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WEEK ENDING MAY 14, 2021

THE BEEF WRAP

Cash cattle traded in the $119-120 range this week, up about $1.50 from the week before. Strong gains in the futures early in the week likely prompted packers to pay up, but the market sold off hard on Thursday and that brought the higher cash trade to an abrupt end. Packers had plenty of extra revenue to pay for cattle this week, given that the Choice cutout added almost $10 and the Select cutout was up $9. Of course, packer margins expanded once again, adding almost $100/head and the margin is now around $855/head (I recently revised the margin calculation to reflect higher labor costs, so that is why this week's margin appears to be less that what was reported last week.)

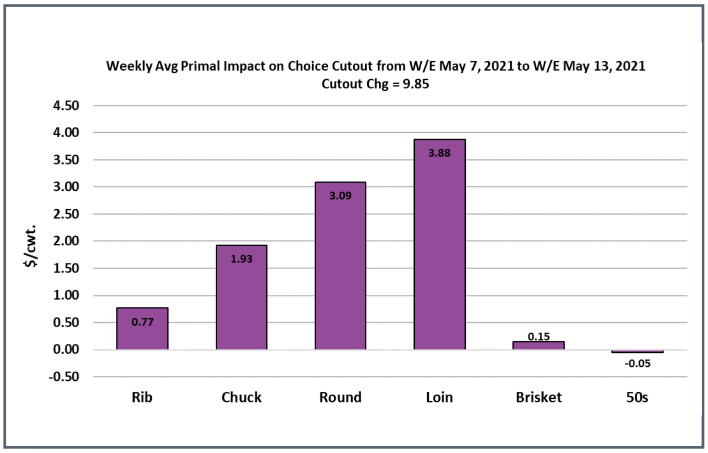
Once again, the Choice cutout exceeded my target level for a top and forecasts had to be raised. It seems to me that we can expect the cutout to gain again next week as the finishing touches are put on Memorial Day buying, but that could very well be a near-term top in the cutout. Who would have thought that chucks and rounds would be more influential to the cutout in the second week of May than ribs? That is exactly what happened this week. In fact, the chart below indicates that all of the primals were higher this week, with the exception of a tiny drop in the 50s. The uncharacteristic strength in end meats at this time of year is part of what makes me think that a shift in consumer dietary patterns toward more high protein diets is partly responsible for the incredible demand strength that we've seen this spring. Those consumers don't necessarily follow the normal seasonal consumption pattern. They are just looking for protein variety. The combined margin chart below shows that the current demand upcycle is still in play and by far the strongest we've seen outside of the COVID-related plant shutdown period last year.

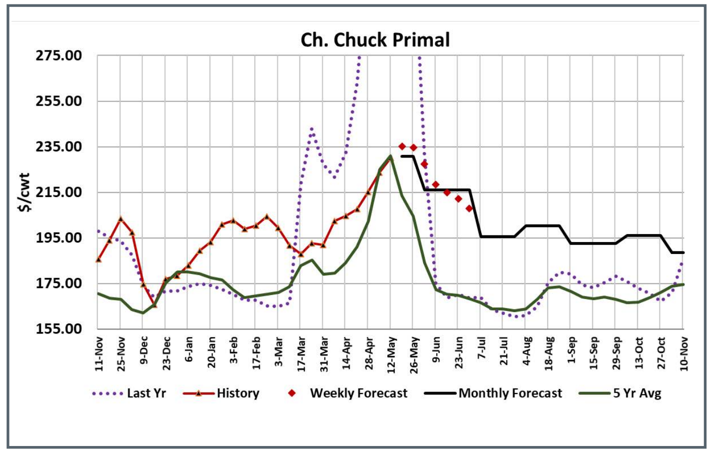
My guess is that demand will cool off some once we get to Memorial Day, but I wouldn't expect it to fall sharply. It is pretty clear to me that a lot of the recent demand strength is unrelated to the holiday and so it wouldn't make sense to expect demand to retrace rapidly once the holiday is behind us. Supply considerations will also help to support prices beyond Memorial Day. Packers are struggling to keep plants fully staffed right now and that is not going to be a short-run phenomenon. I'm estimating that this week's fed kill might only be 495k. That's about 10-15k below what I think the supply would support and it will probably cause some minor backing up in feedyards.

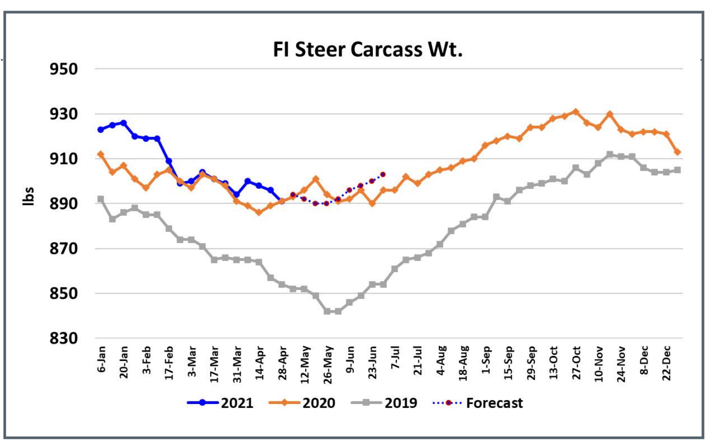
There is not much doubt that with $850/head margins, packers would kill everything they could get their hands on if they had the capacity to do so. So, the only conclusion that I can make is that they don't have enough dependable labor to run at full capacity. It is more of a problem for cattle producers and beef buyers than it is for packers however. This super-tight labor situation is driving a big wedge between beef prices and cattle prices, raising the beef price and pressuring the cattle price. To rectify the situation, cattle feeders need to put the brakes on placements in order to scale back on-feed inventories.

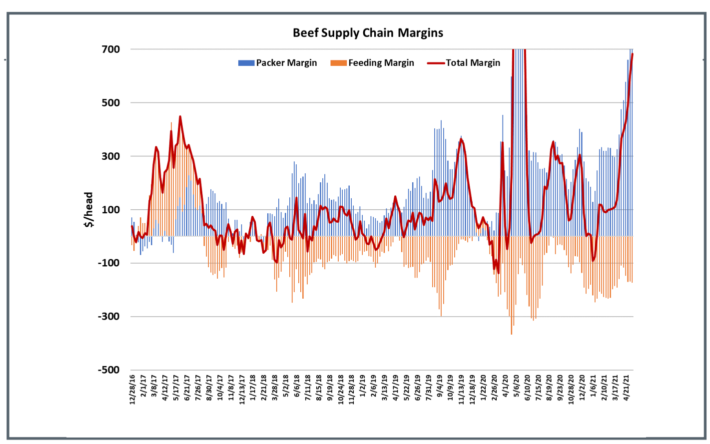
Drought is also reducing pasture availability and thus driving more cattle into the feedyard than would otherwise be the case. As long as cattlemen continue to place like it's a pre-pandemic, 2019-type market instead of a labor-constrained, 2021-type market, packer margins will stay uncharacteristically wide and cattle prices will underperform. Cattle feeders are very fortunate that we've had such strong demand this spring or else cattle prices would be a lot lower. Given super-high feedgrain costs, I estimate that cattle feeding margins this week were in the red to the tune of $170/head. Persistently negative margins are the market's way of sending a signal to downsize. Of course, beef buyers who are staring at a $313 Choice cutout right now don't think the industry should downsize at all. Very strong demand from consumers is saying "expand", but the labor wedge in the packing sector is telling producers "contract".

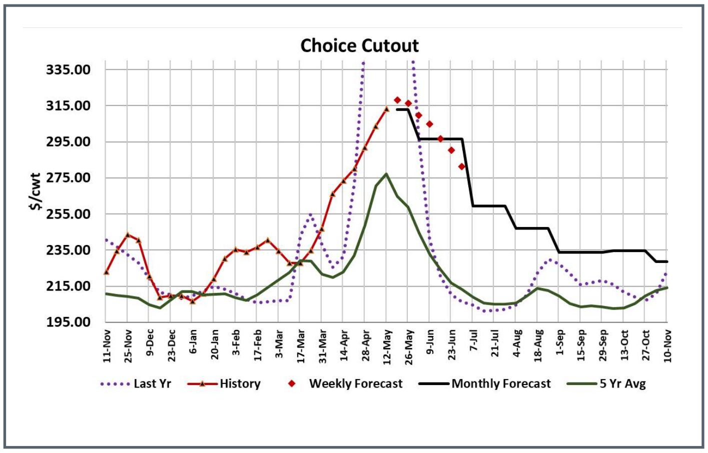
These mixed signals are not good for the long-run health of the industry. In the end, consumers will pay more for beef, producers will get paid less for cattle, and the industry will be smaller than it would be had the labor problem not arisen. Next week, watch the cutouts for signs that a top is forming and watch the reported carcass weights for signs that feedyards are losing currentness due to these unusually light May kills.

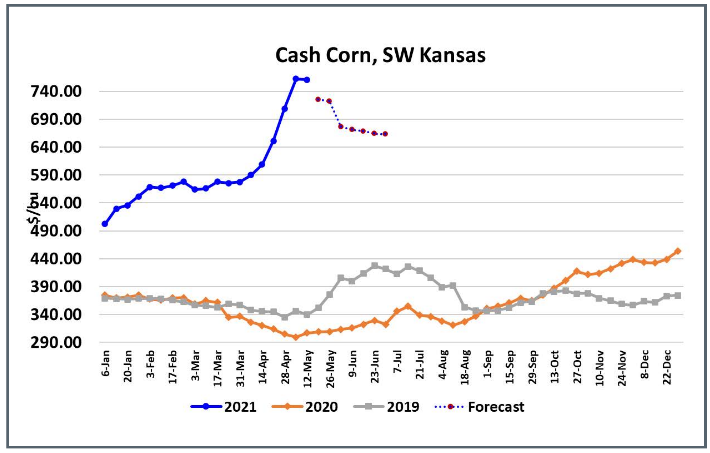

Weekly Avg Primal Impact on Choice Cutout from W/E May 7, 2021 to W/E May 13, 2021
Cutout Chg = 9.85
$/cwt.
4.50
4.00
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
-0.50
0.77
1.93
3.09
3.88
0.15
-0.05
Rib
Chuck
Round
Loin
Brisket
50s


Ch. Chuck Primal
$/cwt
275.00
255.00
235.00
215.00
195.00
175.00
155.00
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
10-Nov
Last Yr
History
Weekly Forecast
Monthly Forecast
5 Yr Avg


FI Steer Carcass Wt.
lbs
950
930
910
890
870
850
830
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


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