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WEEK ENDING SEPTEMBER 17, 2021

THE BEEF WRAP

The cash cattle market was a little lower this week, with the average live trade done close to $124. In the prior four weeks it had been closer to $125. The beef market continued its retreat with both cutouts down about $12 on a weekly average basis. That said, the Choice cutout finished up on Friday at $314, so it is not cheap by any means. Last week I said we should keep an eye on the middle meats to see if they were going to give up any ground before the holiday buying season starts. The chart below shows that the rib primal was almost unchanged from last week, but the loin primal was the biggest loser on the week.

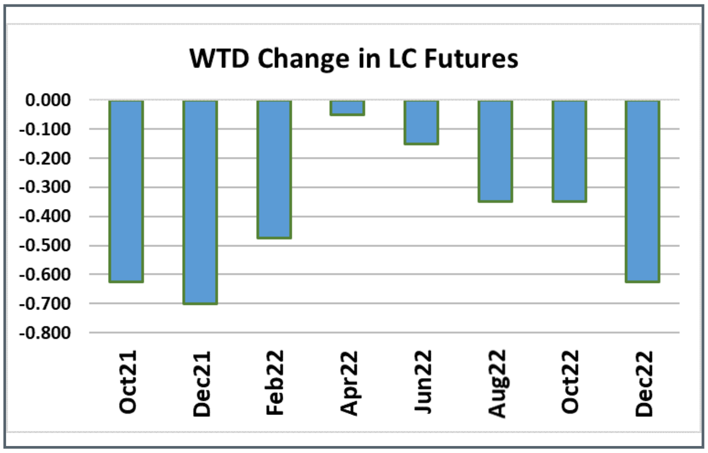
So, there is no clear signal. Well I guess it is pretty clear that something extraordinary is going on with the ribs, but that is not transferring over to the loin cuts. Traditionally, the loins trend lower throughout the fall, with the possible exception of tenders when we get into November, so the action on the loins isn't all that surprising. The ribs being this strong in September is very surprising. End meats are starting to give up ground in big chunks now and I would expect that to continue for several more weeks. Packer margins are compressing as the cutout falls. This week they came in at $945/head. It doesn't really look like cash cattle are going to move much in the coming weeks, so further erosion in the cutouts implies further erosion in packer margins. The extreme persistence of super-sized packer margins has forced me to raise my margin forecasts for Q4 and Q1. Packers haven't faced a margin less than $300/head since January. That is pretty amazing. The chart below shows the exponential growth in packer margins since 2016. Packers must have found the secret sauce in 2016, because before that average annual margins were mostly negative.

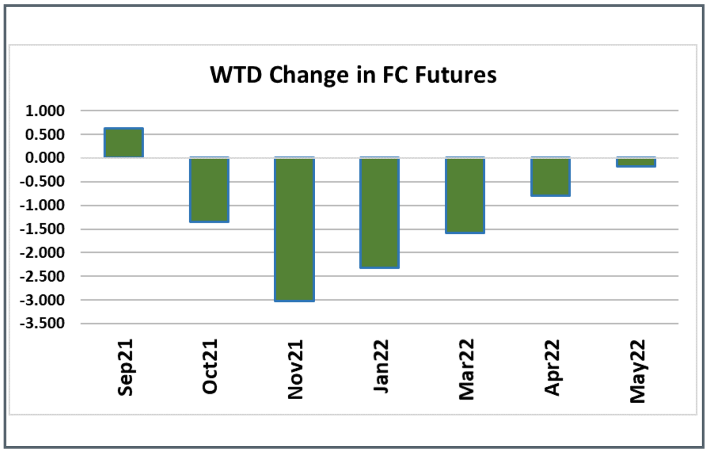
That chart is exactly the kind of picture that government officials are looking at when they say something is badly amiss in the packing segment. This week's fed kill came in at 517k, which was up about 60k from the previous week's holiday-shortened kill. Cow and bull slaughter totaled 143k, up 20k from the week before. My model suggests that packers will need to kill around 520k steers and heifers in September to keep animals from backing up, but when we get to October a 500k kill should be sufficient. If fed kills do fall below 500k in October, then I suspect that packers will become a bit more competitive in sourcing cattle and thus there is a chance that a few dollars could be added to the price of cash cattle.

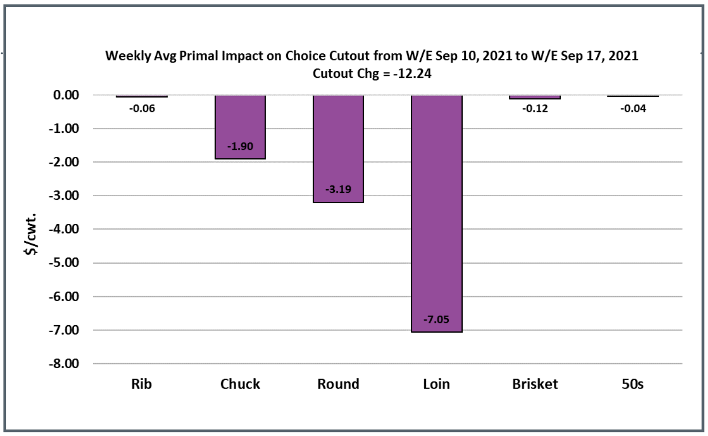
Right now, the fundamental forecast has cash at $127 near the end of October. The carcass weights that were released this week were a good bit heavier than I was expecting and thus had to increase the carcass weight forecasts. It occurs to me that, with labor limited in packing plants, one way to get more beef output for roughly the same amount of labor is for cattle feeders to make the animals heavier. Of course, that is a tough sell when corn is over $5/bushel. Cattle feeding margins are still moderately in the red and I calculate that cash cattle prices would need to move into the $128-130 range to erase that red ink. Domestic demand is slowly deflating, but remains way above historical levels.

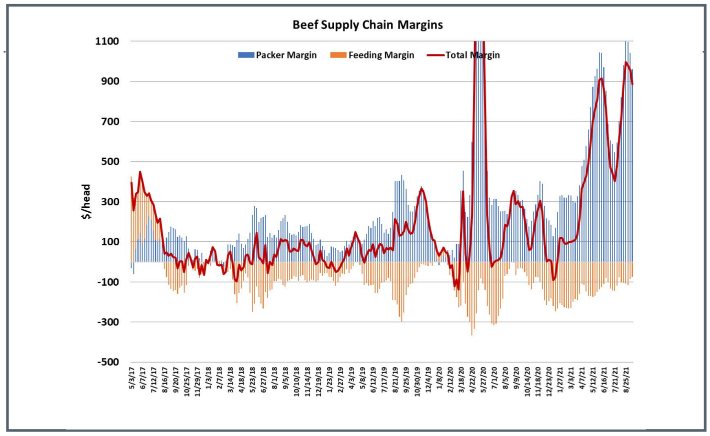
The scatter below for September shows just how strong domestic demand is currently. Here is a guessing game we can all play: When do you think will be the next time the data point on the scatter falls below the regression line? 2022 or 2023 or never? I certainly don't think it will be any time in 2021. International demand for US beef continues to look healthy, but it is pretty clear that high US pricing during Aug put a dent in export volumes. The futures calmed down somewhat this week after a strong downtrend in the previous two weeks. I think we are back into a trading range type of market for live cattle because there is not much hope for a big change in the cash cattle market over the near term.

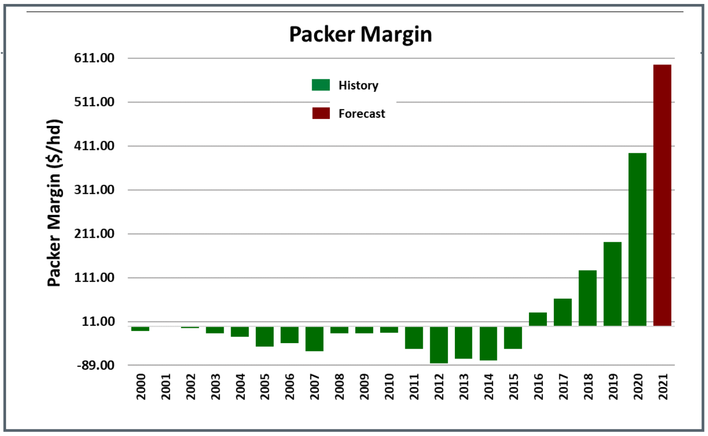
Next Friday we will get another Cattle on Feed report and I expect that it will peg August placements down 2%. That is smaller than most of the other estimates I've seen. Actually, my models were pointing to a much larger decrease than what I put down on paper, so I wouldn't be surprised if USDA printed placements down 5% or more. Next week, continue to watch the middle meats and particularly the ribs. I'm concerned that primal could go to the moon once the holiday buying kicks in.

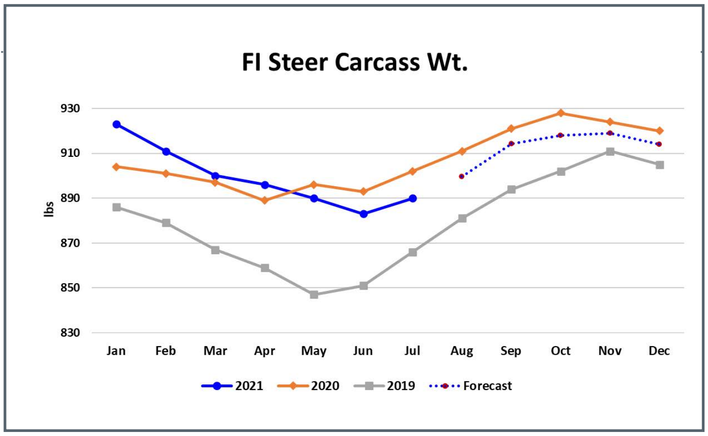

WTD Change in LC Futures
0.000
-0.100
-0.200
-0.300
-0.400
-0.500
-0.600
-0.700
-0.800
Oct21
Dec21
Feb22
Apr22
Jun22
Aug22
Oct22
Dec22

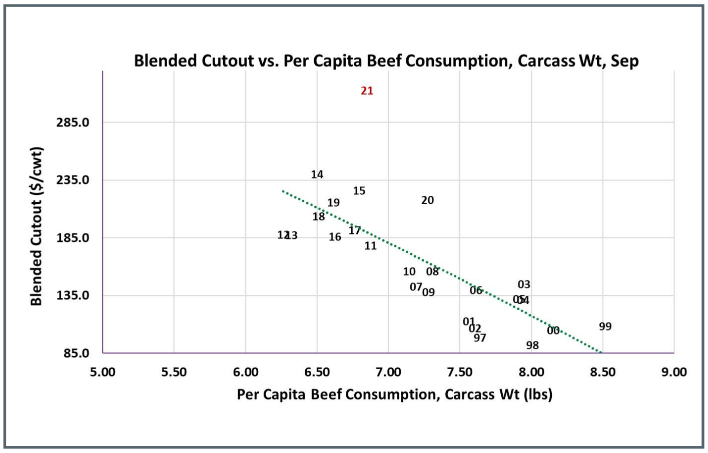

WTD Change in FC Futures
1.000
0.500
0.000
-0.500
-1.000
-1.500
-2.000
-2.500
-3.000
-3.500
Sep21
Oct21
Nov21
Jan22
Mar22
Apr22
May22

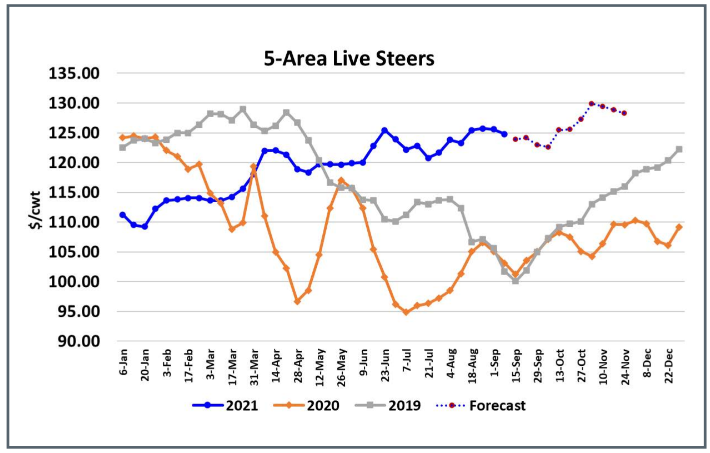

Weekly Avg Primal Impact on Choice Cutout from W/E Sep 10, 2021 to W/E Sep 17, 2021
Cutout Chg = -12.24
$/cwt.
0.00
-1.00
-2.00
-3.00
-4.00
-5.00
-6.00
-7.00
-8.00
-0.06
-1.90
-3.19
-7.05
-0.12
-0.04
Rib
Chuck
Round
Loin
Brisket
50s

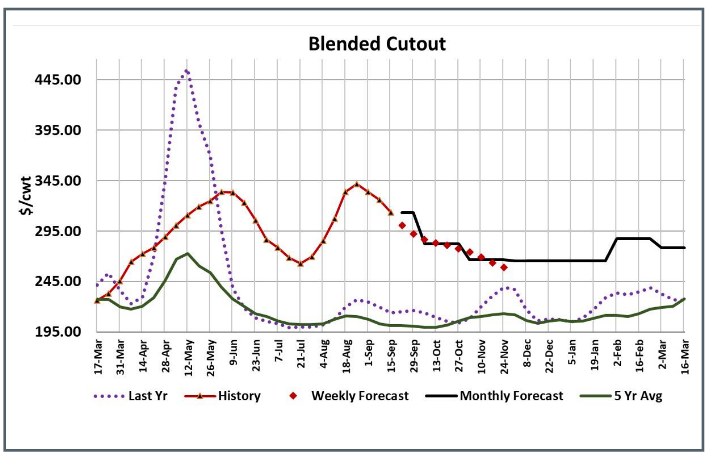

Beef Supply Chain Margins
Packer Margin
Feeding Margin
Total Margin
$/head
1100
900
700
500
300
100
-100
-300
-500


Packer Margin
History
Forecast
Packer Margin ($/hd)
611.00
511.00
411.00
311.00
211.00
111.00
11.00
-89.00
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021


FI Steer Carcass Wt.
lbs
930
910
890
870
850
830
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2021
2020
2019
Forecast







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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.