J.S. FERRARO

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

WEEK ENDING JUNE 11, 2021

THE BEEF WRAP

This week's weighted average price for cash cattle was almost exactly $120, pretty much the same level it has been at for the past five weeks. The cutouts stalled, with the Choice losing $0.23 and the Select down $3.04. Many market observers are holding their breath waiting for the cutouts to plummet from these extreme levels. I'm not one of them. Yes, the cutouts may have a modest amount of downside risk over the next few weeks as the calendar moves closer to the dog days of summer, but I really don't think that beef demand is going to deteriorate so rapidly that the market loses value in big chunks.

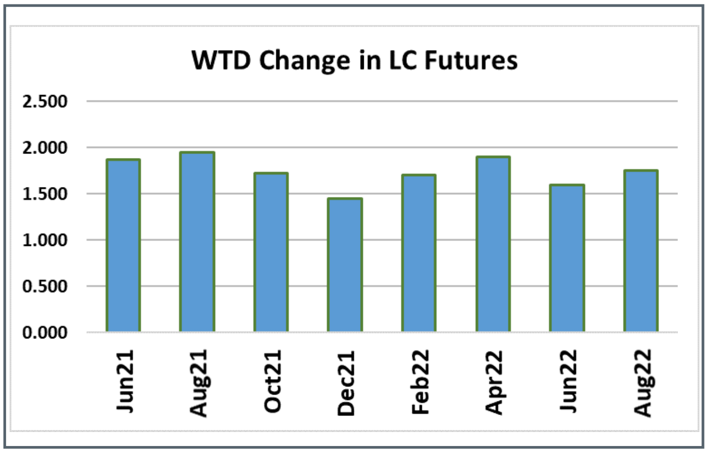
The primary reason that domestic demand falters in most situations is because retail buyers find a different protein that offers more profit potential. In the current environment however, retailers won't find much value in either pork or chicken, since those prices are very elevated also. Plus, I get the feeling that beef movement at retail is still very brisk and it is hard to steer away from something that is driving customers into the store. Therefore, if beef prices pull back in coming weeks, I think it will be because packers are stringing together larger kills and thus the supply side is pressuring prices. This week's fed kill registered 530k, which is near the upper bound of what we think the labor situation in plants will allow. There should be plenty of cattle available to fuel kills around 530k for the balance of June and most of July. For the two months prior to Memorial Day, fed kills averaged 513k per week, so if the industry can manage to put a string of 530k kills together, it will definitely improve availability and thus probably pressure prices somewhat.

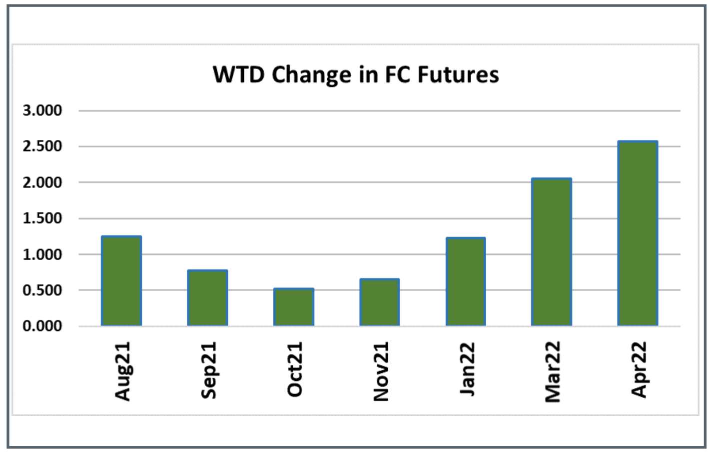
Carcass weights appear to have finally reached their seasonal low and will likely work higher for the next 4-5 months. That will also add to beef availability this summer. The combined margin moved higher again this week, but the rate of increase slowed considerably. It could be preparing to make a top, but I'd want to see a couple more weeks of data to verify that. This week, it was mostly the loin primal that was pressuring the cutout and that probably reflects the completion of last minute buying for Father's Day. The trim markets have firmed up considerably and this week the 50s printed over $100 once and averaged $98 on the week. Lean trim is also screaming higher (chart below). The 90s are approaching $275.

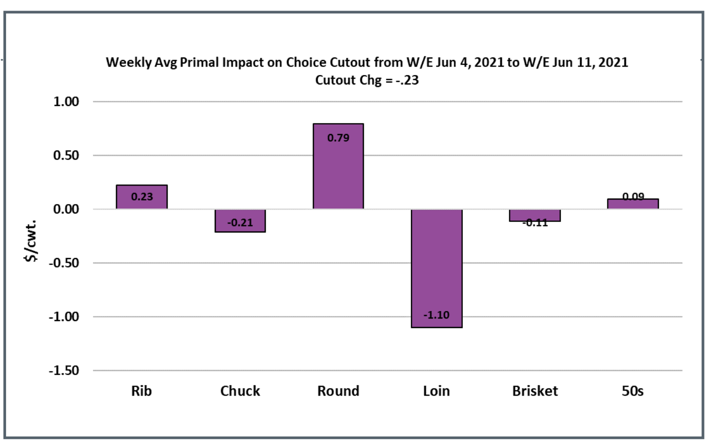
It will be awful hard for the end cuts to lose much value while the 90s are escalating. That leaves the middle meats as having the biggest potential for a downward correction in the next few weeks. But even if the cutouts were to drop $20-30 in the next few weeks, it probably doesn't negatively impact cattle prices because packer margins are so wide that they can easily absorb that type of decline in the cutouts. I estimate packer margins this week held steady at $1040/head. If the Choice cutout fell to $300 and cattle prices held at $120, packer margins would still be around $700/head. That is not a margin situation that would require management on the cattle side.

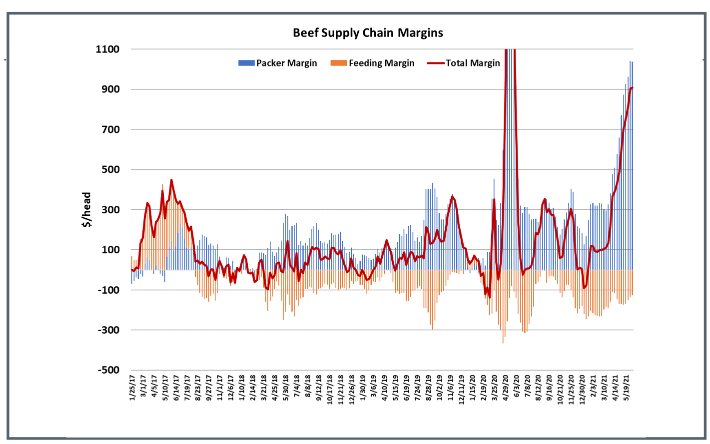
We know that packers are struggling to find the labor needed to run their plants full out. To fix that problem they are going to have to raise wages and so the cost of processing cattle is going to go up, maybe by a lot. That means beef prices have to go up also. So, I think that going forward we are going to see beef pricing well above what we were used to in the pre-COVID days. In addition to beef prices going up, cattle prices normally move down when packer costs increase. The futures market doesn't seem to be anticipating that just yet. All of the 2022 contracts are trading over $130, probably because traders expect food inflation to lift beef (and thus cattle) prices next year. If cattle prices rise next year, it will be because the herd is shrinking to the point where it forces packers to compete for cattle. It won't just be because packers are giving part of their margin to cattle feeders. Packers will be giving more of their margin to their workers.

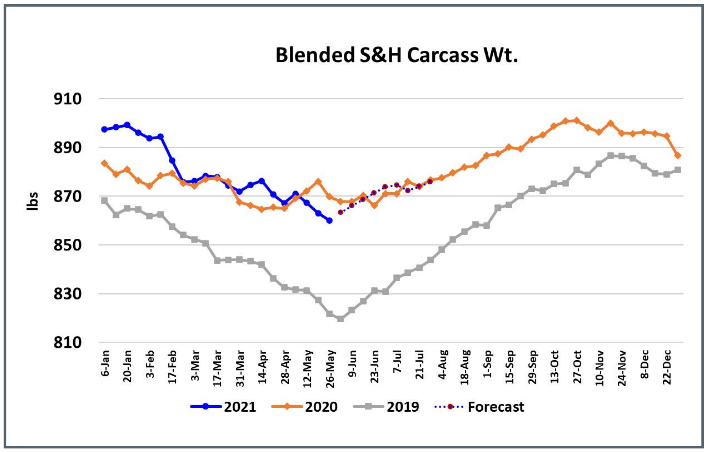
Right now, there is very little incentive for packers to compete for cattle. That situation won't last forever, but it could last many more months. Next week, all eyes will be on the cutouts for signs that the top has finally been made. I wouldn't be totally shocked if they move higher again.

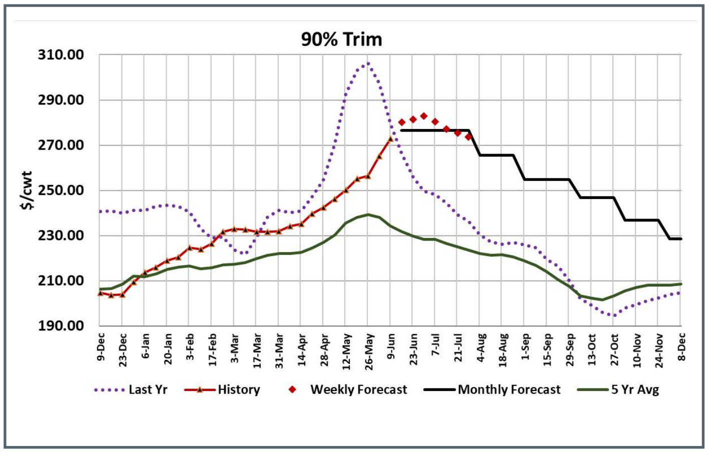

WTD Change in LC Futures
2.500
2.000
1.500
1.000
0.500
0.000
Jun21
Aug21
Oct21
Dec21
Feb22
Apr22
Jun22
Aug22

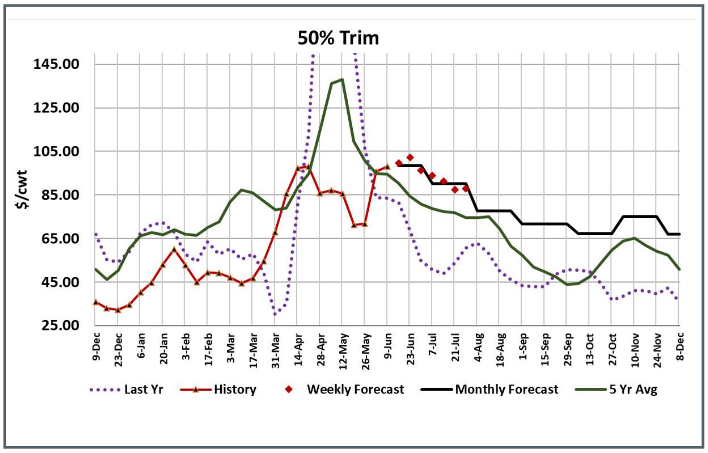

WTD Change in FC Futures
3.000
2.500
2.000
1.500
1.000
0.500
0.000
Aug21
Sep21
Oct21
Nov21
Jan22
Mar22
Apr22

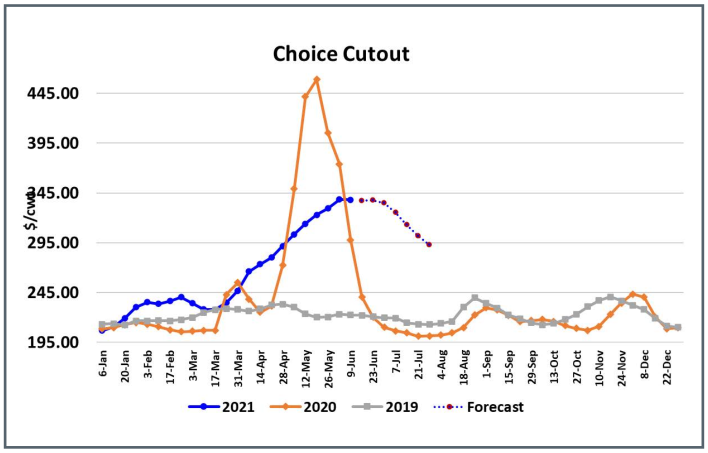

Weekly Avg Primal Impact on Choice Cutout from W/E Jun 4, 2021 to W/E Jun 11, 2021
Cutout Chg = -.23
$/cwt.
1.00
0.50
0.00
-0.50
-1.00
-1.50
0.23
-0.21
0.79
-1.10
-0.11
0.09
Rib
Chuck
Round
Loin
Brisket
50s


Beef Supply Chain Margins
Packer Margin
Feeding Margin
Total Margin
$/head
1100
900
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.