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WEEK ENDING JULY 30, 2021

THE BEEF WRAP

Cash cattle traded about steady with last week, averaging $121.05 on the week. The cash market for cattle has been stuck in a very narrow range between $120 and $123 for the past 11 weeks, excepting one week where a $125 price was observed. Should we expect that to change anytime soon? Probably not. The cutouts are rising rapidly and that means packer margins are also expanding. So there is little reason for packers to pressure the cash market, but what about increasing cattle prices? Logically, that should be a high probability event, but in the current environment where labor problems are limiting packer's ability to process cattle, feeders don't seem to have enough leverage to move the cash market substantially higher.

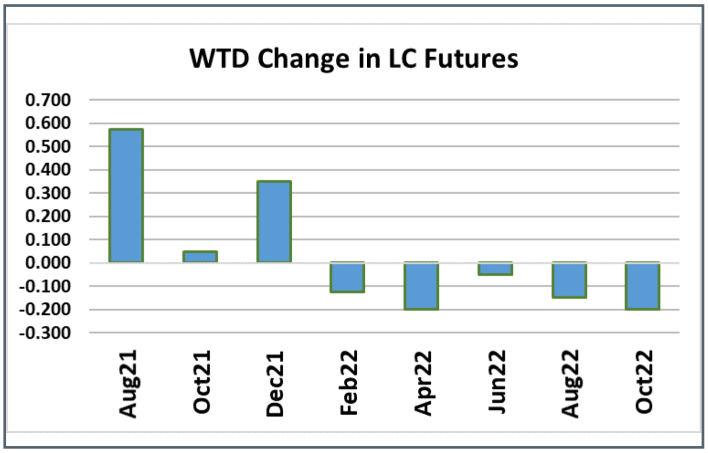
As a result, my cash cattle price forecast remains in the $120-123 range for the next two months. The Choice cutout gained a little over $7 on a weekly average basis this week and the Select added a little over $6. The chart below shows that all of the primals participated in boosting the cutout, but it was the ribs and chucks that did the biggest part of the work. Packer margins moved out to $640/head, which was almost $100 higher than last week. The beef market turned sooner than I had expected and thus I had to do some major forecast revisions this week. However, once again, the market is moving higher so fast that it is difficult to keep up with it. I think I will need to push the forecasts even higher next week. I've held the packer margin forecast in the $600-700 range for the next two months, but am already getting the feeling that we could be headed back to packer margins in excess of $1000/head. Beef demand, which had been fading up until the middle of the month, has come roaring back with a vengeance. This almost guarantees that retailers will keep consumer prices elevated well into the fall.

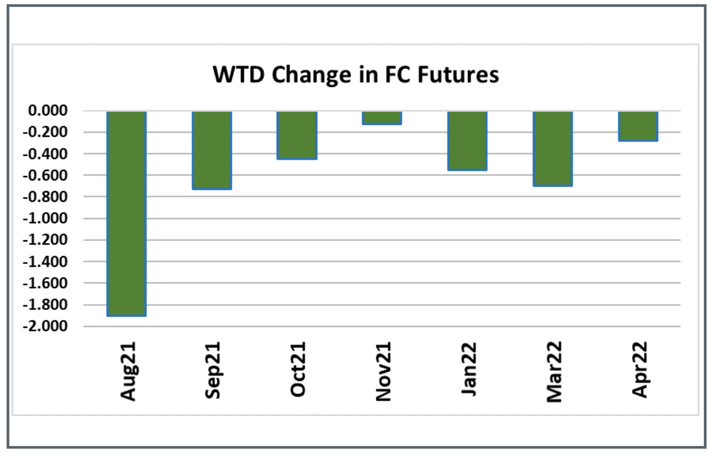
Consumers don't really seem to care much about how high retail beef prices are however. As the economy has opened back up and worker shortages became widespread in some sectors, employers have been busy raising wages in order to attract the much needed labor. That, in turn, has put more money into the pockets of low income Americans who are eager to upgrade their diets and red meats fit the bill very well. We also have checks now being sent to low income families with children under the Child Tax Credit program and that will also hit in a spot where diet upgrade is one of the first things the money will be spent for. All of that argues for beef demand remaining strong for longer that we might have thought at the beginning of summer.

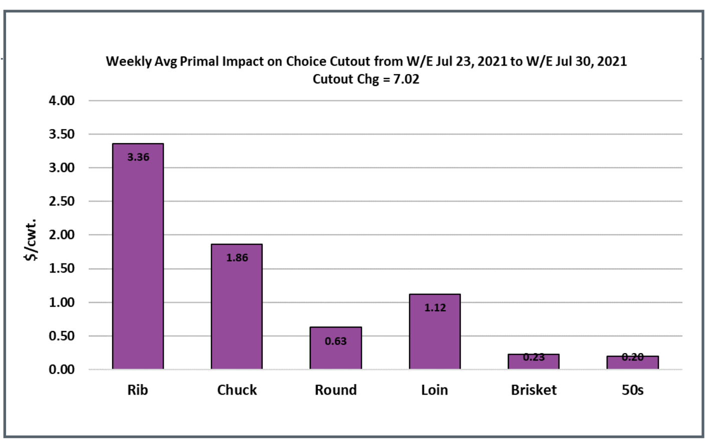
Of course that means price levels for beef will likely be above earlier projections as well. It could be a tough fall and early winter for beef buyers. If somehow more cattle could be pushed through the supply chain, then that would help contain the price increases, but the labor pinch-point remains. This week's fed kill came in at 513k, up 3k from last week but well short of the 530k per week that past placements suggest should be market ready right now. So that means each week a few thousand head are being backed up and that is the primary reason that cattle feeders are unable to press the cash cattle market higher.

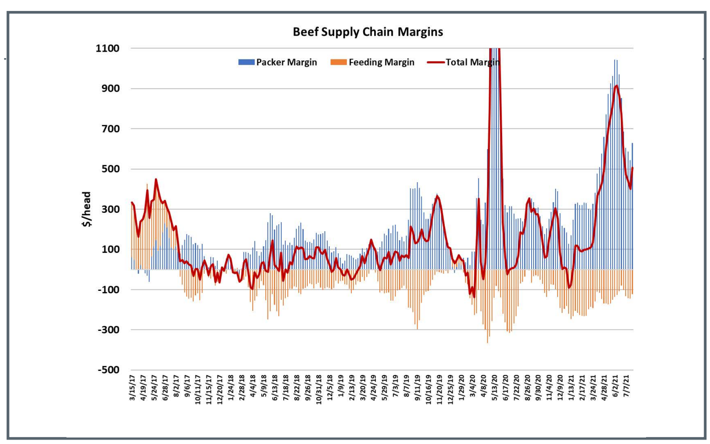
The backup is so small that it is not really showing up in carcass weights yet, but that could change if this under-killing goes on for many more weeks. Last week's Cattle inventory report indicated that the US cattle herd is still in contraction mode and shrunk a little faster than expected during the first half of 2021. Cow kills have also been elevated for a long time now as producers thin down their herds.

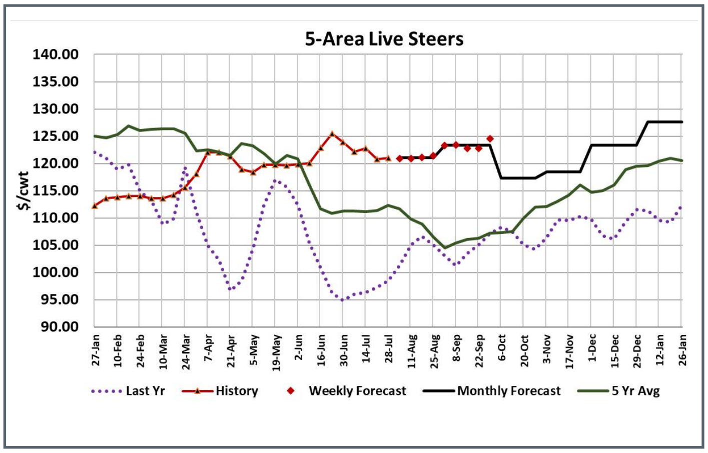
The futures market has been expecting tighter cattle supplies to lift cash cattle prices starting in the very near future, but especially for 2022. The market is correct in assuming that at some point the cattle supply will shrink enough to put cattle feeders back in the driver's seat, but I worry that the market is looking for that to happen too soon. The futures appear to be stuck in a trading range that runs from about $125 to $130 on the Oct contract. The bulls get excited about strong beef demand and a smaller cattle herd in the future and they bid the market up to the top of that range, then reality sets in and reminds traders that the cash market isn't likely to move much in this environment where labor is limiting packing capacity, and the market moves lower. This week, early-week gains were mostly offset by late-week declines so that most contracts finished little changed on the week. I think the futures will likely stay stuck in this rangebound pattern for many weeks to come. Next week, watch the cutout and primals for their rate of increase, but don't expect much change in cash cattle prices.

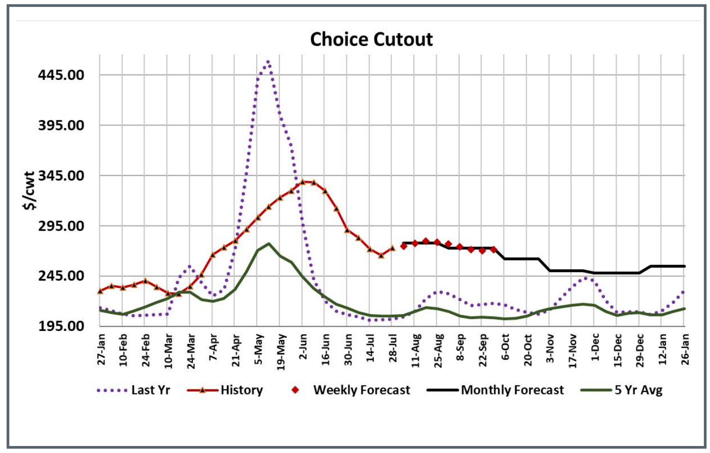

WTD Change in LC Futures
0.700
0.600
0.500
0.400
0.300
0.200
0.100
0.000
-0.100
-0.200
-0.300
Aug21
Oct21
Dec21
Feb22
Apr22
Jun22
Aug22
Oct22

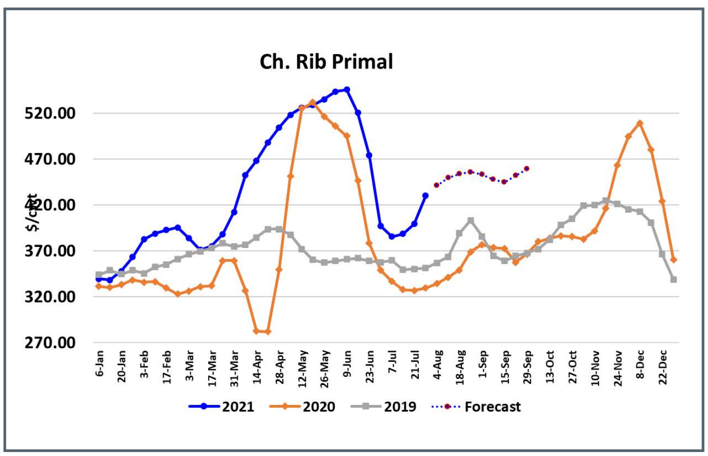

WTD Change in FC Futures
0.000
-0.200
-0.400
-0.600
-0.800
-1.000
-1.200
-1.400
-1.600
-1.800
-2.000
Aug21
Sep21
Oct21
Nov21
Jan22
Mar22
Apr22


Weekly Avg Primal Impact on Choice Cutout from W/E Jul 23, 2021 to W/E Jul 30, 2021
Cutout Chg = 7.02
$/cwt.
4.00
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
3.36
1.86
0.63
1.12
0.23
0.20
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.