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WEEK ENDING JULY 16, 2021

# THE BEEF WRAP

Cash cattle prices were a little higher this week, averaging $122.56, up about $0.40 from last week's average. We still have a two-tiered market, with cattle in the North selling for a couple of dollars more than those in the South. The beef market continued to move lower, with the Choice cutout dropping a little over $10 and the Select cutout off a little more than $5 on a weekly average basis. In some respects, this week was just a repeat of what we've seen over the past month or so–beef prices falling, cattle prices steady and packer margins compressing after reaching absurd levels this spring. I calculate margins this week at $467/head, which is about $90/head lower than last week.

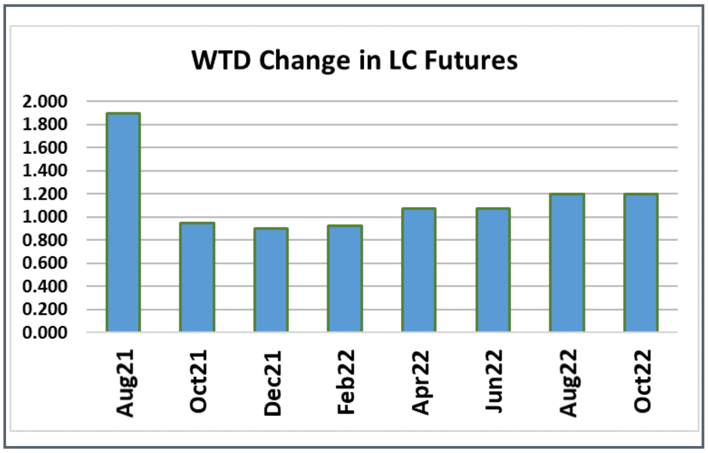
One has to wonder at what point packers will begin to feel the need to pressure cattle prices. My guess is that won't happen until margins fall below $300. That is near the average margin packers earned early in 2021 before the great beef price escalation began. Of course, there is always the possibility that the cutouts don't move low enough to push margins below $300/head. My forecast has one more week of substantial decline in the cutouts and then I think that the rate of descent slows considerably. The chart below indicates that it was primarily the loin primal that pushed the cutout lower this week. Surprisingly, rib prices actually increased. I continue to be concerned about the 50s, which finished today at $129.11. While almost everything else has moved lower, 50s have marched higher in recent weeks.

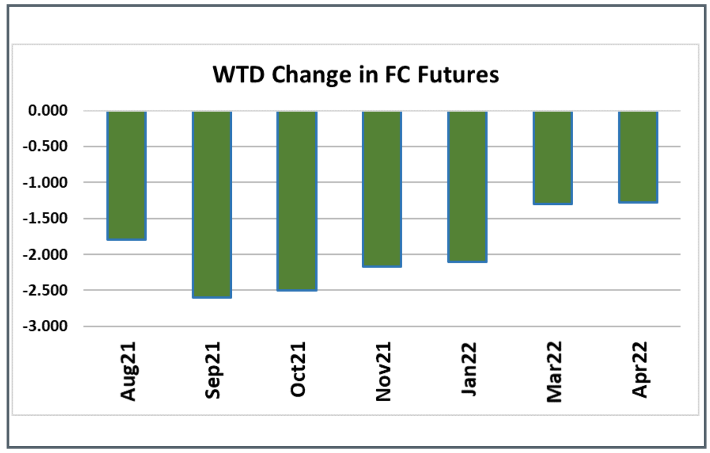
That makes me think that it is a supply issue, not demand, that is moving the 50s higher. Carcass weights have been declining and the DTDS is at -10. Further, early July saw restricted fed kills due to the Independence Day holiday. So, those things could be tightening up the 50s supply currently. However, last Saturday's kill was big and the daily kills so far this week have been solid, so I would have expected some downward pressure on 50s, but instead they moved higher. Maybe labor shortages in processing plants are resulting in less trimming of cuts and therefore less fat trim production. That seems reasonable, but we had labor issues back in the spring and smaller kills than today, yet 50s traded in the 70-90 cent range.

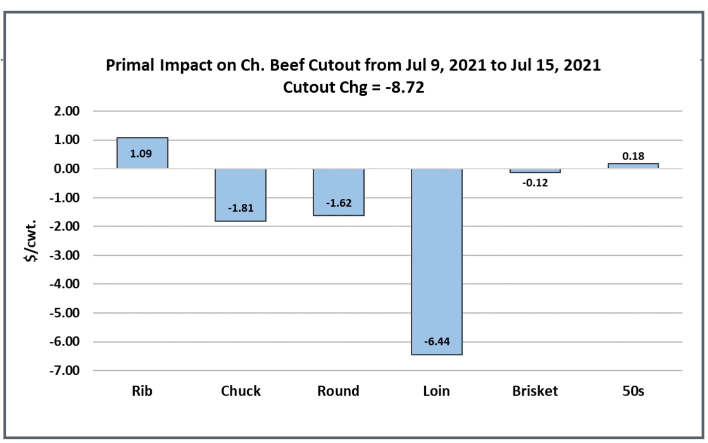
Sometimes escalating 50s prices precede a jump in cash cattle prices, so that is important to be aware of. I am projecting this week's fed kill at 522k, which is a little smaller than what I gauge as necessary to keep the cattle supply current. Steer carcass weights were reported one pound higher today, so perhaps weights have now bottomed. Next week, I expect carcass weights to post a big gain because the data will reflect slaughter during the week that contained the 4th of July. We continue to see domestic beef demand erode and that is illustrated by the combined margin chart below. It still has a way to go before it gets back to "normal" levels, however.

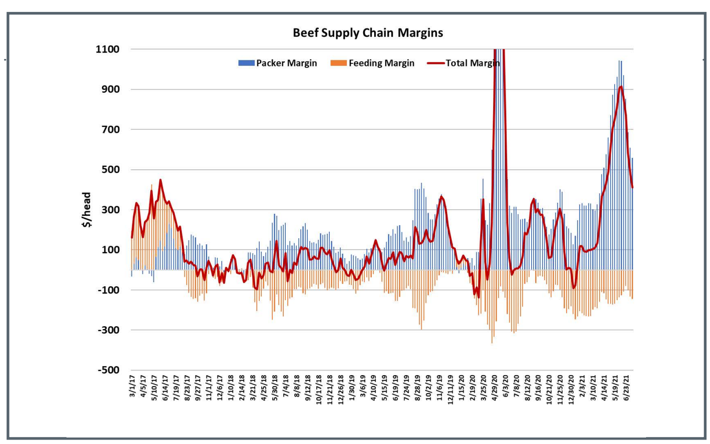
Retail beef prices for June were reported this week and they were up 7.2% from May. At $7.46/lb, they are only slightly below the levels posted last spring when COVID shut packing plants and wholesale prices soared. Now that consumers are beginning to see the true cost of beef in the grocery store, it will cause them to purchase less and that is showing up as weaker domestic demand. Retailers will need to lower retail prices in the coming months in order to "buy back" some of the demand that is currently being lost. Retailers are notoriously slow to lower retail prices, so that important adjustment might take several months. Export demand looked strong in the official May data that was reported earlier this month, but the more timely weekly data has shown some softening in exports. China is still taking a large amount of US beef and that is probably the difference maker as far as exports go.

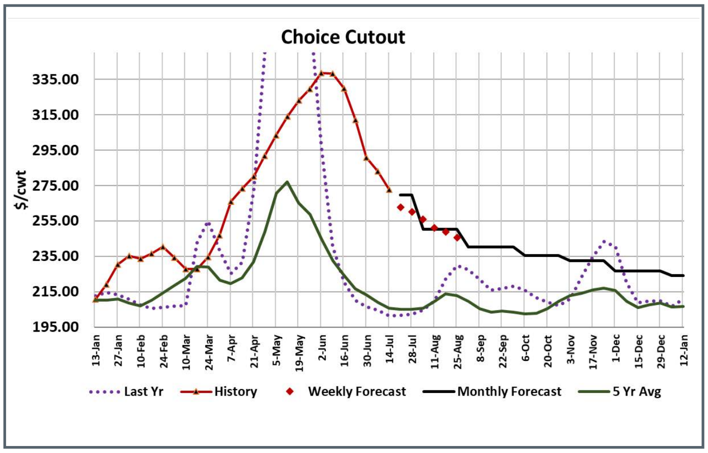
Without this newfound business out of China, beef exports would be looking rather dismal right now. The futures market seems to be just marking time and waiting for something significant to change in the cash markets. All of the remaining 2021 contracts appear to be locked in a sideways trading pattern. Next week, expect more of the same–declining beef prices and near steady cattle prices. Also, watch the 50s for signs that the current strong rally is nearing an end..

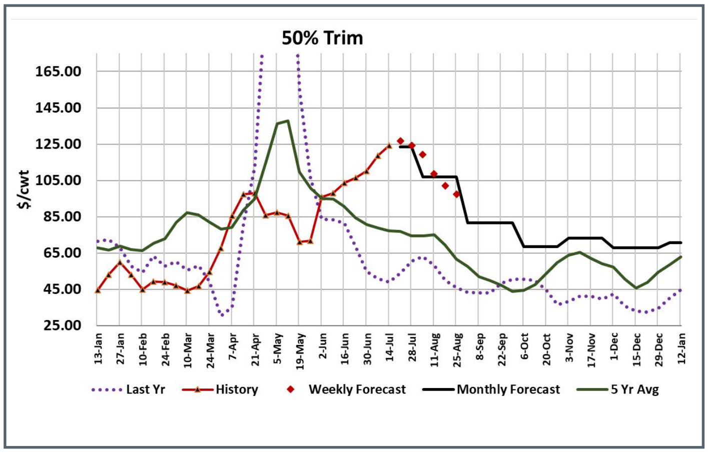

WTD Change in LC Futures
2.000
1.800
1.600
1.400
1.200
1.000
0.800
0.600
0.400
0.200
0.000
Aug21
Oct21
Dec21
Feb22
Apr22
Jun22
Aug22
Oct22

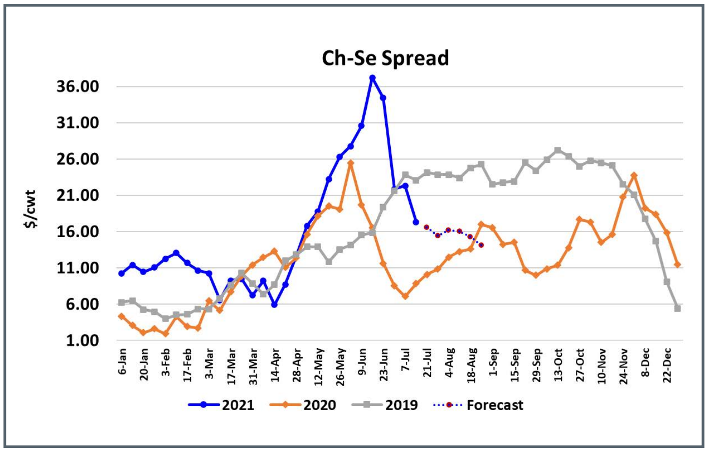

WTD Change in FC Futures
0.000
-0.500
-1.000
-1.500
-2.000
-2.500
-3.000
Aug21
Sep21
Oct21
Nov21
Jan22
Mar22
Apr22


Primal Impact on Ch. Beef Cutout from Jul 9, 2021 to Jul 15, 2021
Cutout Chg = -8.72
$/cwt.
2.00
1.00
0.00
-1.00
-2.00
-3.00
-4.00
-5.00
-6.00
-7.00
1.09
-1.81
-1.62
-6.44
-0.12
0.18
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

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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.*