

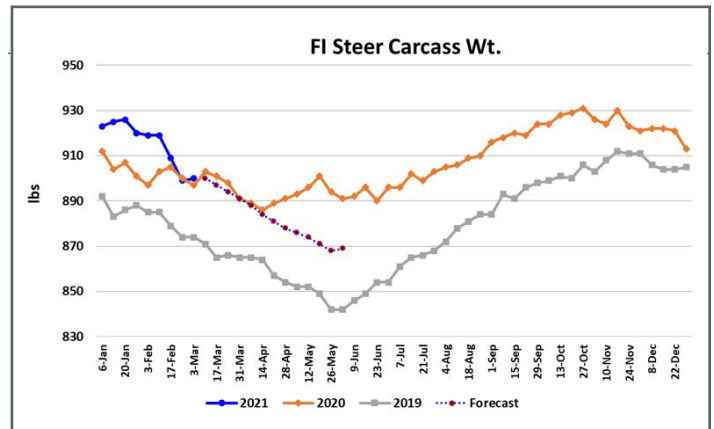
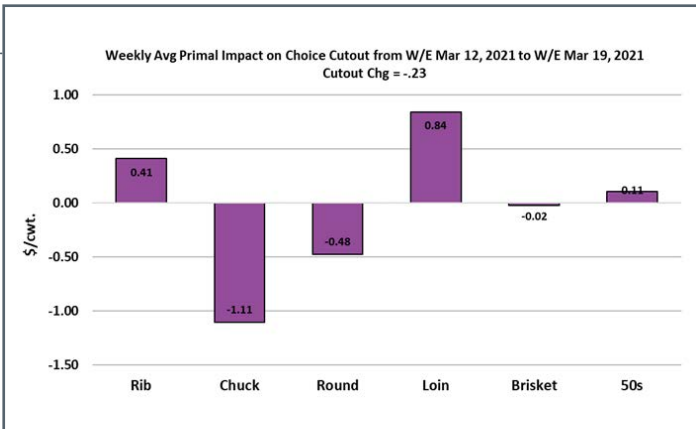
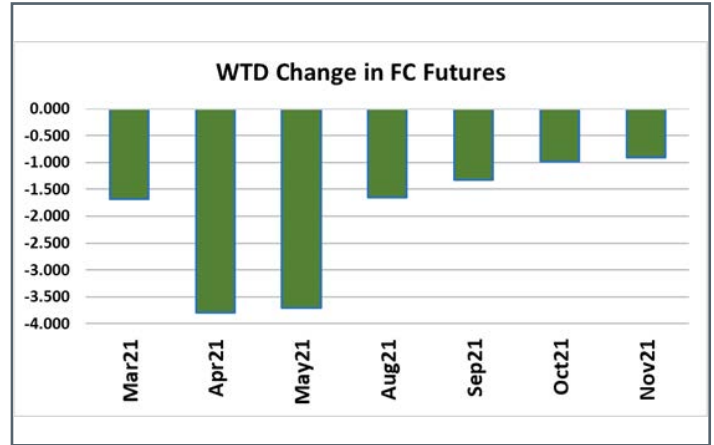
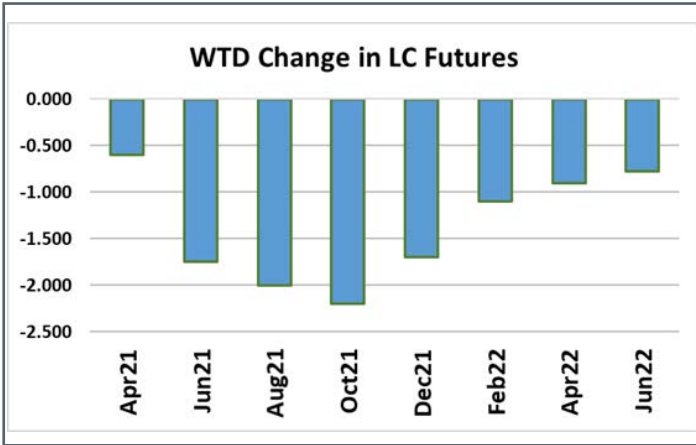


WEEK ENDING MARCH 19, 2021

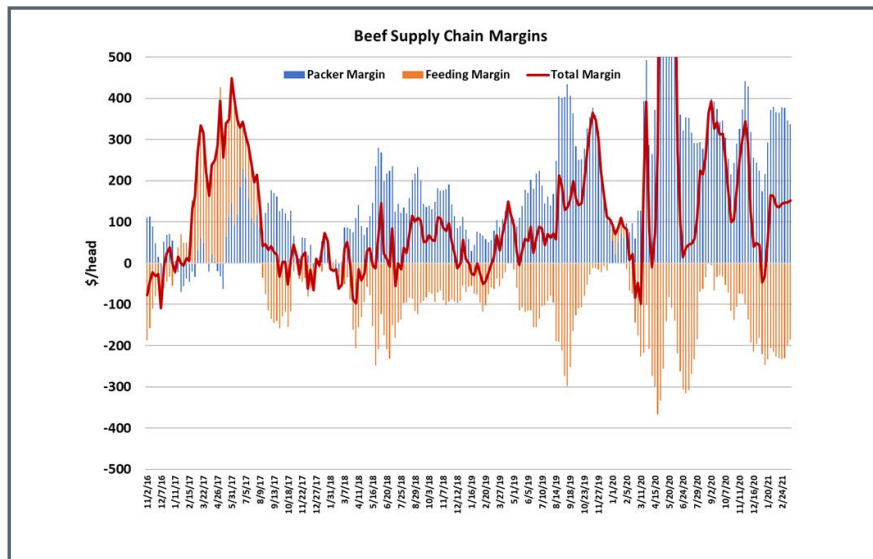
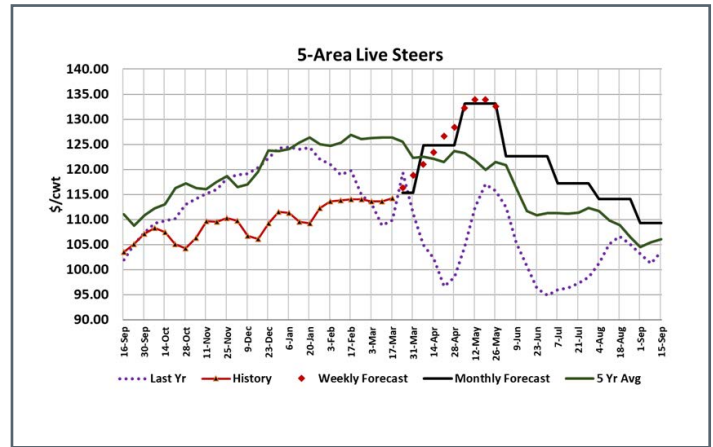
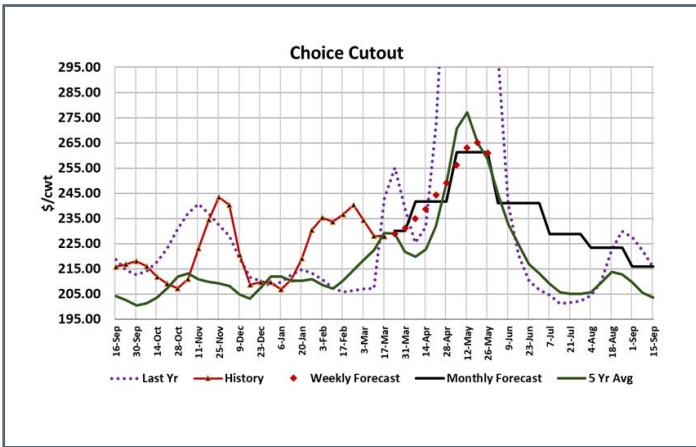
THE BEEF WRAP

For the most part, the cash cattle market stayed stuck at \$114 for the seventh week in a row. There was a smattering of \$115 reported on Thursday, but just as it got going, the futures tumbled hard as specs sold commodities across the board. That put a quick end to the \$115 trade. It looks like this week's average will be around \$114.25. The beef market decline slowed considerably, with the Choice down only \$0.24 on a weekly average basis and the Select off \$2.92. Actually, by the end of the week the cutouts were posting gains, so there is some hope that perhaps the bottom is in the beef market and it will start to grind higher into spring. My fundamental forecast agrees with that, although I expect the recovery in beef prices to be uneven and not straight up. Certainly, the extremely high level of the pork cutout is causing those who can utilize beef to look in that direction. Packer margins were about steady this week at \$338/head and I don't see much reason for margins to contract a lot or expand a lot as we move into the grilling season. Instead, margins can hold in the \$300-400 range, with gains in the beef market being passed along in the form of higher cattle prices. Currently, I'm projecting the Choice cutout to climb into the \$260-265 range by late May and that would support cash cattle prices near \$130 and still leave more than \$300/head margin for packers. To get there however, cattle feeders need better leverage. It looked like they were starting to get that before the futures broke this week. This week's fed kill came in at 486k, down about 17k from last week. The decline was mostly driven by some weather issues early in the week and then the closure of Cargill's Dodge City plant for maintenance late in the week. I'm expecting the fed kill to bounce back to 500k next week and it may not really get any larger than 500k until after Memorial Day. The flow model tells me that there should be sufficient cattle available to allow for fed kills in the 480-490k range for most of April and May. Of course, there are probably still a few (20-30k) of cattle still backed up from the winter storm in February and this week's weather, but the fact that cattle feeders were able to get \$115 out of packers before the futures crashed is an indication that their leverage is increasing. Steer carcass weights moved one pound higher this week, which was a bit of a surprise. I see weights steady next week. I don't think there is anything to worry about regarding weights and that this little flat spot is just an artifact of weights moving sharply lower over the previous two weeks.

Today's COF report showed Feb placements a bit smaller than what I was looking for, but the difference wasn't enough to significantly impact the price forecasts. All of the numbers in Friday's report were pretty close to the average trade estimate, so I imagine that it will not register much of a reaction in the futures on Monday. The demand side of the market still looks very good to me, even though the cutouts have moved lower over the past couple of weeks. The demand index for March is currently reading 1.128, which, if it holds, would be the strongest demand index ever recorded for March. The demand index is slightly higher than it was last March when covid broke and sent consumers on a stockpiling binge. That event produced a very strong demand index and this year's is even stronger. So, I don't have much concern on the demand side. In fact, I'm bracing for when this strong demand environment hits the tight supply situation in Apr/May. I think it could result in very strong beef pricing. The combined margin chart below is looking rather curious. The total margin has been sideways to slightly higher over the past several weeks. It almost looks as though it wants to continue higher rather than break lower and may mean that the demand upcycle that started back near the beginning of January is still in play. I think time is running short for it to turn lower since the grilling season demand will be upon us shortly. I haven't seen anything in the weekly export numbers that would suggest any problems with international demand for US beef. China is still taking very large quantities and the more traditional destinations seem to be holding together fairly well. This week's sharp drop in the futures market looks to me like a healthy correction and probably impounds some frustration on the part of longs at how long the cash market has been stuck at \$114. Next week, watch the daily kills for signs that the plant maintenance is done and that a 500k fed kill might be doable. Also watch the situation in pork, since stronger pricing there has the potential to push demand in beef's direction eventually.



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