



WEEK ENDING SEPTEMBER 03, 2021

THE BEEF WRAP

Live cattle futures traders seem to have lost their optimism for the future. The Dec LC contract, which traded over \$138 at one point last week, closed Friday just a little under \$131. Why the sudden shift in expectations? Well, at least part of it has to be due to the fact that the futures got way overdone following last month's Cattle on Feed report. Traders saw the 8% YOY drop in placements and couldn't buy the Dec futures fast enough. It didn't matter to them that the beef market looked topky and was about to turn lower. Now it does seem to matter. They realize now that the cash cattle market isn't going much of anywhere as long as labor is limited in packing plants, making it difficult for packers to kill all of the market-ready cattle each week.

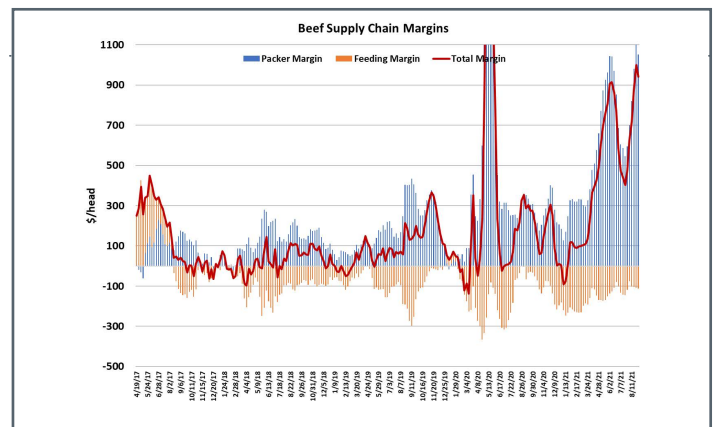
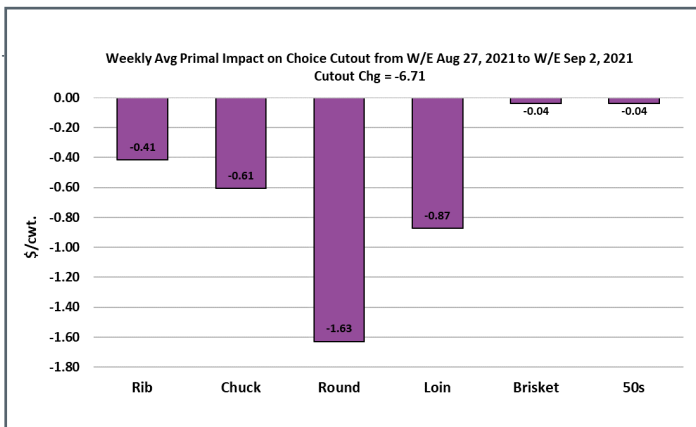
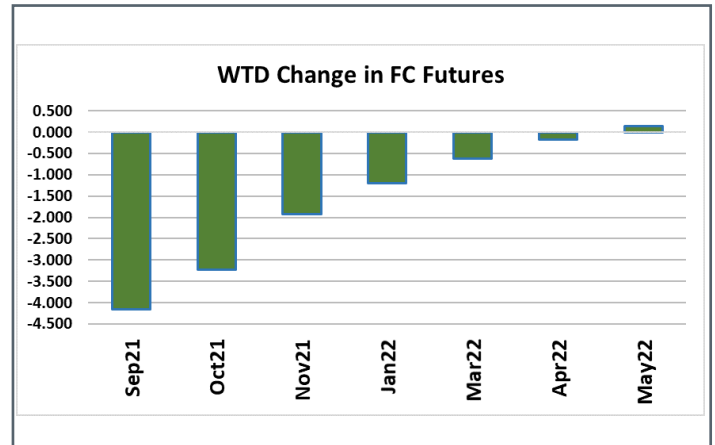
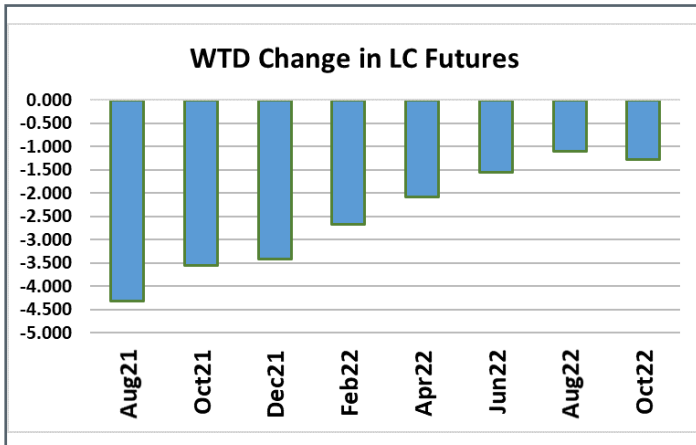
Packers would really love to kill a lot more cattle since their margin this week came in at \$1050/head. That margin should start to shrink now that the cutouts have turned lower, but even if it were reduced by 50% it would still be a huge margin in a historical context. To their credit, packers aren't expending any energy to push down on the cattle price. This week's cash cattle average is \$125.93, only a few cents higher than last week's average. As far as the cutouts go, the Choice has dropped about \$7.50 this week and the Select is down a little over \$9. Beef buyers recognize the turn lower and are trying their best to stay out of the spot market while price levels adjust downward. This registers as a decline in demand and the combined margin chart below indicates that demand is indeed headed lower now after making a top last week. Both middle meats and end meats contributed to the cutout's softening this week, but I'm really surprised that the middle meats haven't dropped more. The rib primal was down only about \$4 this week and is acting like it doesn't want to give up any more ground.

So much for the theory that it was Labor Day buying that was supporting the ribs. It seems like there is much stronger demand for middle meats even outside of the holidays now. I guess it doesn't have to be a special occasion now to justify throwing a ribeye on the grill. Retailers are not aggressively featuring middle meats either and that means a lot of consumers must be stepping up to pay non-feature price for middles. Those non-feature price levels in the US for boneless ribeyes are now typically over \$15/pound.

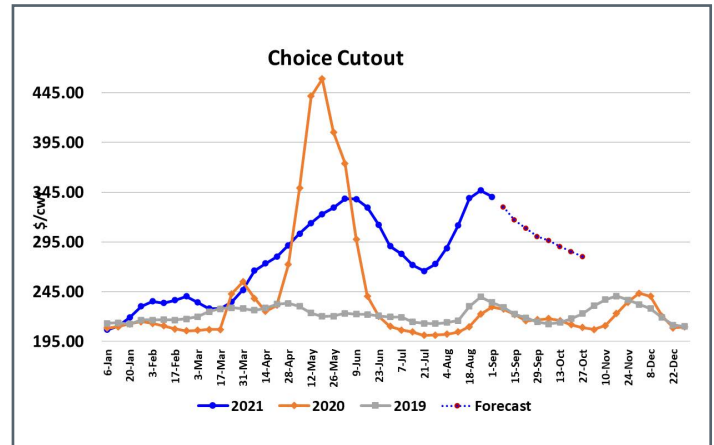
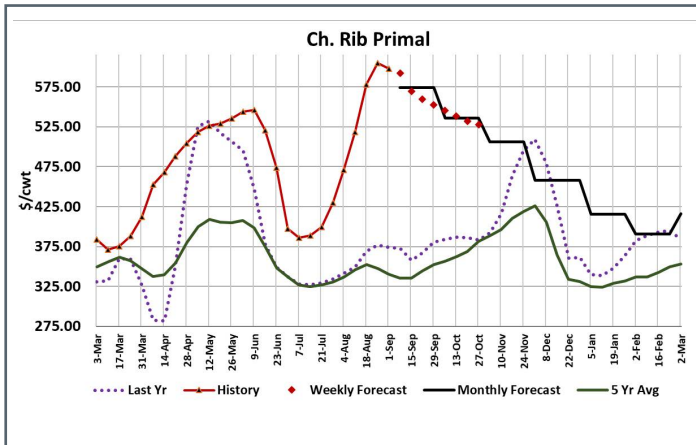
Clearly someone has extra money they didn't have at this time last year. I do think that once retailers have finished restocking after Labor Day, that wholesale middle meat prices will come under greater pressure, but for now it is simply amazing how well those prices have held up. I'm forecasting the Choice cutout to come off in big chunks over the next few weeks and thus perhaps reach the \$300 level by the end of September. What happens after that is very uncertain.

In normal years, we would see increased buying interest in middle meats for the holidays kick in around early October and thus lift the cutout. The big question in my mind is whether or not that will happen this year. If it does, the normal fall rally in the ribs and tenders will be starting from a very high level and thus it would be reasonable to expect them to move to all-time highs that exceed what we just saw in August. I just can't imagine it will go like that again, so I've got the rib primal declining from now to December. Even using that very unusual price pattern, I end up with an average price for the rib primal in Q4 that is \$83 higher than last year's big number. If I went the other direction and forecasted rising rib prices from October onward, I would probably end up with price levels in Q4 that were at least \$300 higher than last year.

That is just too much for me to buy into at this time, but I wouldn't discount the odds that it may happen. This is 2021, after all. Steer and heifer slaughter this week is projected at 500k since packers are likely to keep the Saturday kill light in order to give more workers a long weekend. Next week's fed kill could be closer to 465k. Those two short kill weeks will tighten up beef availability some, but I don't expect it send the cutouts suddenly higher. What it will do is backlog several thousand head of cattle and thus just prolong the wait for cash cattle prices to rise. Next week, watch the middle meats for evidence they will move rapidly lower and look for the futures to rebound somewhat from its current oversold condition.



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