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WEEK ENDING OCTOBER 15, 2021

THE BEEF WRAP

The live market for cash cattle was up a little less than a dollar this week to $123.85. That puts it about right in the middle of the trading range it has been stuck in for the last several months. The cutouts continued lower although the losses were very small near the end of the week. The Choice lost $5.86 on a weekly average basis while the Select was down $3.61. I'd say the biggest news in the complex this week was that the losses in the beef market really slowed down and that could be an indicator that a bottom is near. The all-important rib primal was down about $28 this week, but most of that came early in the week. By the end of the week small price gains were noted.

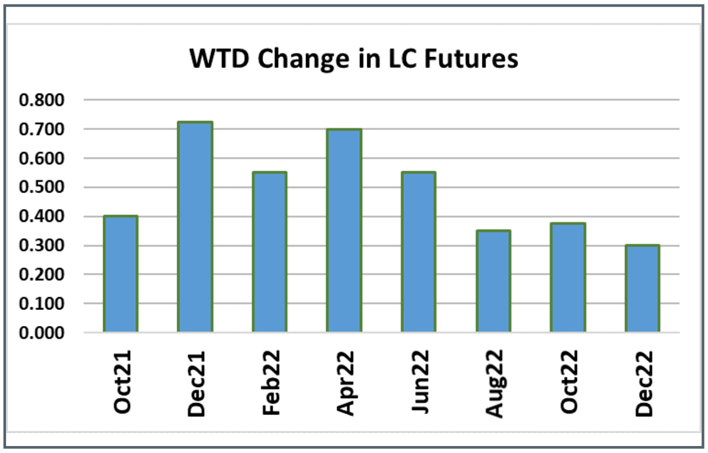
It may be late getting started, but it looks like we are going to see at least a modest price rally in the ribs heading into the holiday buying season. That should be enough to turn the cutouts modestly higher for a few weeks, but I'm not looking for the Choice cutout to move back over $300 again in 2021. End meats are projected lower between now and Christmas as retail feature interest will shift toward hams and turkeys. Ribeyes and tenderloins should help to lift their respective primals some over the next few weeks. Briskets are also called higher into November. The scatter diagram below confirms that beef demand is still exceptionally strong relative to past Octobers. I look for that to continue, but expect the current data point to slowly move back down closer to the regression line. It may take many months before it gets back down to what could be considered a normal level. Unless we have another unforeseen shock to the system, I'm expecting beef prices to work lower over the next year or so as demand fades and packers find solutions to the labor bottleneck that has kept beef production constrained.

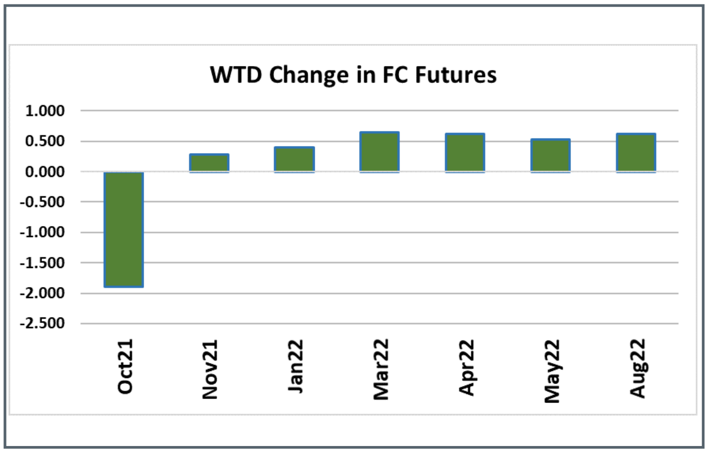
This week's fed kill registered only 501k, down 15k from the week before. That was a disappointing development that was driven by at least a couple of plants not operating on Friday and there was no attempt to make up the volume on Saturday. A 501k fed kill likely is close to sufficient to process all of the cattle that were targeted for this period, but it doesn't help to dissipate any of the carryover cattle from August and September. As such, it makes it likely that cash cattle prices won't have a huge rally as we move through the fourth quarter.

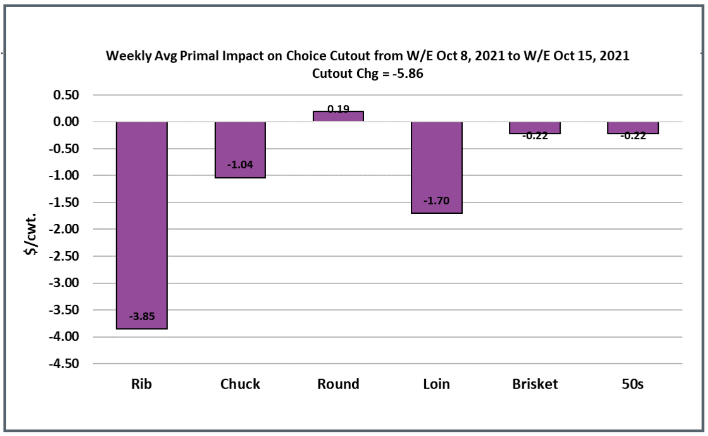
I do have cash cattle working up to $127-128 in November when cattle supplies should be the tightest, but my expectation is that won't persist for long and by the end of December we can expect cash cattle back down around $125. This week's carcass weight data indicated weights are still trending seasonally higher and are narrowing the gap with last year. I've got weights peaking in the last week of October, but they have been known to peak later than that.

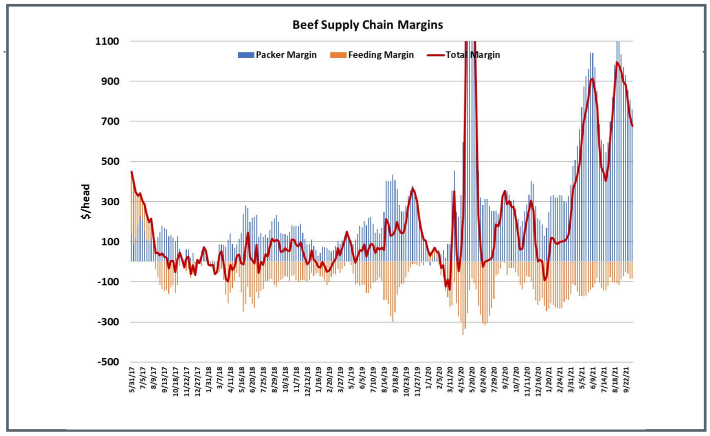
Packer margins fell $48 this week and now sit at "only" $760/head. It took five weeks to reduce margins from $1000 to $800. I expect margins to continue to compress, but at that rate it will be sometime next year before they get back to more normal levels. Cattle feeding margins appear to be about $90/head in the red. That's not enough of a loss to prompt feedyards to slash placements and packers probably want it to stay that way. In fact, the data lead me to believe that September placements are going to be reported about 5% over last year when USDA releases their Cattle on Feed report next Friday. October placements could be up that much or more also. So it doesn't look like cattle feeders are undertaking any serious effort to place their way out of negative margins. The only other way out of negative cattle feeding margins is for packers to find and train enough labor to remove the bottleneck in plants.

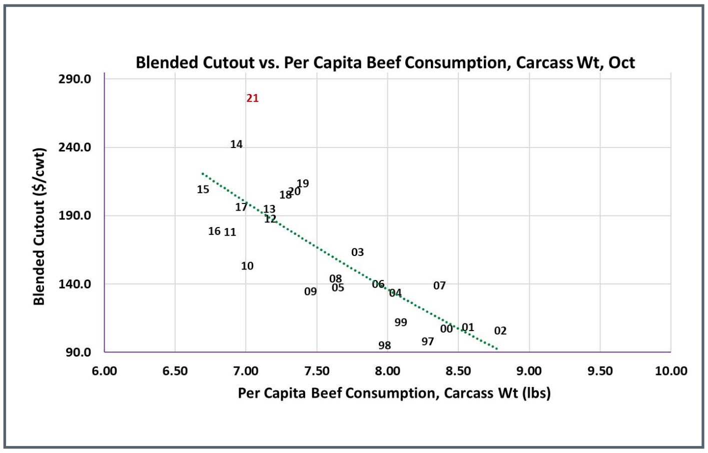
Perhaps that is what cattle feeders are hoping for, but it seems kind of foolish to hand over one's destiny to packers. It would be much better for feedyards to take corrective action themselves. Futures were modestly higher this week, building on last week's gains, but as the Oct contract started to approach $126 late in the week it drew 25 deliveries on Thursday and another 31 deliveries on Friday. Next week, look for further improvement in rib prices to turn the cutouts modestly higher. Because of the bottleneck, that won't matter much for cash cattle prices, but it will raise costs for those beef buyers still short on holiday middle meats.

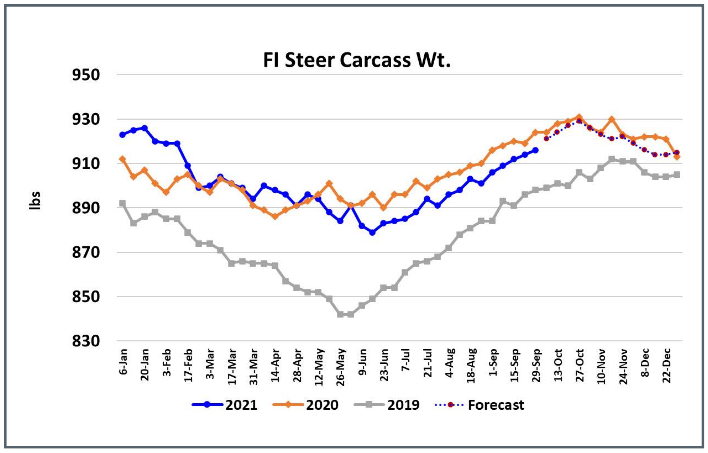

WTD Change in LC Futures
0.800
0.700
0.600
0.500
0.400
0.300
0.200
0.100
0.000
Oct21
Dec21
Feb22
Apr22
Jun22
Aug22
Oct22
Dec22

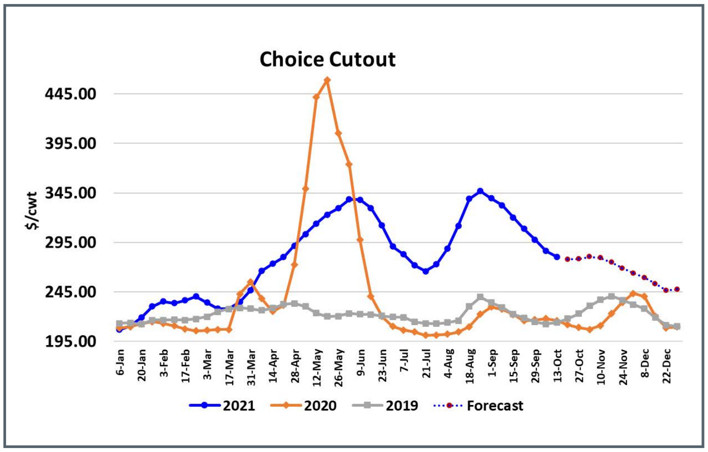

WTD Change in FC Futures
1.000
0.500
0.000
-0.500
-1.000
-1.500
-2.000
-2.500
Oct21
Nov21
Jan22
Mar22
Apr22
May22
Aug22

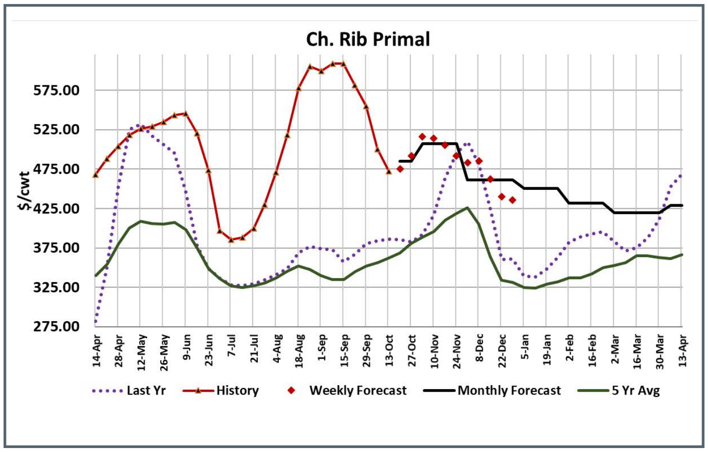

Weekly Avg Primal Impact on Choice Cutout from W/E Oct 8, 2021 to W/E Oct 15, 2021
Cutout Chg = -5.86
$/cwt.
-3.85
-1.04
0.19
-1.70
-0.22
-0.22
Rib
Chuck
Round
Loin
Brisket
50s


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.