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WEEK ENDING AUGUST 27, 2021

THE BEEF WRAP

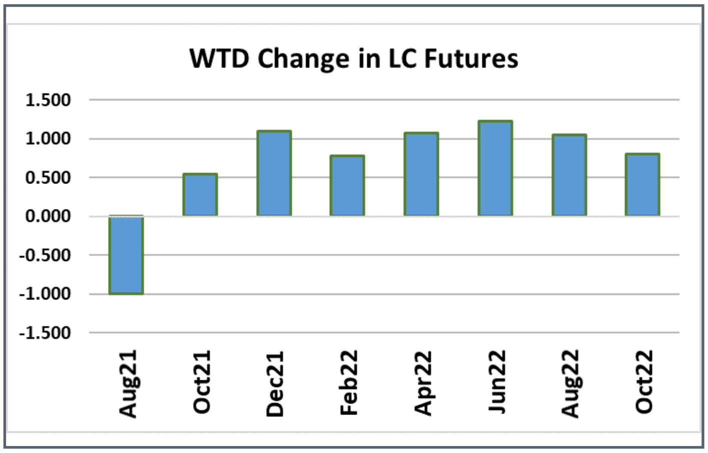
Cash cattle have only been lightly traded this week, with prices in the South mostly $122-124 and prices in the North $3-4 over that. Available supplies are tighter in the North and the cattle from that region grade better, thus the higher price levels. Cattle feeders have been struggling to capture even a small portion of the huge margins that packers are making right now, but just can't seem to make that happen due to plant labor constraints restricting capacity. They had better hurry up if they want to get it done, because the cutouts appear poised to track lower in the next few weeks and packers are not known for paying up for cattle when the cutouts are falling at a big clip. The beef market feels really toppy up here. On a weekly average basis, the Choice cutout was up $8.10 on the week and the Select is up almost $6.41, but the gains have stalled in recent days as last minute Labor Day buying was completed. There are some cracks starting to appear in the beef market and my guess is those will accelerate next week.

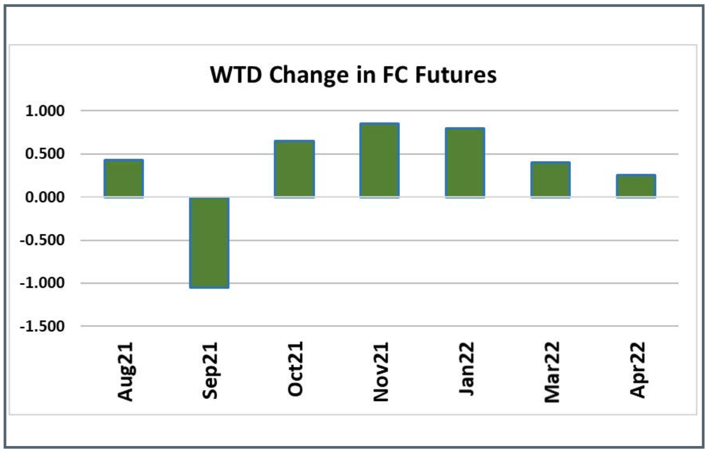
The 50s lost $16.72 on a weekly average basis and the daily prices suggest that the 50s could lose $20 or more next week. Middle meats once again provided support for the cutout, but unless a buyer absolutely must have ribs or loin cuts at this moment, they won't be paying the super-high prices that USDA has printed in recent days. I'd expect them to back away and let the middles drop like a rock. The end meats were higher this week also, but there too the daily prices suggest a downtrend in the making for next week. This was the first week in quite a while where I didn't feel like I needed to drastically raise my beef price forecasts. In fact, I lowered some of them. Of course, if the cutouts are in fact turning lower, buyers will want to know how long that is likely to last. The blended cutout chart below shows that once the last cycle topped, the cutouts moved lower for the next seven weeks before bottoming.

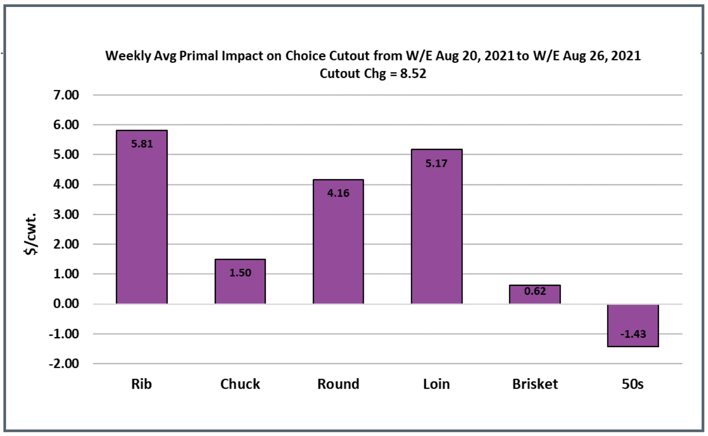
If that repeats, it would put the bottom somewhere around the second week of October. By then, holiday interest should be driving the middles higher again and very likely the cutouts also. That would be a relatively normal seasonal pattern, but if there is anything 2021 has taught us is that normal seasonals don't apply this year. Thus, I'm going to ignore the seasonal and say that by Oct/Nov demand will have faded somewhat and thus the cutouts will be trading well below $300 right through the holidays.

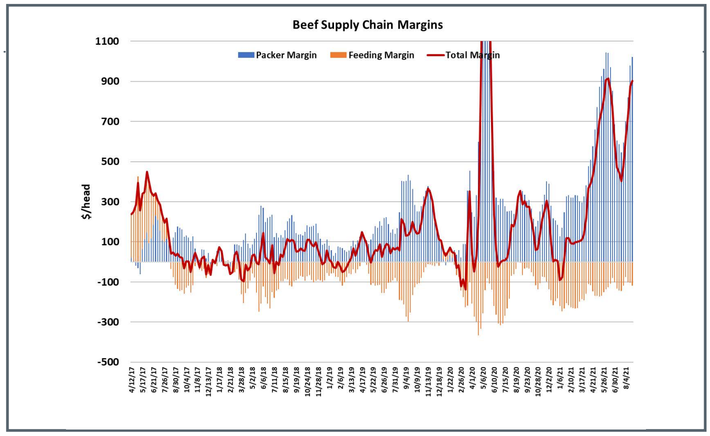
That sounds like a pretty bold forecast given what we have been through so far this year, but remember that high prices eventually cure high prices and it seems like that cure is a bit overdue. I'm looking for this week's fed kill to be close to 510,000 head, with packers upping the Saturday kill to make up for lost kill time due to mechanical problems in some plants. The problem is that it will be difficult for packers to make up ground over the next two weeks because of the Labor Day holiday. Packers are likely to scale back the kill next Friday and Saturday as a gift to employees on Labor Day weekend. Then, of course all production will be lost on Labor Day itself, the following Monday. So, the bottleneck in the packing sector continues.

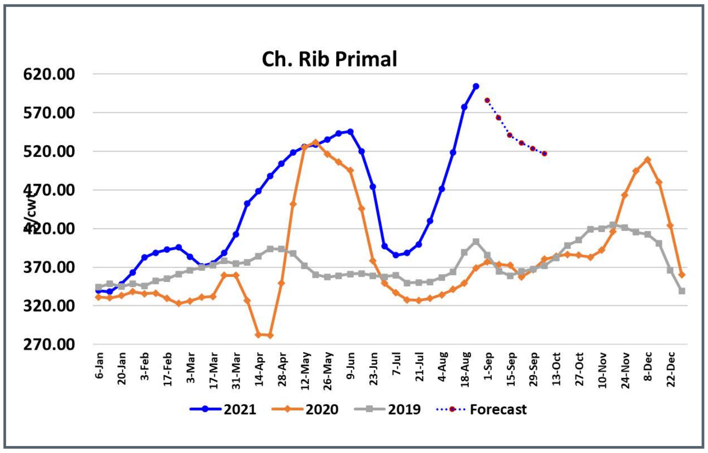
I'm not sure how cash cattle prices can advance much as long as this stumbling block remains in place. Yes, packers will pay premiums for the best grading cattle, and may pay more in the North where numbers are tighter, but increasing cattle prices substantially in the South is going to be a challenge, especially if the cutouts are moving lower. On the demand side, we saw the combined margin move higher again this week, reflecting strong demand ahead of the holiday. It is interesting that the combined margin is now almost exactly where it was earlier this summer when the cutouts topped and turned lower. Maybe that is an omen. Next week, watch the rib and loin primals for signs that buyers are backing away. If that happens, the cutout will almost certainly retreat and the market tone will move from bullish to bearish pretty quickly.

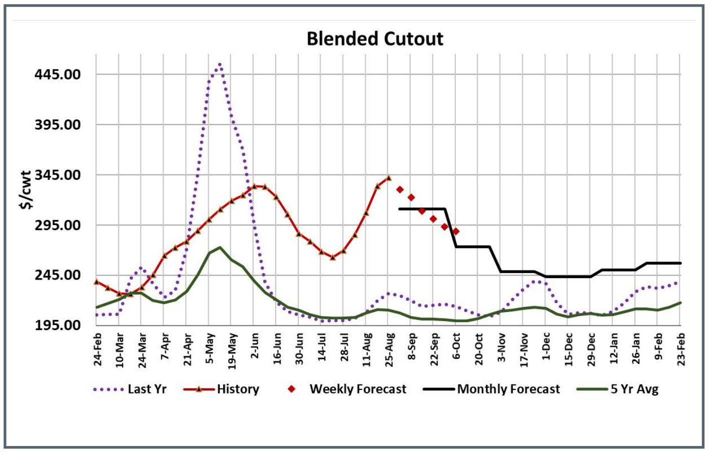

WTD Change in LC Futures
1.500
1.000
0.500
0.000
-0.500
-1.000
-1.500
Aug21
Oct21
Dec21
Feb22
Apr22
Jun22
Aug22
Oct22


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


Weekly Avg Primal Impact on Choice Cutout from W/E Aug 20, 2021 to W/E Aug 26, 2021
Cutout Chg = 8.52
$/cwt.
7.00
6.00
5.00
4.00
3.00
2.00
1.00
0.00
-1.00
-2.00
5.81
1.50
4.16
5.17
0.62
-1.43
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.

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