



WEEK ENDING OCTOBER 22, 2021

THE BEEF WRAP

The big news in the cattle and beef complex this week was the stabilization of the cutouts. After declining for the past two months, the cutouts actually posted tiny gains this week. The Choice was up \$0.15 on a weekly average basis and the Select was up \$0.99. To be sure, those gains are really small, but after several weeks where the cutouts fell \$10 or more, these small gains were welcomed by market bulls. The cash cattle market was a little higher also, with live prices adding \$0.48/cwt to \$124.32. The chart below indicates that it was the rib and round primals that were largely responsible for steadying the cutout this week. The explanation for the ribs is easy—there is still some holiday business to be done and price levels finally got down to a level that enticed more buyers into the market.

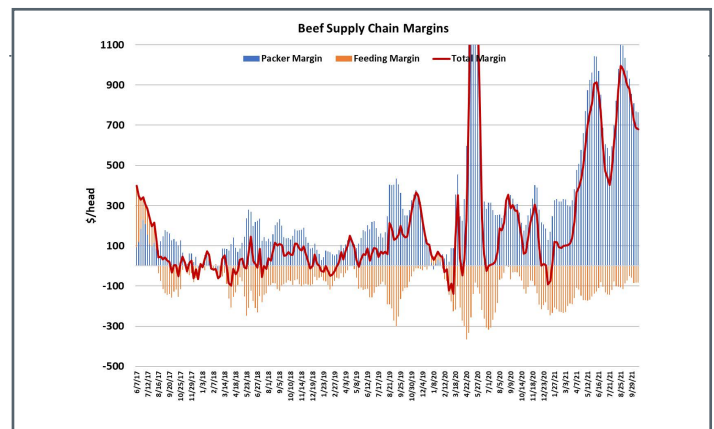
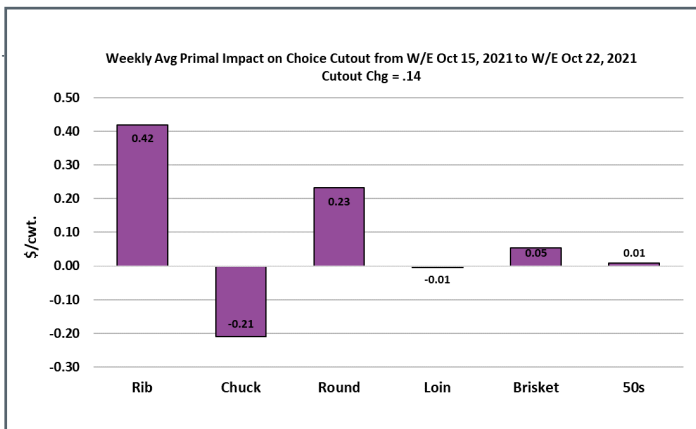
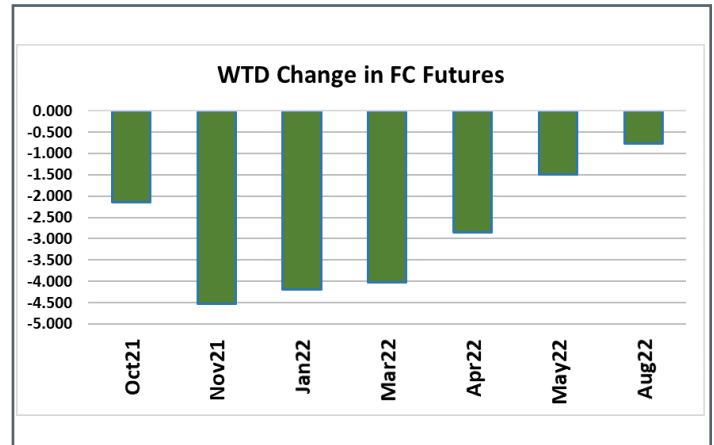
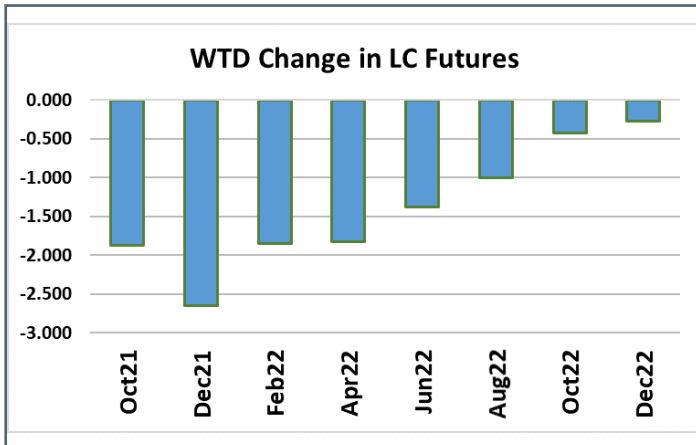
The gains in the rounds are a little more difficult to explain, but this is the time of year when retailers have traditionally featured beef roasts. Also, the price of lean grinding beef remains very high and that is probably helping to support both the rounds and the chucks. The interesting thing about this bottom in the beef market is that it was a much softer landing than what we saw earlier this summer when the beef market made a more V-shaped bottom, bouncing \$7 higher in very short order once the bottom was made. This time, the demand side is not as rosy as it was this summer and beef production is larger (owing to seasonal increases in carcass weights). Thus we probably won't see the cutout start to gain \$10/week anytime soon. Those that watch the beef market are familiar with how quickly rib and tenderloin prices can accelerate at this time of year, but this year it appears that a large proportion of users planned ahead and put product away in deep chill programs in late summer and early fall.

That should help bridle this year's holiday rib rally and prices are expected to rise at a more controlled pace. In fact, it is entirely possible that price declines in parts of the carcass outside of the middle meats could outpace the gains in the ribs and thus the cutout as a whole may not show a huge amount of appreciation in the weeks ahead. Packer margins only declined about \$5 this week to \$736/head and one would think that if the cutouts are going to move higher then packer margins should also expand because cash cattle prices don't seem to be going anywhere. However, I expect that as the cutouts improve in the next few weeks that cattle feeders will manage to get a few more dollars out of packers and that will help to constrain margin growth. I'm not looking for a huge rally in cash cattle prices, perhaps only into the \$127-128 range from today's level near \$124. If the cutouts can't sustain reasonable gains, then the outlook for an advance in the cattle market dims. Beef demand appears to be slowly eroding in much the same way as pork demand is slipping.

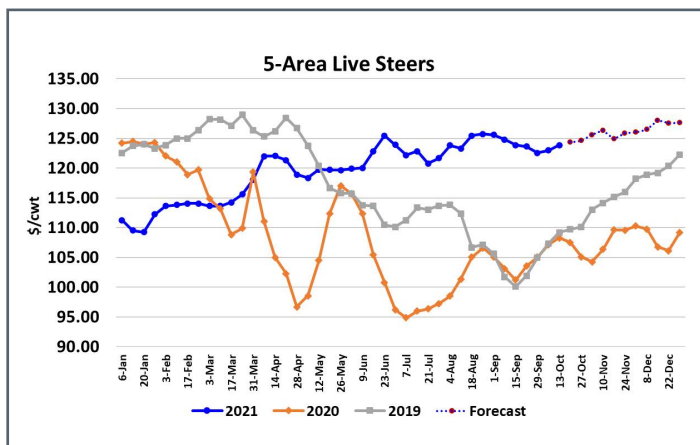
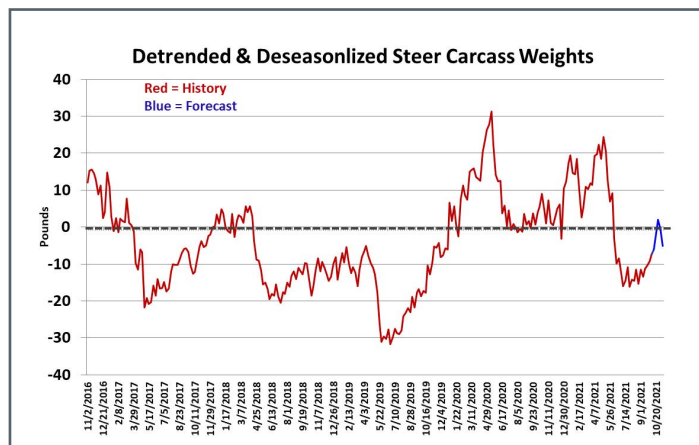
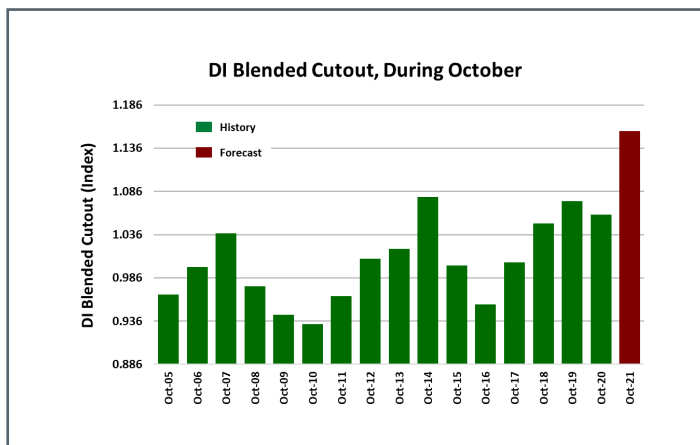
The free money from the government to consumers has slowed down dramatically. Vaccinations are up and COVID infections are down, thus consumers can get out of the house more and they aren't as focused on at-home meal preparation as they were when the pandemic was raging. So it is reasonable to expect demand to be cooling down. It looks like the demand index for October is going to come in close to 1.16 after averaging over 1.20 in June through September. But don't take that to mean that demand is poor. That 1.16 demand index for the blended cutout is the highest it has ever been during the month of October, by a long shot. The next highest was an index of 1.08 in October, 2014. The combined margin, which had been trending lower looks like it may be carving out a bottom and could turn a little higher if holiday demand for ribs turns out to be stronger than expected.

International demand for US beef also seems to be waning a bit as the recent weekly export numbers haven't looked as rosy as they were earlier in the year. China is still taking big quantities of US beef, but movement to some of the more traditional destinations like Japan and Mexico and even Canada seem to be running a little softer recently. USDA released its cold storage survey results for the end of September this afternoon and it showed that beef in cold storage grew about 5% from August, but is still 6% below last year's level. The government economists also released a fresh Cattle on Feed survey this afternoon, which showed September placements down 2.9% from last year. That was bit of a surprise given that the average analyst prediction was for placements to be up about 1.4%. This week's fed kill came in at 513k, up 7k from last week.

I expect the fed kill to remain in the 500-510k range for the next few weeks before expanding some as December approaches. Carcass weights are still rising seasonally and should top within a month or so. The DTDS is also rising, which does raise some concerns about feedyard currentness. Next week, watch the ribs and tenders for the speed at which prices increase. The direction and velocity of those two items will have a lot to say about the direction of the cutout, and thus the market tone, in coming weeks. Cattle supplies are in the process of tightening up right now due to relatively small placements in May/June/July and we know that packers will start delivering on holiday orders during November, so there will be incentive to make sure that all of the beef that was promised to buyers is available. It really won't kill packers to pay an additional \$2-4 for cattle in upcoming weeks given how large their margins are. Much will depend on how much lift buyers provide to the cutouts in the next few weeks.



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.



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