



WEEK ENDING OCTOBER 1, 2021

THE BEEF WRAP

Cash cattle averaged a dollar lower this week at \$122.65, but other than that, it was more of the same in the cattle and beef complex this week. The cutouts continued lower, with the Choice down almost \$11 on a weekly average basis and the select down a little less than \$6. That compressed the Choice-Select spread down to \$27 from \$32 the week before. The rapid decline in rib prices is primarily driving the spread lower. I don't expect it to get a whole lot narrower from here and am forecasting it to expand back out to over \$40/cwt near the end of October. The chart below indicates that all of the primals except the round were contributors to this week's drop in the cutout.

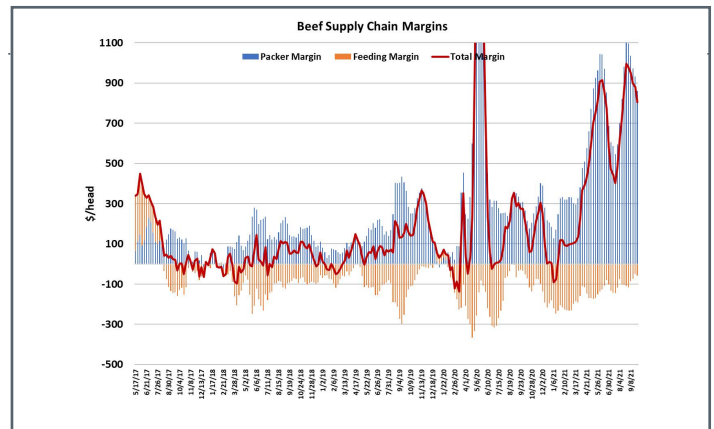
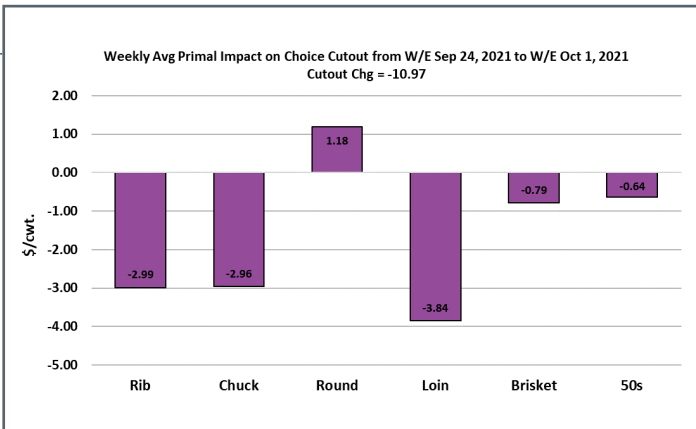
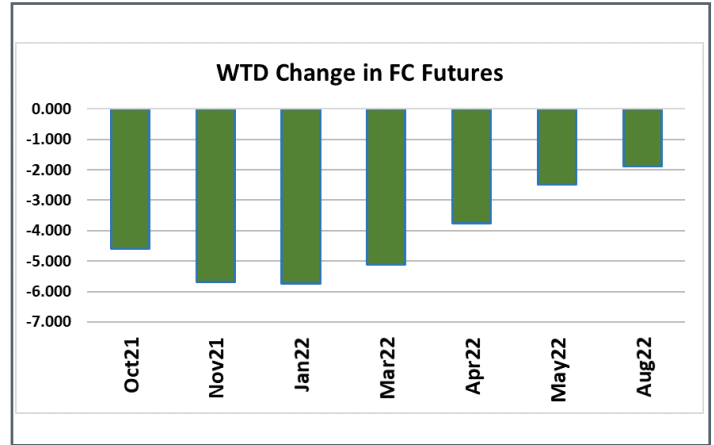
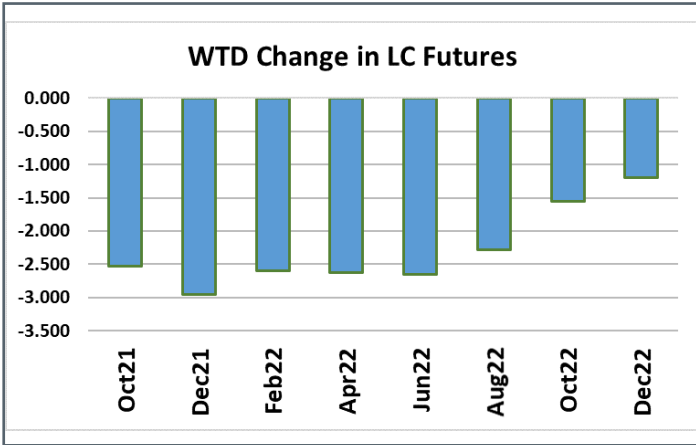
While it felt like the ribs were the major contributor, they actually had a similar impact on the cutout as lower chuck prices did. It has been clear from the daily demand scatters that beef demand is softening and the combined margin chart points in that direction also. We know that almost all of the price softness must be attributable to weaker demand because beef production hasn't changed all that much, now estimated at around 537 million pounds per week. The fed kill was disappointing this week, registering only 492k as some cooler cleanings were going on and the Saturday kill wasn't boosted to make up for that. The flow model tells me that in October the fed kill needs to run about 505k per week in order to not backup any additional cattle. We have probably already backed up about 20-30k from September. All that means is the cattle supply will remain ample this fall, while the beef supply will be constrained by packer's ability to get them all dead in this tight labor environment.

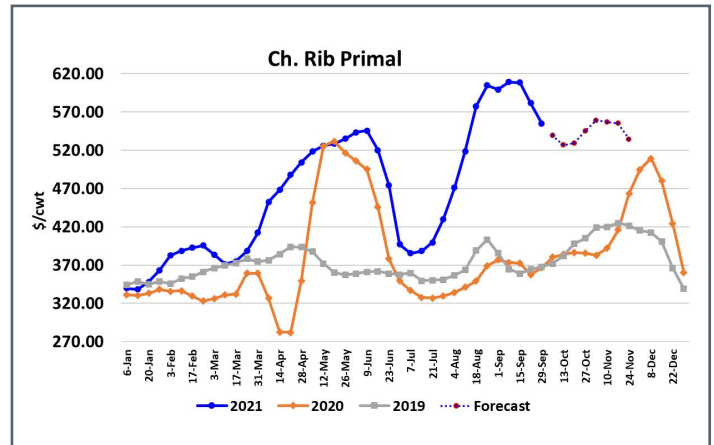
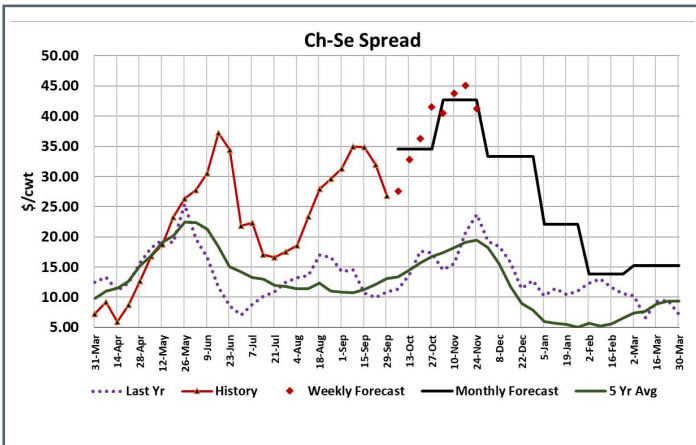
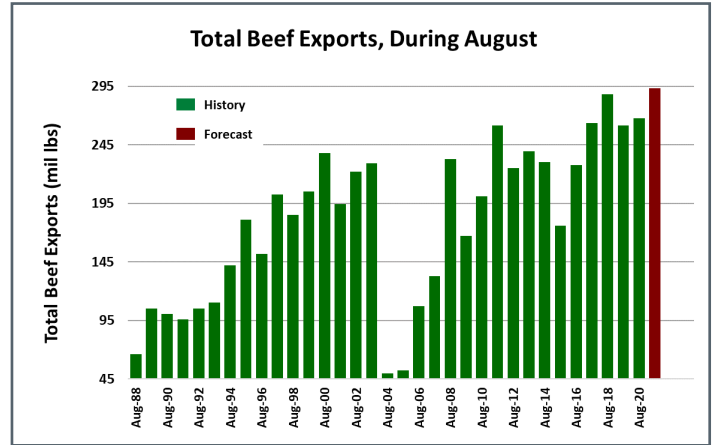
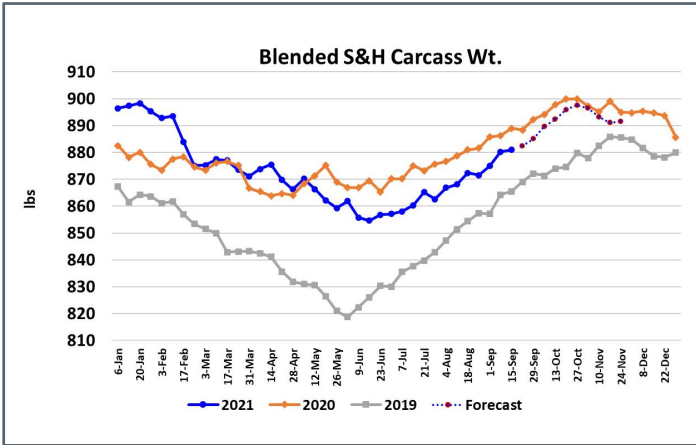
So far, carcass weights seem to be behaving normally as they rise toward a peak in early November. This market isn't very complicated at the moment. It is clear that the cattle supply modestly exceeds the packers ability to kill them and that has kept cattle prices in check. The beef market is resetting after moving to super-strong levels late in the summer. And everyone is just watching the beef come down and waiting for it to find a bottom. Once beef prices catch however, things could get interesting. Buyers may rush in at that point and thus create a V-shaped correction because they remember how fast prices rose this summer. I've revised my thinking a bit on the ribs going into the holidays. Now I look for them to decline for 2-3 more weeks and then see a modest increase into late November, but I'm not expecting the top this fall to exceed what we saw in late August.

That change in the forecast pattern for ribs has also altered the pattern for the cutout, so that it doesn't decline quite as rapidly as I had forecast before. I've got the end meats posting some modest gains over the next couple of weeks, but then trending lower right into December. Beef 50s fell hard this week, losing \$25 Friday-to-Friday and finishing up today at \$103. 90s are also slowly working lower as seasonally larger cow kills are providing some supply side pressure. That will eventually make the grinds look more attractive to retailers, but I'm not sure the consumer is all that fired up about grinds at this time of year.

Futures traders showed they are running out of patience this week, pushing the cattle curve down by \$2-3. It is becoming painfully clear that as long as the labor bottleneck is affecting plants, the price of cash cattle isn't going up. So with each passing week, the premiums on deferred futures look less and less attainable. The October contract will enter its delivery period on Monday, but is trading over \$3 under the spot market so there isn't much risk of deliveries occurring. It looks to me like the Oct contract is demonstrating more pessimism than is warranted and it will likely put some money back on as it moves through October. A rising October however, does not guarantee that the rest of the curve will move higher with it. Export demand for beef continues to look very good in the weekly numbers that we watch.

The official monthly export data from ERS for the month of August will be released Wednesday. I'm expecting it to show about a 9% YOY increase. China continues to be a big customer for US beef and I don't look for that to change anytime soon. Next week it will be more of the same, with everyone sitting on the edge of their chair waiting for the cutouts to find a bottom. I don't expect that will happen next week, but it could materialize by mid-month if the ribs get low enough to attract those that still have unmet needs for the holidays.





DR. ROB MURPHY BS, MS, PhD Agri Economics,
Executive Vice President, Research & Analysis,
J.S. Ferraro

E: Rob.Murphy@jsferraro.com [in](#) [tw](#)

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.

SUBSCRIBE NOW for market intelligence

While the information contained in this report has been obtained from sources believed to be reliable, J.S. Ferraro disclaims all warranties as to the accuracy, completeness or adequacy of such information. The information is not a recommendation to trade nor investment research. User assumes sole responsibility for the use it makes of this information to achieve his/her intended results. No part of this material may be copied, photocopied or duplicated in any form by any means or redistributed without the prior written consent of J.S. Ferraro.