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WEEK ENDING JUNE 25, 2021

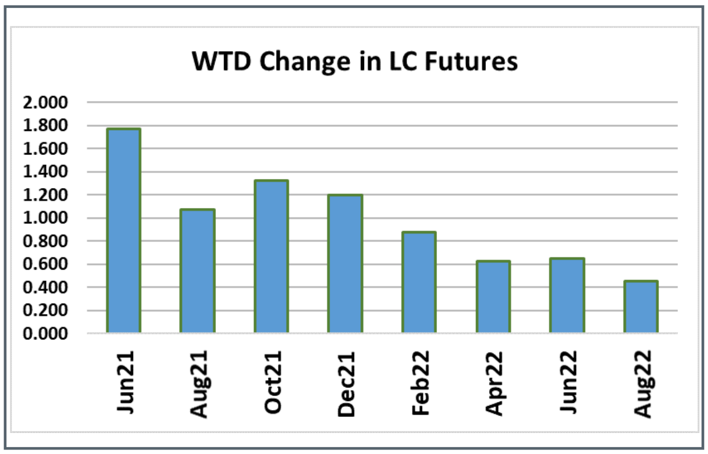
THE BEEF WRAP

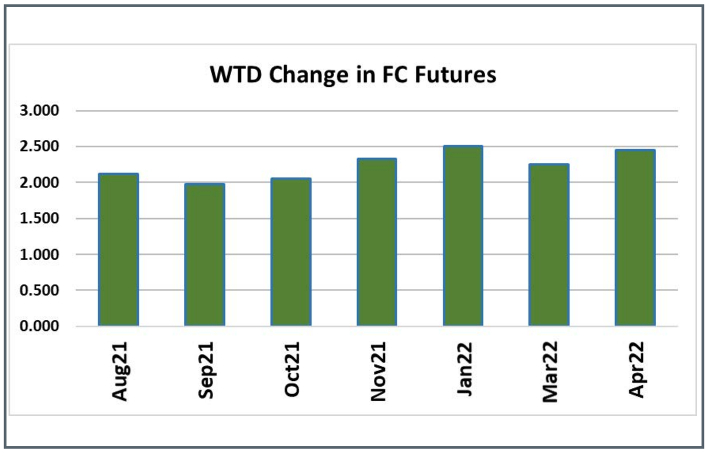
So far, this week's average cash cattle price is $125.57, up about $3 from last week. Packers are still chasing Choice cattle and are willing to pay up for them. The cutouts continued to fall, with the Choice off $15.62 on a weekly average basis so far and the Select off $14.31. As a result, packer margins are compressing, but are still a very long way from getting back to normal. My estimate has margins at just over $800/head this week. Packers could have paid $185 for cattle and still not lost money. It looks to me like the fed kill is going to come in close to 525k this week, very similar to last week. The flow model suggests that packers will need to advance the fed kill to 530k in July and then do something close to 515k per week in August. Both should be attainable, so I don't see a problem with backing cattle up again unless something odd (like a cyberattack) should happen.

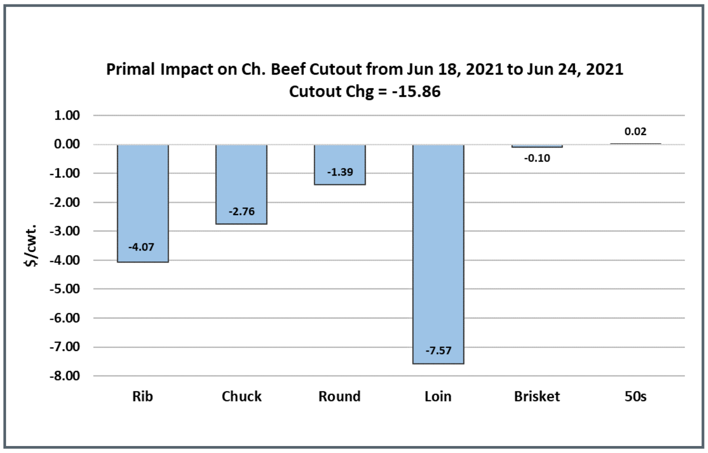
This market has had more than its share of odd events in the past couple of years. The chart below indicates that the middle meats are where the big losses have been. The end cuts are holding up amazingly well for this point in the summer. It is true that demand is starting to fade now, but it is coming down from such high levels that it might not get back to normal until after Labor Day. As a result, I've the Choice cutout working lower from here but still coming in close to $260 at the end of summer. That compares with values near $230 in each of the last two years at the end of summer. That means packers will continue to have lots of margin and will not need to pressure the cattle market lower for many weeks to come.

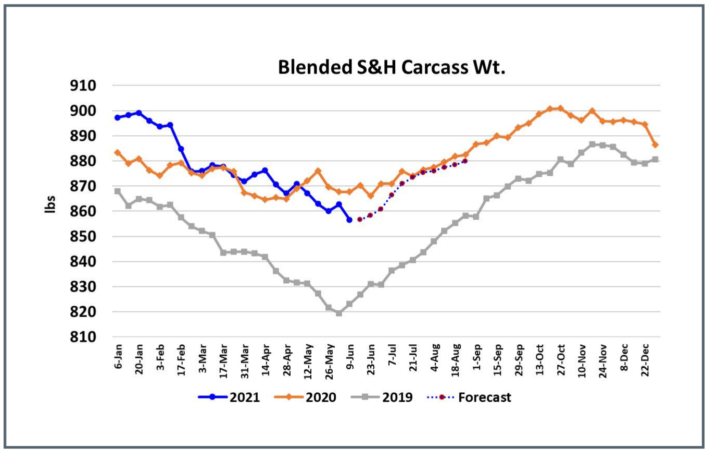
The problem will come in the fall, when demand returns to more typical levels. Then, we could see cash cattle pricing in the $110-115 range fairly easily. Friday we will get a COF report and I'm expecting it to show May placements down 8-9%. The average trade guess is for placements to be down 4.6%. Carcass weights posted a strong drop today and that was a surprise to me. The DTDS weights are now below zero, which tells me that feedyards are rapidly regaining currentness. That also supports the idea that cash cattle won't move lower anytime soon. Export data Thursday morning looked better for beef than it did for pork. China continues to take large quantities of US beef, even as they scale back their demand for US pork.

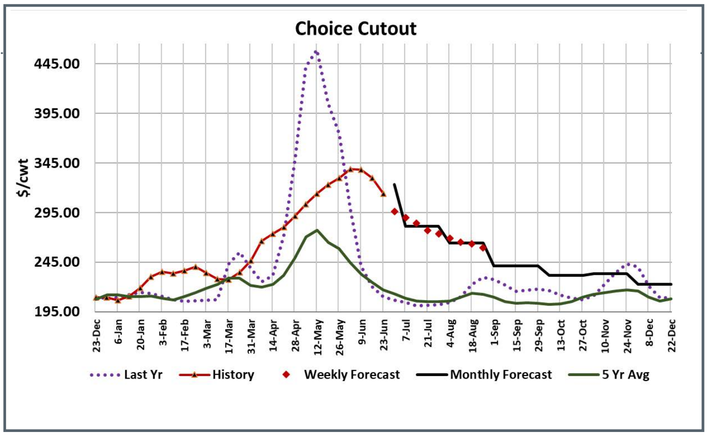
In all, the cattle and beef markets appear to be in a pretty good place. Beef prices are falling, but still very high and cattle feeders are almost getting enough for the cattle to break-even. Cattle feeding margins are only $79/head in the red at the moment. Next week, watch the end meats. It is pretty clear the middles will go lower, but the ends have been a lot more resilient than I would have expected. The drop in carcass weights could also mean some further strength for fat trim, which is already trading over $1.

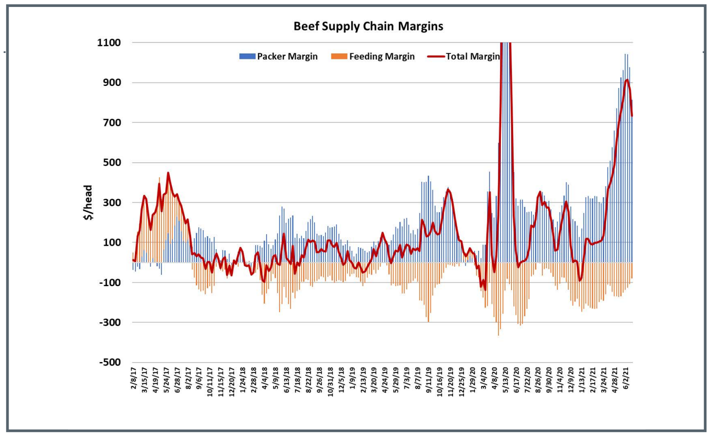












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Dr. Rob Murphy is an agricultural economist and business leader with over 29 years in the industry. He has a wealth of experience in the North American meat and livestock industries studying, analyzing and predicting market movements.