



WEEK ENDING AUGUST 13, 2021

THE BEEF WRAP

Cash cattle averaged about a dollar lower in the live markets this week at \$122.84. The dressed markets, which are primarily in the north, were about \$2 higher. Beef markets continued to soar with the Choice adding almost \$23 on a weekly average basis and the Select adding a little over \$18. At this rate, it won't be long before the beef market eclipses the high that was set back in early June. What in the world is going on with this beef market? It is hard to say for sure, but I would bet that it has something to do with the resurgence of COVID infections in the US. That is the only thing that has really changed since the beef market bottomed earlier this summer.

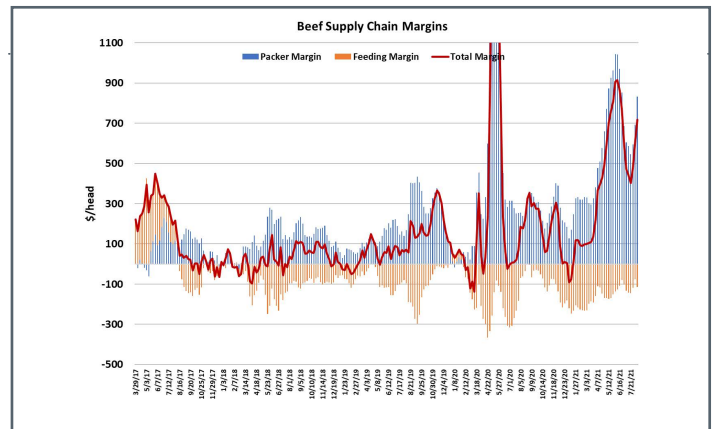
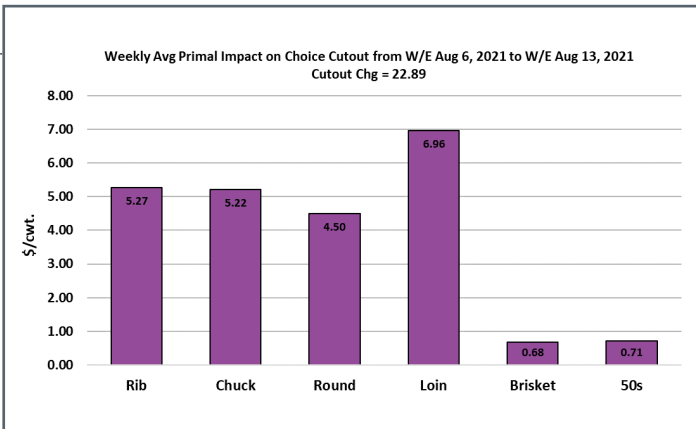
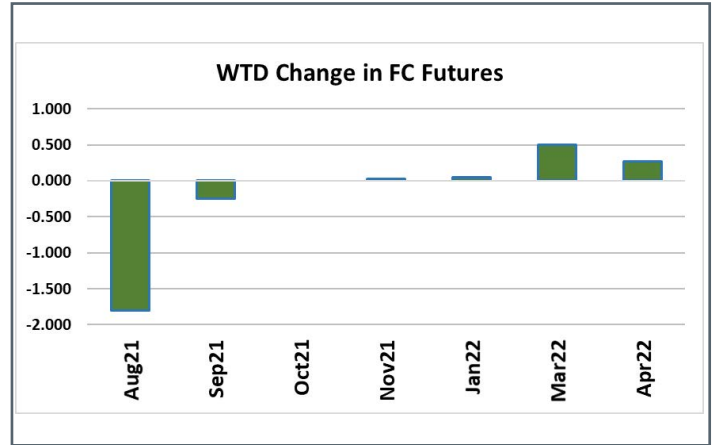
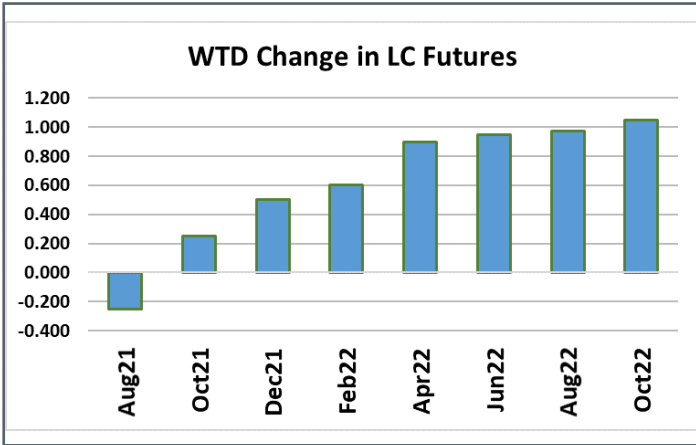
We already know that stay-at-home behavior is positive for beef demand and with infections rising, more people are probably back in stay-at-home mode. We also had the Child Tax Credit stimulus, which was paid out for the second time today. Those monthly checks that range from \$250-300 per child are going right into the bank accounts of some of the poorest Americans. They naturally want to upgrade their diet. Finally, there may be a certain amount of quiet stockpiling going on by consumers. People who thought the pandemic was coming to an end earlier this summer may have worked down their freezer stocks of meat and now that the pandemic is back on full-bore, they are restocking. Further, people also stockpile when they sense that inflation is rising. Buy it now, or pay more for it later. Inflation measures have certainly been strong recently. The chart below indicates that all of the primals except briskets and 50s were major drivers of this week's cutout gains. And, briskets and 50s are not really cheap either. Whenever I see broad-based move like that in the cutout, it suggests that the demand curve for all beef has moved outward. Stockpiling would do that. Stimulus money would also do that.

I've notice that in my local retail circular there is much less meat on feature and the price levels are not all that attractive. USDA released their retail beef price data for July this week and it showed retail prices were about 6.5 cents per pound higher than the record set in June. My guess is that August retail prices will be even higher than July's. It feels a lot like an inflationary spiral is in place. The combined margin chart shows that the second wave of super strong demand is in place and could easily outperform the previous top with a few weeks. I've also included the price-quantity scatter diagram for August below. The thing to note here (besides how high the 2021 data point is from the line) is how small per-capita domestic availability is.

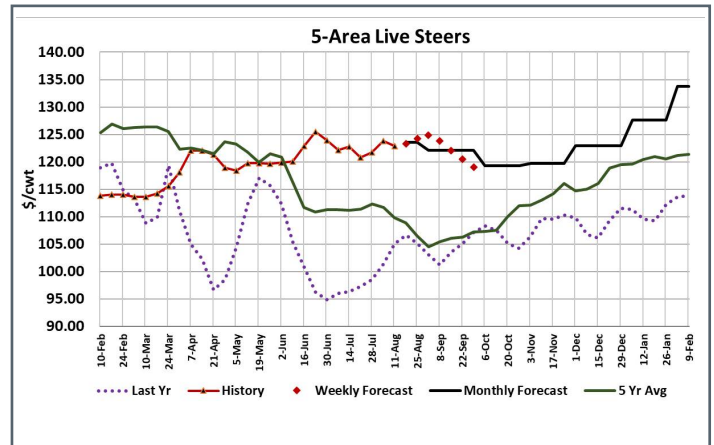
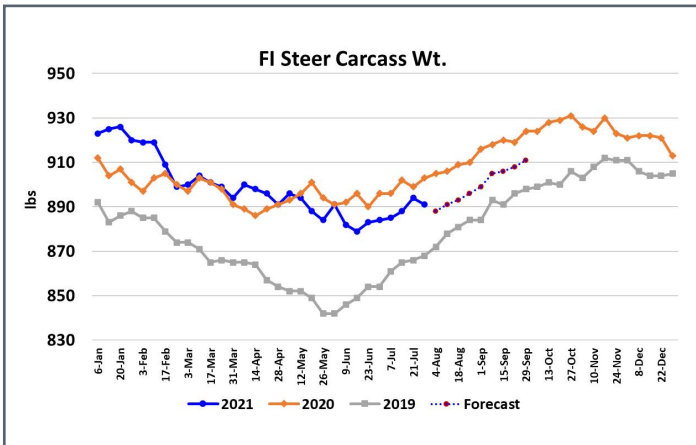
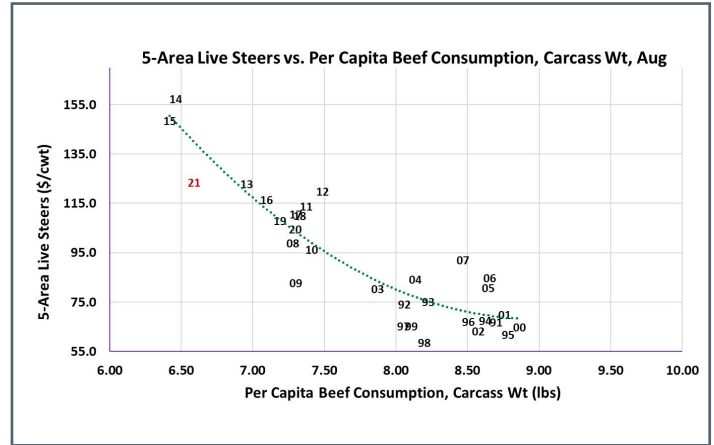
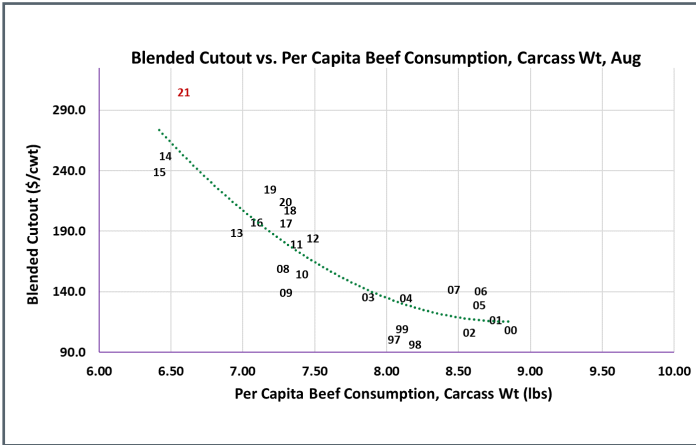
It is on the order of what we saw back in 2014 and 2015. That is being caused by small fed kills as labor problems keep packers from processing normal levels of cattle. So, there is a supply side component to this rally as well. Now look at the second scatter diagram below which plots the cash cattle price against the same per-capita consumption variable. Back in 2014-15 when beef supplies got really tight, cash cattle prices were up around \$155 because there were no bottlenecks in the system and packers had to compete vigorously for cattle.

The difference between then and now is that back then there was a real shortage of cattle and plenty of processing capacity. In 2021, we have plenty of cattle and a shortage of processing capacity. As long as that persists, I think we can expect cash cattle to trade in the \$120-125 range, regardless of what the beef market does. I calculate packer margins this week at \$858/head and poised to go well over \$900/head next week. Tyson's stock surged almost 15% this week when they reported on and extremely profitable quarter. Anyone who was paying attention to the meat markets should have seen that coming. The next quarter will likely also be profit blockbuster for meat companies. This week's fed kill only registered 505k, which is below what the flow model suggests should be available during August. That said, the weight indicators do not suggest that cattle are backing up in feedyards to any significant degree. Steer carcass weights actually declined 3 pounds this week when the normal seasonal would have them increasing. The DTDS weights also suggest that cattle are not overly heavy at the moment. The futures were largely unchanged on the week, except for nearby Aug, which lost almost \$2 Friday-to-Friday. The Aug contract has had to contend with a slew of deliveries as cattle feeders in the South attempt to score a better price for their animals than what the packers are offering in that region.

Ultimately, I'm looking for cash cattle prices to decline this fall, but in order for that to happen, beef prices will need to cool off a lot. For now, traders will be best served to delineate the trading range, sell when prices near the top of the range and buy when they near the lower end. Next week, watch those cutouts. Will they gain more next week than they did this week? I'm not forecasting that by any means, but it really wouldn't surprise me if this strength in the beef market continues unabated.



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