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WEEK ENDING JULY 9, 2021

THE BEEF WRAP

Cash cattle continued to trade in a two-tiered market this week, with cattle in the North bringing $124-126 and cattle in the South bringing $120-122. It looks like the weighted average will be close to $121, so that is down almost $3 from last week's average near $124. There are two things going on here. First cattle on feed numbers are tighter in the north than in the south. Second, northern cattle typically grade better than southern cattle which is important in the current environment where the spread between the Choice cutout and the Select is over $20.

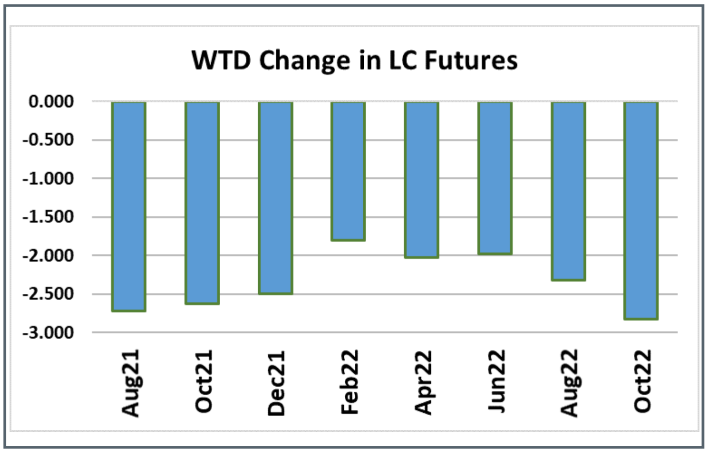
I'm expecting packers to put together a large Saturday kill this weekend in order to help offset the lost production from Monday's holiday. If they do that, the fed kill may come close to 450k. Next week, it is back to a full kill schedule and a fed kill closer to 525k. This week's light production hasn't done much to slow the decline in beef prices, with the Choice cutout dropping over $6 so far this week and the Select down about $7. The short kill does seem to have influenced the 50s market however, with prices there reaching $118 this week. The fact that carcass weights are at or near their annual low is probably also providing support to the fat trim market. This week both the end cuts and the middle meats contributed to the weakness in the cutouts, while briskets and 50s were mildly supportive.

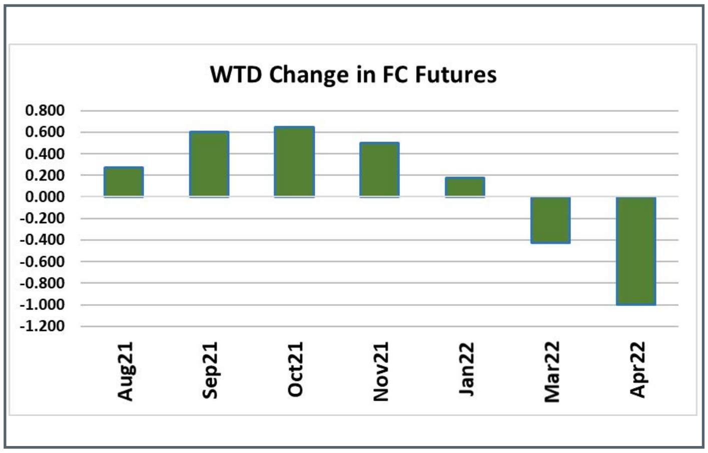
I think there are enough cattle available for packers to kill about 525-530k per week through the balance of July, but there is some risk that they will be reluctant to press it that hard because they might fear what it would do to the cutouts. However, if they can just get through July, then cattle availability should drop (assuming that we don't back any cattle up during July) and weekly fed kills could be scaled back to 510-515k without creating a backlog. Packer margins continue to slowly work lower and I have this week's margin at $655/head, still incredibly large, but it is down about $400 from its peak just five weeks ago. I think the margin continues to erode through summer and early fall. Cattle feeders, on the other hand, continue to suffer losses. I have cattle feeding margins around $140/head in the red this week. The last time cattle feeders had a reasonable positive margin was in January 2020. Imagine a running a business where you go a year and a half without any profit.

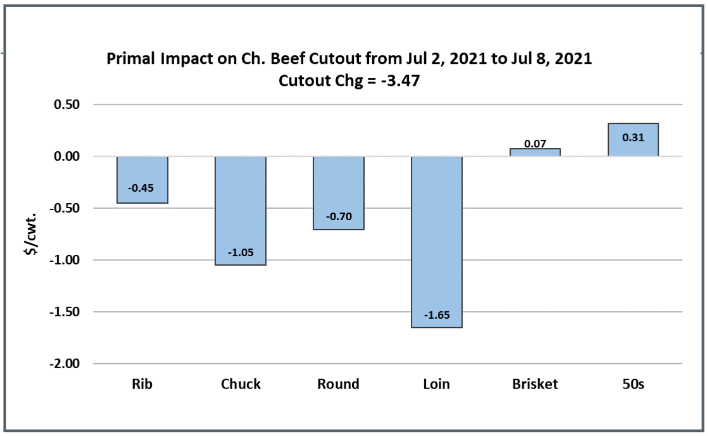
Eventually, things will turn in favor of cattle feeders once the herd shrinks to a level that is more consistent with the available packing capacity. There is some new capacity in the works also, but that might take 2 years or more to begin operating. While they are waiting for industry conditions to get to the point where they will make money again, cattle feeders should keep their fingers crossed that another disaster (ie, plant fire, pandemic, cyberattack) doesn't happen. They have had a terrible string of luck in the last few years.

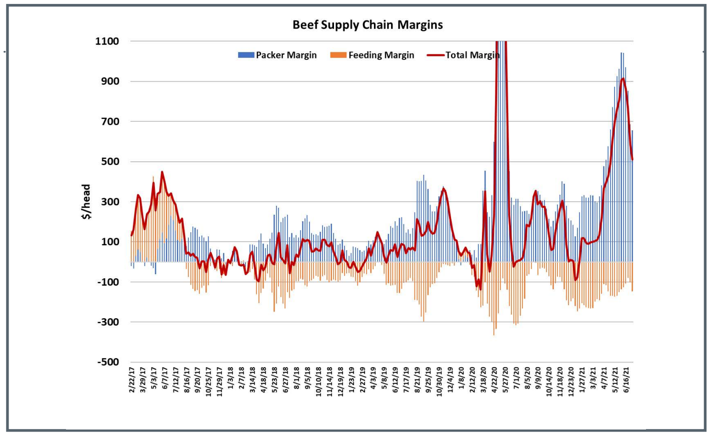
It is pretty obvious that the air is starting to come out of the demand side of the market. The combined margin chart below illustrates this well. It is not hard to predict that this will continue, but it is difficult to know when the leakage will stop. Right now there appears to be no end in sight. My forecast has the Choice cutout now moving down close to $250 by the time Labor Day arrives. I'd see the bottom somewhere in the high $220s coming near the end of the year or in January. As packing margins retreat to more traditional levels this fall, packers are likely to get more serious about managing the margin and that should lead to some pressure on cash cattle prices.

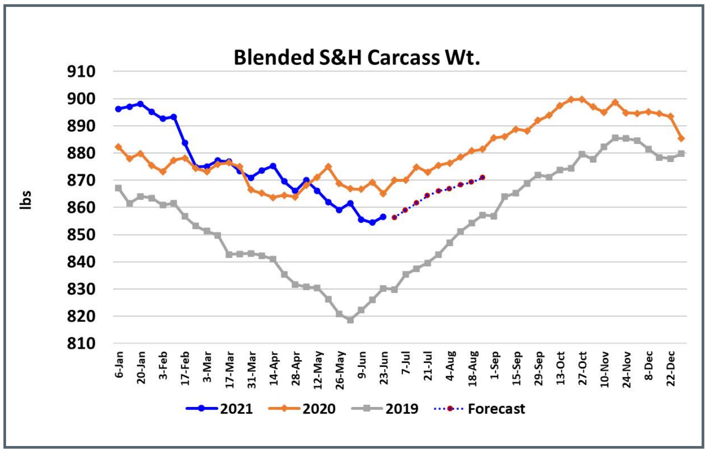
For the balance of summer though, I think packer margins will remain wide enough that they don't need to pressure the cash cattle market much below $120 and better currentness in feedyards may allow cattle feeders to actually advance cash prices a small amount before August expiration. Next week marks the beginning of the "dog days of summer" when meat demand typically fades. Watch the cutouts for an indication of whether or not that will be the case again this year.

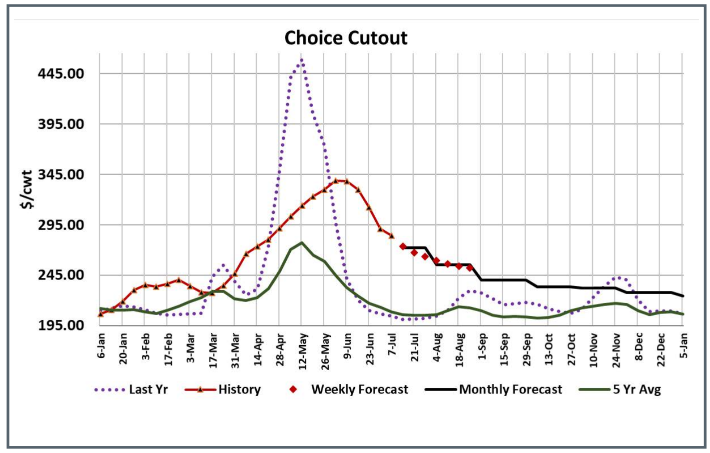

WTD Change in LC Futures
0.000
-0.500
-1.000
-1.500
-2.000
-2.500
-3.000
Aug21
Oct21
Dec21
Feb22
Apr22
Jun22
Aug22
Oct22


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


Primal Impact on Ch. Beef Cutout from Jul 2, 2021 to Jul 8, 2021
Cutout Chg = -3.47
0.50
0.00
-0.50
-1.00
-1.50
-2.00
$/cwt.
-0.45
-1.05
-0.70
-1.65
0.07
0.31
Rib
Chuck
Round
Loin
Brisket
50s


Beef Supply Chain Margins
Packer Margin
Feeding Margin
Total Margi
1100
900
700
500
300
100
-100
-300
-500
$/head





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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.

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