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WEEK ENDING AUGUST 20, 2021

THE BEEF WRAP

Beef prices continued to soar this week with the Choice cutout up $27 from the end of last week and the Select cutout up over $22. The chart below indicates that it is the middle meats that are now the primary drivers of the price increases, with the end primals providing much less of the lift. That gives me hope that the cutouts may be nearing a top since if the end meats start to retreat, it will be hard for the middles to continue to provide gains large enough to keep pushing the cutout higher. However, as much as I'd like for next week to be the top, I could easily see this rally extending 2-3 more weeks. The chart below shows the rapid acceleration in the rib primal over the past four weeks.

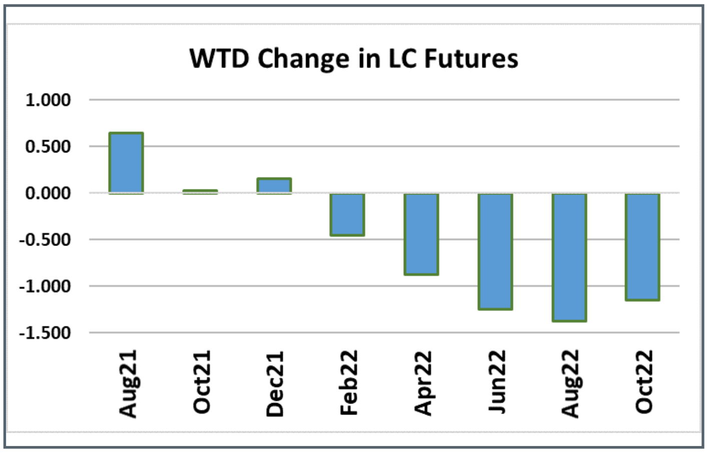
You might also notice that the current value for the rib primal is above what I'm forecasting for holiday ribs. Who would think that ribs would be more expensive in mid-August than they will be in November? Probably no one. So, either this late summer rally is a very unusual occurrence or I'm way too low on my middle meat forecasts for the holidays. Actually, both may be true. I know the first one is. Over the past 10 years, the rib primal has averaged about $50 more in November than it has in August. If that happens again this year the rib primal would be close to $590 in November. That would be a 34% increase over last year, and last year was an all-time record high for November. Talk about sticker shock for end users. Time will tell if that happens this year, but buyers should tuck the idea away in the back of their minds that the rib primal might reach or exceed the $600 level this fall. In fact, that fear may partly explain the current rally—buyers are afraid of low availability (due to labor constraints in plants) and super high pricing this holiday season so they are buying now and putting the product in a suspended fresh programs.

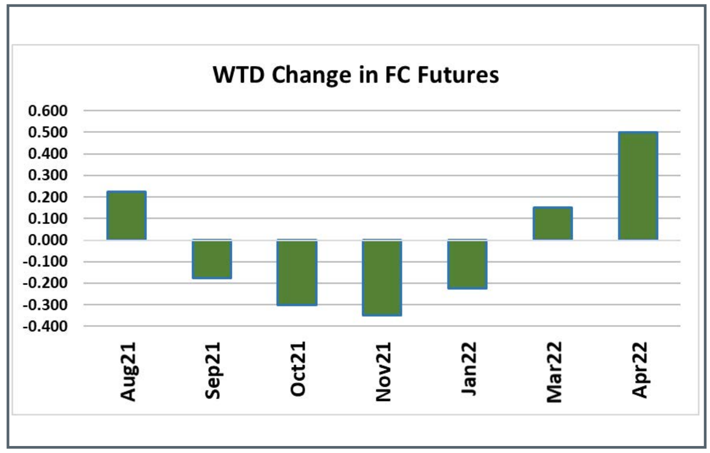
Reports from retailers suggest that beef is moving out of the meat case with little or no concern for price on the part of consumers. That also sounds like a bit of panic going on. It is possible that consumers are refilling their freezers out of fear that the delta variant surge will force them into stay-at-home mode over the next few months. When markets get frothy like this it is a good bet that there is fear involved somewhere.

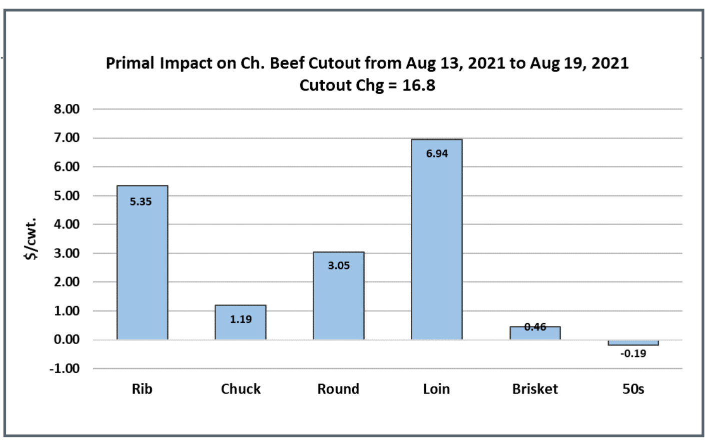
The cash cattle market even benefited somewhat from the rally in beef this week as packers have been willing to pay more for high quality cattle as they search for those animals that will make the Choice grade and thus allow them to capitalize on an extremely wide Choice-Select spread for this time of year. So far this week, cash cattle pricing has averaged $126.52, up a little more than $3 from last week's average. Packers are still having difficulty ramping up the kill due to a lack of labor.

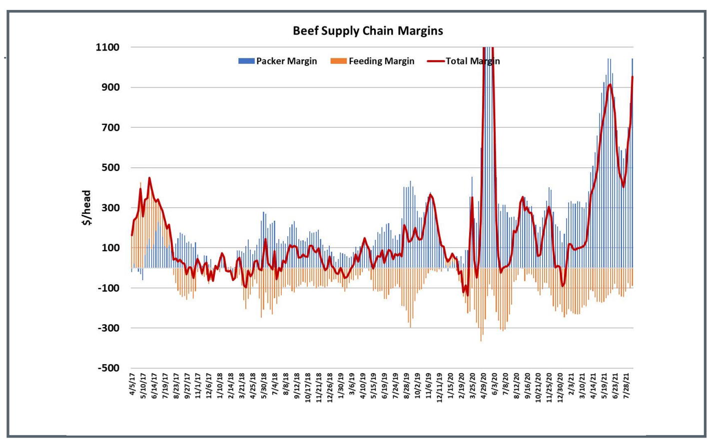
I calculate packer margins at $1043/head this week, which is nearly identical to the peak in packer margins last spring. Maybe that means we are near a top (?). The combined margin has now exceeded the peak it made during the spring rally, which is a sign that demand is now stronger than it was at the peak last spring. When the market finally broke last spring, I thought that it might be years before we saw demand that strong again and yet it only took a few months to break that record. Cattle feeding margins this week were -$90/head, so you can see why cattle feeders are frustrated when they see packers making over $1000/head, especially when you consider that a cattle feeder has to care for that animal for six months in order to lose $90/head yet the packer has that same animal for only a few days to make +$1000/head. Life is obviously not fair. The weekly export data released this morning looked solid for beef—especially movement to China.

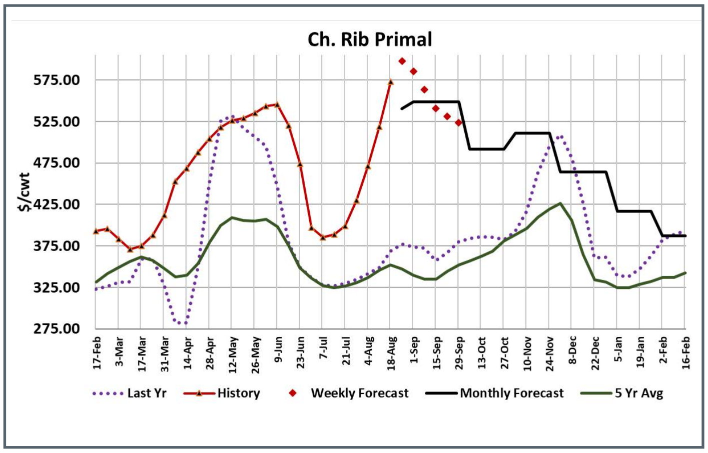
We are rapidly approaching the point where China may import more beef from the US than pork. There is another thing that I though would never happen. What a strange year this has been. Next week, watch the middle meats for signs that they are running out of gas because once the cutouts top, they are likely to move lower rapidly as buyers begin to back away. It is hard to tell exactly when that will happen, but I would expect that a turn lower in the middle meats would be an early indicator.

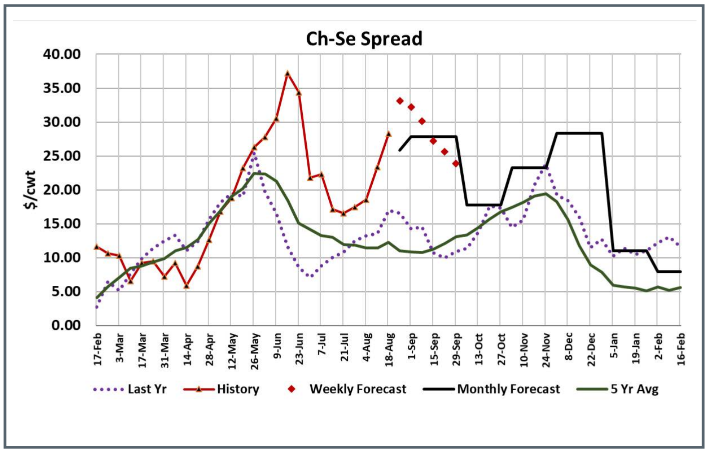

WTD Change in LC Futures
1.000
0.500
0.000
-0.500
-1.000
-1.500
Aug21
Oct21
Dec21
Feb22
Apr22
Jun22
Aug22
Oct22

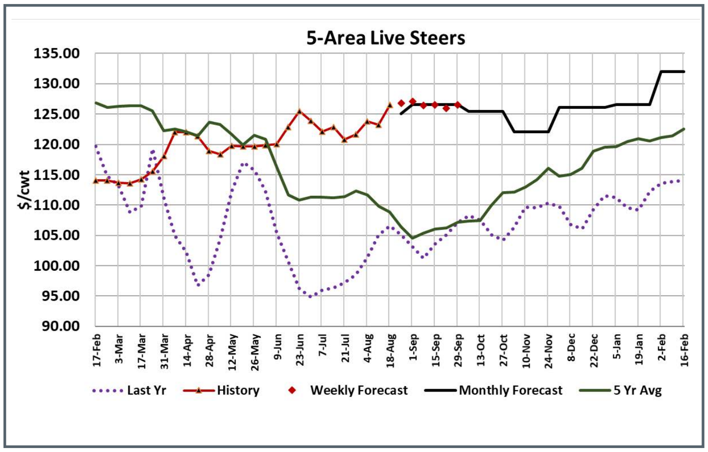

WTD Change in FC Futures
0.600
0.500
0.400
0.300
0.200
0.100
0.000
-0.100
-0.200
-0.300
-0.400
Aug21
Sep21
Oct21
Nov21
Jan22
Mar22
Apr22

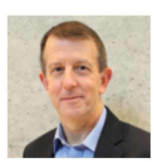

Primal Impact on Ch. Beef Cutout from Aug 13, 2021 to Aug 19, 2021
Cutout Chg = 16.8
$/cwt.
8.00
7.00
6.00
5.00
4.00
3.00
2.00
1.00
0.00
-1.00
5.35
1.19
3.05
6.94
0.46
-0.19
Rib
Chuck
Round
Loin
Brisket
50s


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.