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WEEK ENDING SEPTEMBER 24, 2021

THE BEEF WRAP

It was more of the same in the cattle and beef complex this week–cash cattle steady in the $123-124 range and beef cutouts falling like a rock. The Choice was down $11.47 on a weekly average basis and the Select was off $8.58. Some packers did plant maintenance this week and that limited the fed kill to 496k–woefully short of what is needed to keep feedyards current. Numbers should be tighter in Oct and Nov, so perhaps some catch-up can occur then. It is neither here nor there for cash cattle prices since packers will continue to support them in the mid-$120s as long as their margins are super-strong.

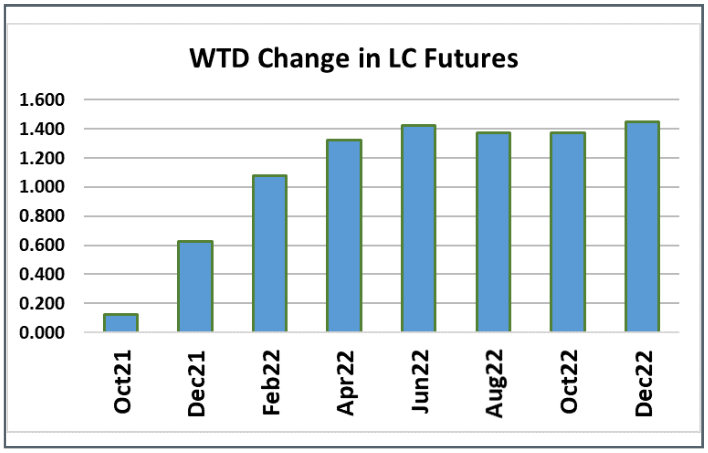
I calculate this week's margin at $894/head, so margins are slowly declining from the $1000+ level that we saw just a few weeks ago. It will be interesting to see of the shrinkage in market-ready cattle during Q4 causes packers to compete more aggressively and thus bid up cattle prices. Economic theory says that should be the case, but my gut tells me that packers will find a way to keep from increasing cash cattle prices much if any. They have become experts at that. Carcass weights are still below last year, but not by much, and I'm forecasting them to reach year-ago levels later this year (chart below). That won't do cattle feeders any favors. It will help improve beef availability however, and beef buyers should be glad to hear that. This week the rib primal finally broke lower and the question now is how long that will last. Soon buyer's attention will turn toward securing middle meat needs for the holidays and that could cause an abrupt turn around in the ribs.

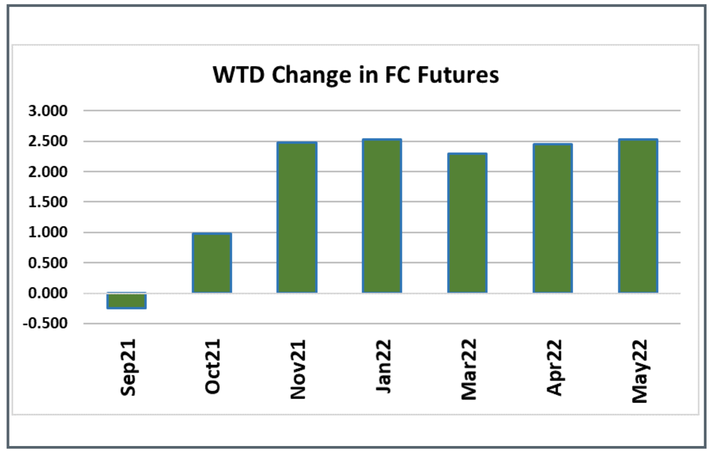
However, I've heard chatter that many big buyers have already secured holiday ribs and put them in a suspended fresh program. If that is the case, then perhaps the ribs can continue to work lower right into the holiday season. That would violate one of the most predictable seasonal patterns in all of agriculture–ribeye prices rising from Q3 into Q4. It has been a strange year indeed. The chart below shows that all primals were lower this week, so even end meats are helping to push the cutout lower at this point. My fundamental forecast has the cutout continuing lower right into December, mostly on demand pulling back from the super-strong levels that we saw this summer. However, I'm pretty nervous about that forecast.

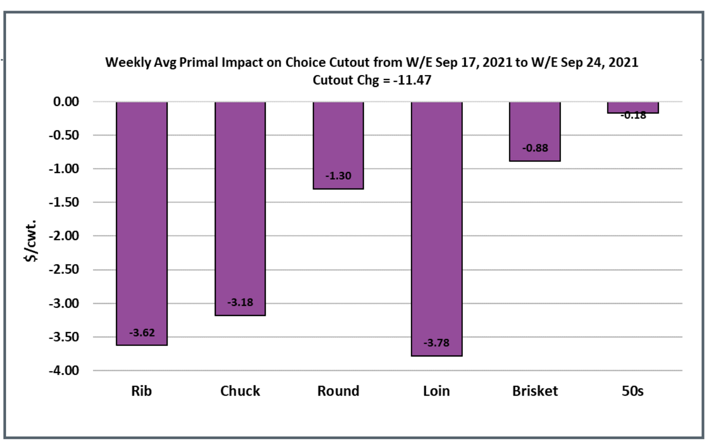
The combined margin chart continued lower this week and that is a sign of softening demand. The slope of this decline seems to be a bit flatter than the previous cycle, so it seems reasonable to expect the drop in the cutout not to be as aggressive as it was back in June/July when it was in a downcycle. Live cattle futures were a little higher this week, but traders may come to regret that since this afternoon's Cattle on Feed report showed August placements up 2.3%, which was considerably larger than the average trade guess.

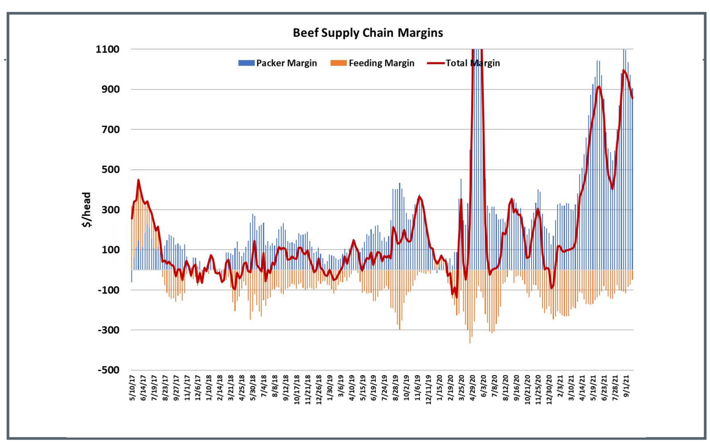
That could trigger some selling in the deferred futures on Monday. At this rate, it won't be long before traders start to give up on the idea that cash cattle prices will ever be anything except $124 again. If cattle feeders want to move cattle prices higher, then they need to sharply reduce placements so that available cattle supplies line up better with the reduced throughput in plants that is being caused by tight availability of labor. So far, cattle feeders have not done enough to constrain placements and so will need to depend on packer generosity to hold cattle prices in the mid $120s. That holding of cash cattle prices in the mid $120s might actually be a great long-run strategy for packers since it is close enough to cattle feeding breakevens that they are not feeling serious margin pressure and it normally takes deep red margins to convince cattle feeders that they need to do something differently. By paying $124 and thus holding margins only modestly in the red, packers will encourage cattle feeders to keep placing more cattle than they should and thus the leverage meter could stay in the packer's favor for a long time to come.

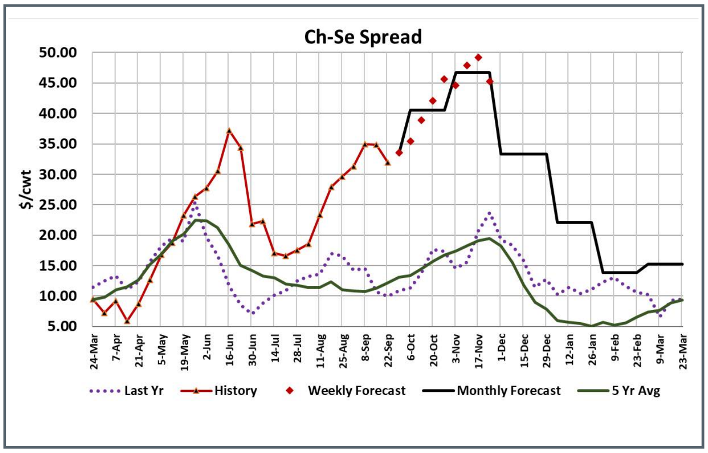
Those sneaky packers. I guess we need to get the government involved. Next week, expect more of the same–steady cattle market and lower beef prices. Watch the ribs for signs that holiday buying is beginning to have an effect.

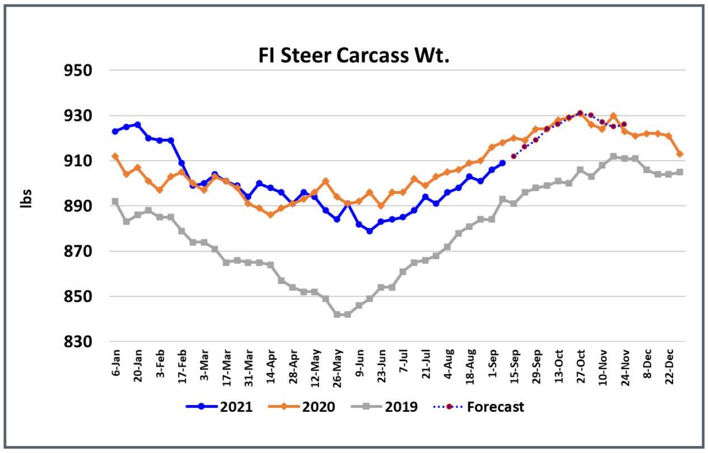

WTD Change in LC Futures
1.600
1.400
1.200
1.000
0.800
0.600
0.400
0.200
0.000
Oct21
Dec21
Feb22
Apr22
Jun22
Aug22
Oct22
Dec22

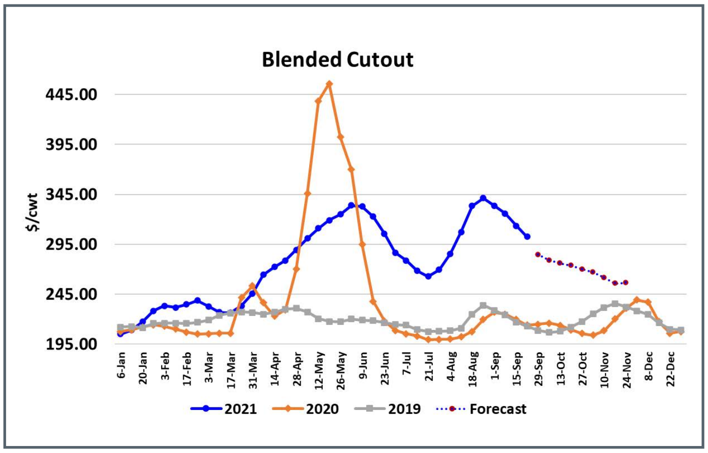

WTD Change in FC Futures
3.000
2.500
2.000
1.500
1.000
0.500
0.000
-0.500
Sep21
Oct21
Nov21
Jan22
Mar22
Apr22
May22


Weekly Avg Primal Impact on Choice Cutout from W/E Sep 17, 2021 to W/E Sep 24, 2021
Cutout Chg = -11.47
$/cwt.
0.00
-0.50
-1.00
-1.50
-2.00
-2.50
-3.00
-3.50
-4.00
-3.62
-3.18
-1.30
-3.78
-0.88
-0.18
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.