J.S. FERRARO

jsferraro.com | 416.306.8788
130 Adelaide Street West, Suite 810 Toronto, Ontario M5H 3P5

WEEK ENDING MAY 07, 2021

# THE BEEF WRAP

Cash cattle traded in the $117-119 range this week, with the average coming in at $118.35–about $0.50 below last week. The beef markets kept screaming higher, with the Choice cutout gaining $11.70 and the Select up $7.56. Those increases were bigger than what I had dialed in and therefore some upward forecast revision was necessary. I now have the Choice cutout topping around $314 in a couple of weeks. My guess is that if I'm wrong, I may be too low on that because these next two weeks in the middle of May are typically the best demand weeks of the year.

Consumers want to get outside and grill and supermarkets cannot afford to be out-of-stock on beef. That means that they will pay whatever it takes to keep the meat case full. Restaurants also do a brisk business at the end of May, with graduations featuring prominently. That will keep restaurants in the mix bidding for beef and thus it makes sense to me that the market continues to move higher. However, by the time the third week in May is complete, it will be too late to get product into grocery stores for Memorial Day features and so demand from that channel could fade a bit and allow the cutout to pull back some. I don't think it will be a huge collapse in the beef market because Father's Day is just around the corner also and if Memorial Day clearance is good, retailers will need to reload for ahead of Father's Day weekend. So, it is possible that we could see a sub-$300 Choice cutout again by the middle of June, but it might not be much below $300 and would still be a very robust pricing environment.

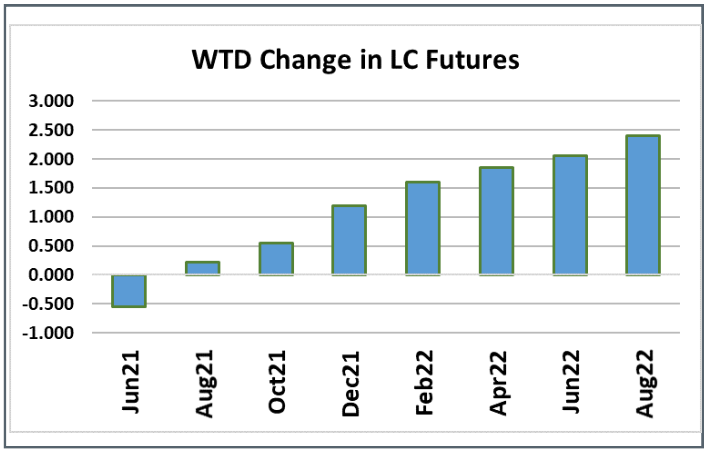
As I've said before, there is more to this strong beef rally than just the normal grilling season demand. The chart below illustrates this point because all of the primals participated in this week's rally. If this were simply a grilling season rally, we would see the middle meats higher, but the end meats lower. The fact that demand for chucks and rounds are so strong at this time of year is clear sign that something out of the ordinary is going on. Vaccination rates in the US continue to rise and new COVID cases are in decline. The population is starting to sense that things are quickly moving back toward normal and, after a year sequestered, people are ready for a big party. Memorial Day is in the right place at the right time. Another contributing factor will be rather light beef production over the next few weeks. This week's steer and heifer kill only amounted to 502k, down from last week's 509k. If we go back and look at fed kills during early May of 2019, they were running around 535k head. So, its pretty clear that availability is going to be down from normal during the peak of grilling season.

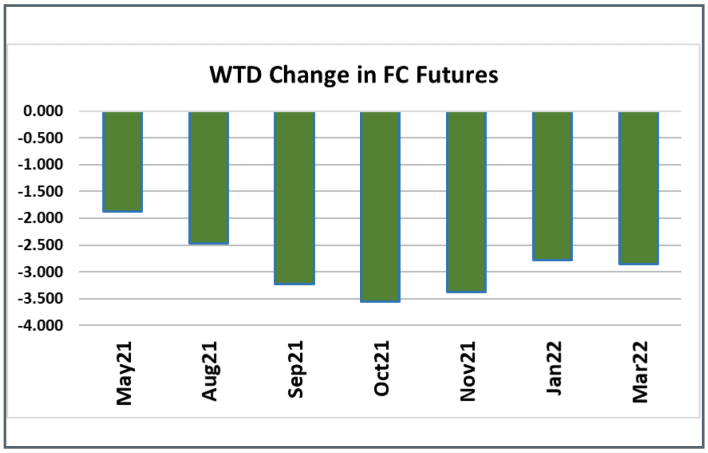
Carcass weights moved lower in this week's data and there are indications that they will print lower again next week. That makes me hopeful that blended steer and heifer carcass weights will soon dip below last year and continue lower in normal seasonal fashion until the end of May. So, the carcass weight picture doesn't look quite as bearish as it did a couple of weeks ago. It is still not great, but better. My calculation puts packer margins this week at $835/hd, with a good chance that they move over $900/hd next week.

Packers must be very pleased with this situation and cattle feeders are dejected. These huge margins probably reflect the fact that packing plants just cannot process the same volume of cattle that they did in the pre-COVID days due to social distancing and difficulty keeping the plant fully staffed with workers. Cattle feeders under-estimated the impact that COVID would have on plant throughput and they put more cattle on feed than plants could comfortably handle. That swung the leverage meter strongly in the packer's favor and helped produce the super-large packing margins and super-dismal feeding margins that we've seen in the past year.

There are only 2 paths out of this situation: find more workers or reduce the number of cattle on feed. If packers want to find more workers in this environment, they will probably need to raise wages. Since packers are pure margin players, any increase in their costs eventually get passed along to both consumers (through higher prices) and primary cattle producers (through lower prices). Just how much of the burden each segment bears depends on the slopes of the supply and demand curves. The remedy of paying workers more eventually leads to a smaller beef industry because some primary producers leave the business and because consumers will consume less beef at higher prices. Reducing the number of cattle on feed essentially does the same thing, pressing down on feeder cattle prices and raising fed cattle (and thus beef) prices.

Clearly, cattle feeders need make some changes in the way they do things if their margins are consistently running deep in the red while packer margins are huge. The futures market was mostly stronger this week, but not before the Jun contract traded all the way down to $112.57 on Tuesday. After that, Jun rallied hard to finish the week at $116. Next week, watch the cutouts as they should add another $5-10 on strong demand and also keep an eye on weights. Hopefully they will post another significant move lower.


WTD Change in LC Futures
3.000
2.500
2.000
1.500
1.000
0.500
0.000
-0.500
-1.000
Jun21
Aug21
Oct21
Dec21
Feb22
Apr22
Jun22
Aug22


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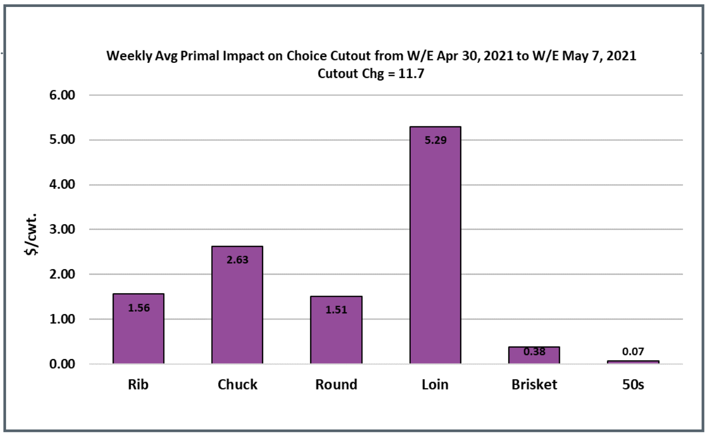
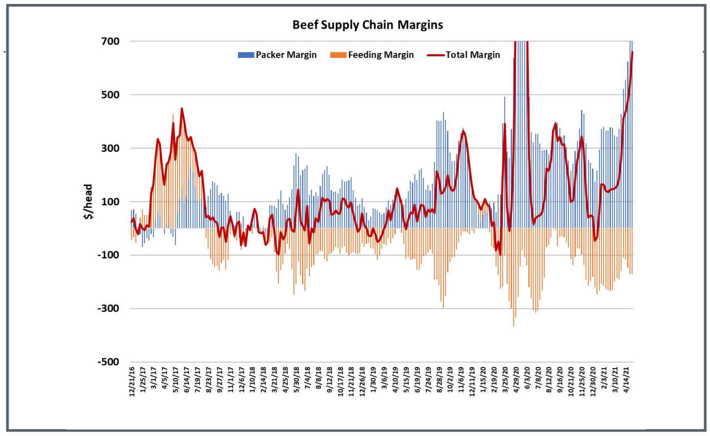
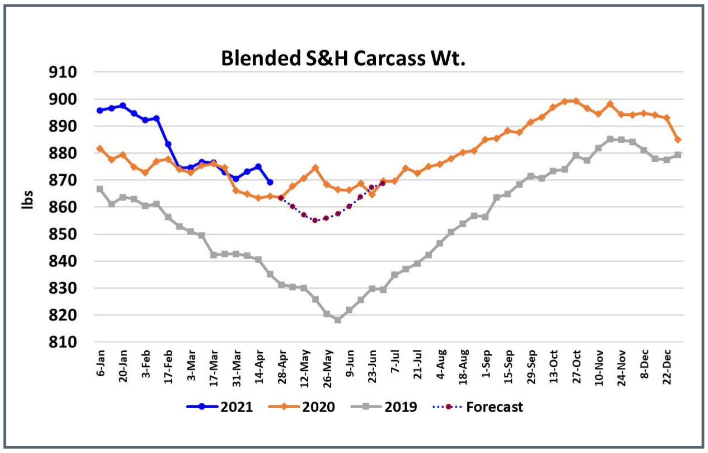
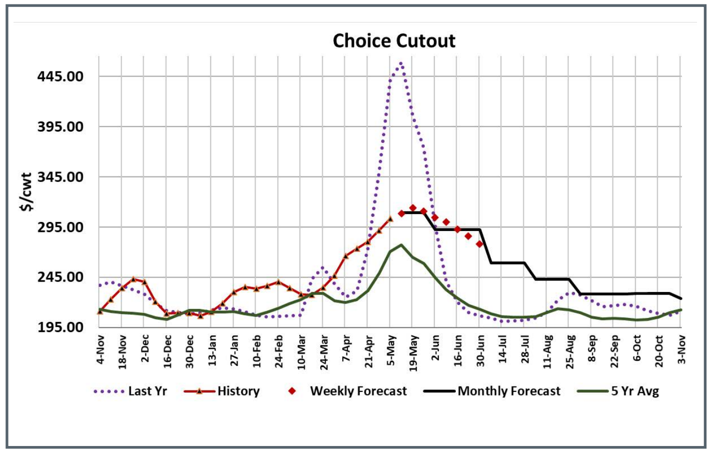
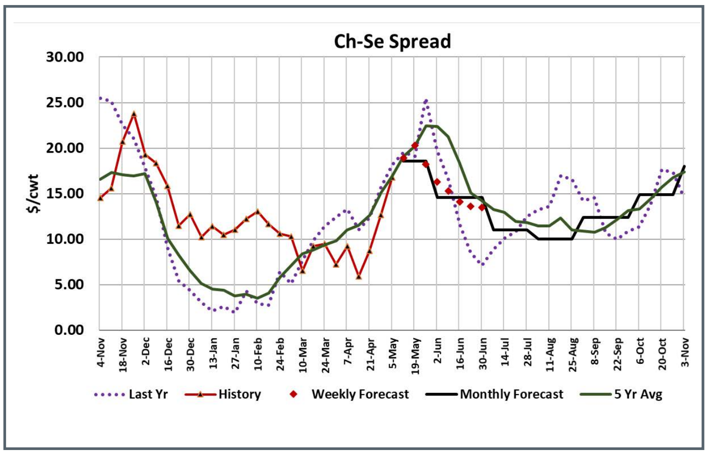
Aug21
Sep21
Oct21
Nov21
Jan22
Mar22


Weekly Avg Primal Impact on Choice Cutout from W/E Apr 30, 2021 to W/E May 7, 2021
Cutout Chg = 11.7
$/cwt.
6.00
5.00
4.00
3.00
2.00
1.00
0.00
1.56
2.63
1.51
5.29
0.38
0.07
Rib
Chuck
Round
Loin
Brisket
50s


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




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

**E:** Rob.Murphy@jsferraro.com

*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.*