prices cattle and not beef, so it has not rocketed higher as this spring market unfolded. With the way that beef and cattle prices often become disconnected by fat packer margins, it becomes very difficult to hedge beef prices using cattle futures. The CME should rectify this problem by introducing beef cutout futures similar to the pork cutout futures that were introduced late last year and have been very successful. Next week watch for the cutouts to move even higher and the middle meats to take over more leadership in those gains.

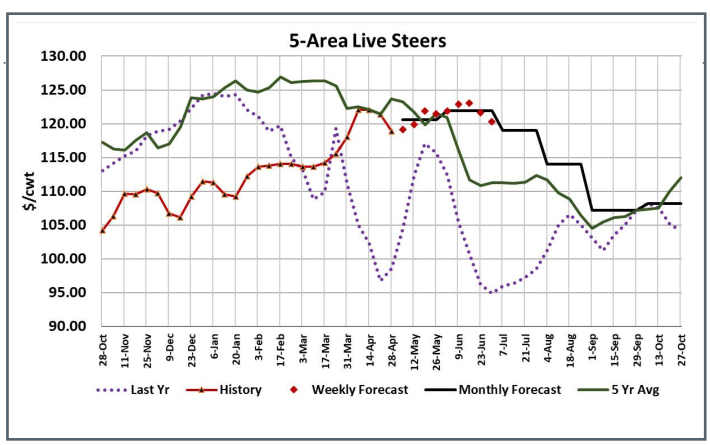

WTD Change in LC Futures
2.000
1.500
1.000
0.500
0.000
-0.500
-1.000
-1.500
-2.000
-2.500
Apr21
Jun21
Aug21
Oct21
Dec21
Feb22
Apr22
Jun22

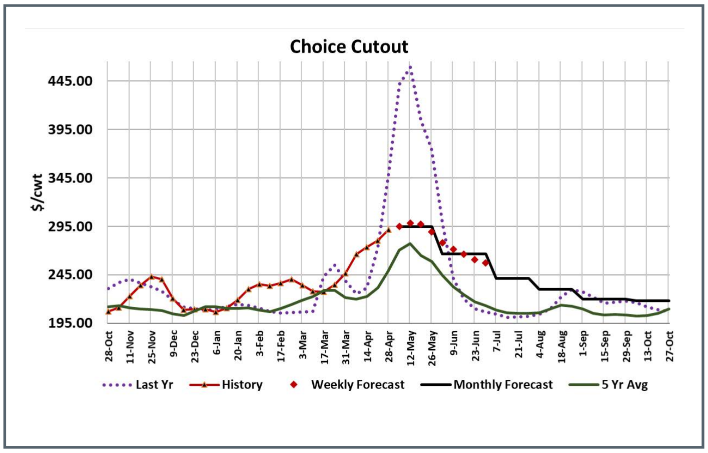

WTD Change in FC Futures
0.000
-0.500
-1.000
-1.500
-2.000
-2.500
-3.000
-3.500
-4.000
-4.500
May21
Aug21
Sep21
Oct21
Nov21
Jan22
Mar22

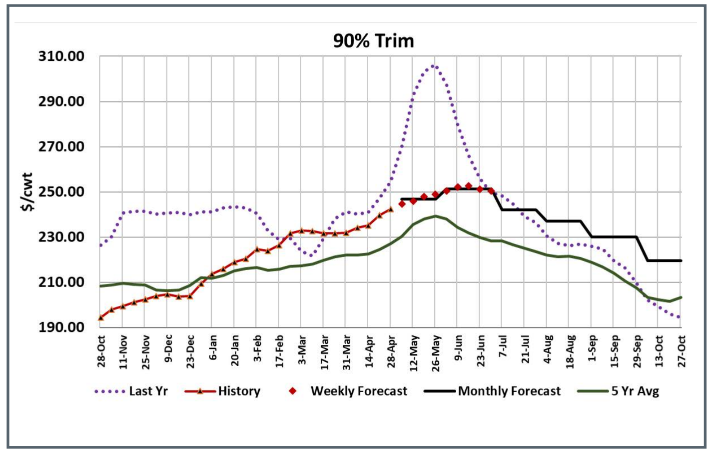

Weekly Avg Primal Impact on Choice Cutout from W/E Apr 23, 2021 to W/E Apr 30, 2021
Cutout Chg = 11.6
$/cwt.
7.00
6.00
5.00
4.00
3.00
2.00
1.00
0.00
-1.00
1.89
2.32
1.72
6.00
0.33
-0.58
Rib
Chuck
Round
Loin
Brisket
50s

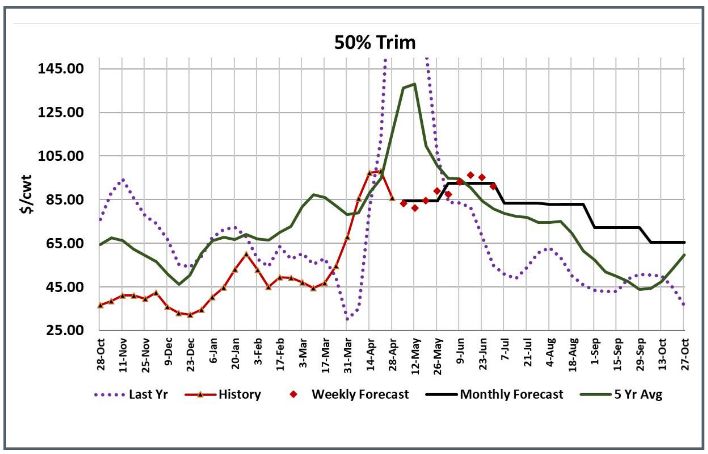

Beef Supply Chain Margins
Packer Margin
Feeding Margin
Total Margin
$/head
700
500
300
100
-100
-300
-500


Blended S&H Carcass Wt.
lbs
900
880
860
840
820
800
6-Jan
20-Jan
3-Feb
17-Feb
3-Mar
17-Mar
31-Mar
14-Apr
28-Apr
12-May
26-May
9-Jun
23-Jun
7-Jul
21-Jul
4-Aug
18-Aug
1-Sep
15-Sep
29-Sep
13-Oct
27-Oct
10-Nov
24-Nov
8-Dec
22-Dec
2021
2020
2019
Forecast


5-Area Live Steers
$/cwt
130.00
125.00
120.00
115.00
110.00
105.00
100.00
95.00
90.00
28-Oct
11-Nov
25-Nov
9-Dec
23-Dec
6-Jan
20-Jan
3-Feb
17-Feb
3-Mar
17-Mar
31-Mar
14-Apr
28-Apr
12-May
26-May
9-Jun
23-Jun
7-Jul
21-Jul
4-Aug
18-Aug
1-Sep
15-Sep
29-Sep
13-Oct
27-Oct
Last Yr
History
Weekly Forecast
Monthly Forecast
5 Yr Avg







DR. ROB MURPHY BS, MS, PhD Agri Economics,
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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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