



WEEK ENDING OCTOBER 29, 2021

THE BEEF WRAP

The cash cattle market finally made a move higher this week, with live prices registering in the \$126-127 range. It looks like the average for the week is going to be just about \$2 higher than last week. We've known for a while now that smaller placements back in May, June and July would hit the market in Q4, and so that time has finally come. However, there is more to it than just a tightening of the overall cattle supply. Packers are aggressively seeking out cattle that will grade well in order to fill orders as the holidays approach. Most of the cattle that sold at the top of the market this week (\$127) were high quality cattle. The Plain Jane cattle were the ones that sold at \$125-126. The volume of trade was pretty strong, so perhaps packers won't need to be as aggressive next week.

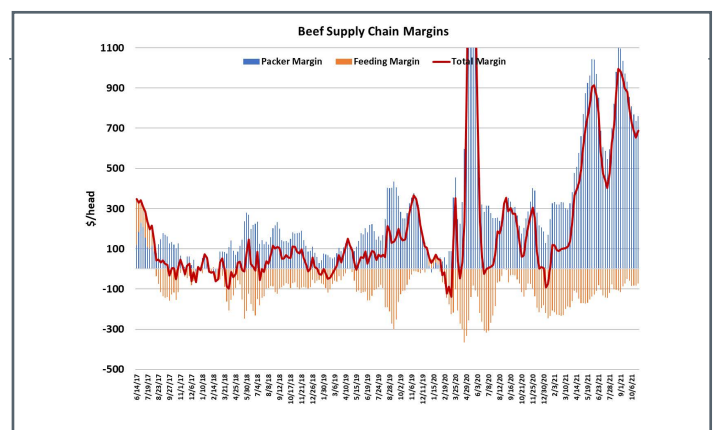
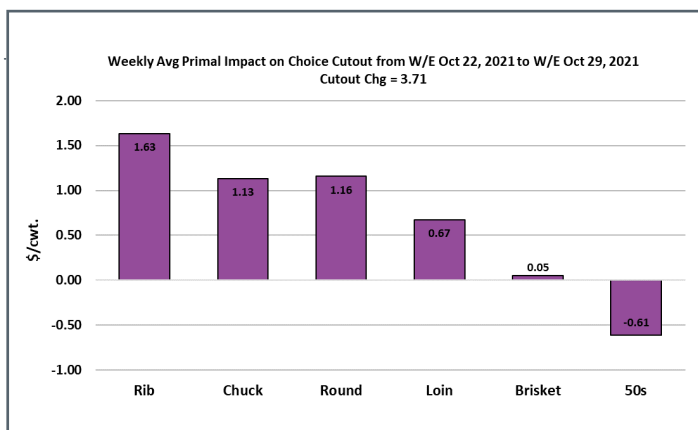
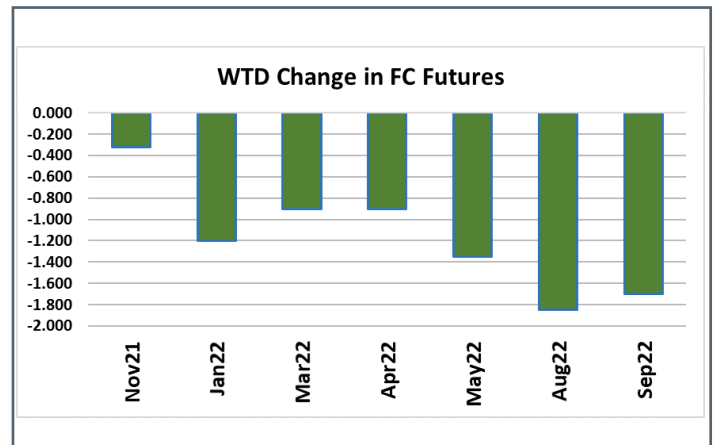
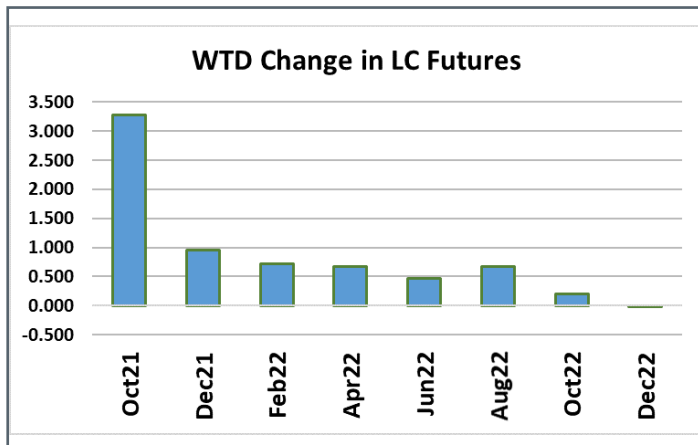
The beef cutouts were higher, with the Choice adding \$3.71 on a weekly average basis and the Select up \$0.69. Nearly all of the primals posted gains, with the end meats doing better than expected and the middle meats gaining a little less than expected. The rib primal took an unexpected drop during the middle of the week but then recovered as the week came to a close. I'm looking for rib prices to move higher for the next 3-4 weeks and then start to soften some after Thanksgiving. The end meats are also forecast higher over the next few weeks, but the price appreciation is not as large as for the middles. That gives me a Choice cutout forecast that tops out in the mid to high \$290s right around Thanksgiving. I'm still pretty nervous about that forecast as I recognize the risk that the middles catch fire and drive the cutout much higher than that. Beef production should be relatively stable between now and Thanksgiving. This week's fed kill came in at 520k, which was 5k greater than last week and a little above what the flow model is projecting, so its likely that any backlogged cattle are now getting cleaned up quickly.

That will help cattle feeders in their effort to raise cash prices, but after November is done the expectation is that fed supplies will increase again and thus some pressure could come back into cash cattle prices before the end of the year. Packer margins expanded a little this week as the cutouts rose while packers were killing last week's cheaper cattle. I have margins now at \$757/head. I think margins will stay in the \$700-800 range through November as rising cutouts help to offset modest increases in cash cattle prices. Steer weights were reported one pound higher this week at 922 pounds. Weights will likely make a top sometime in the next 2-3 weeks and then start to work lower until April. The DTDS weights are rising, which doesn't fit very well with the narrative that cattle supplies are tightening, but maybe they are rising because cattle feeders are finally able to shed those heavy cattle that were delayed in Aug/Sep.

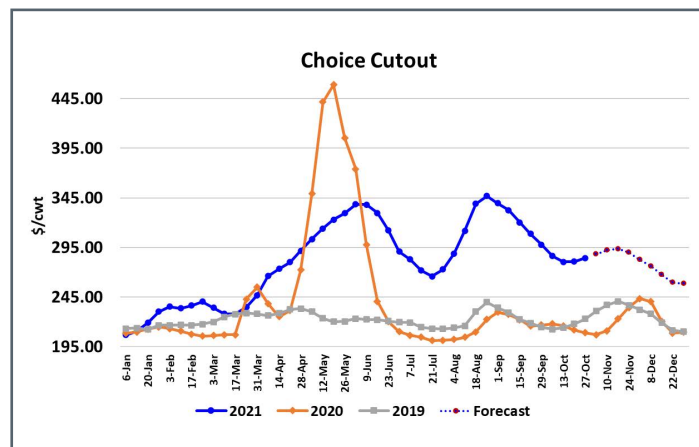
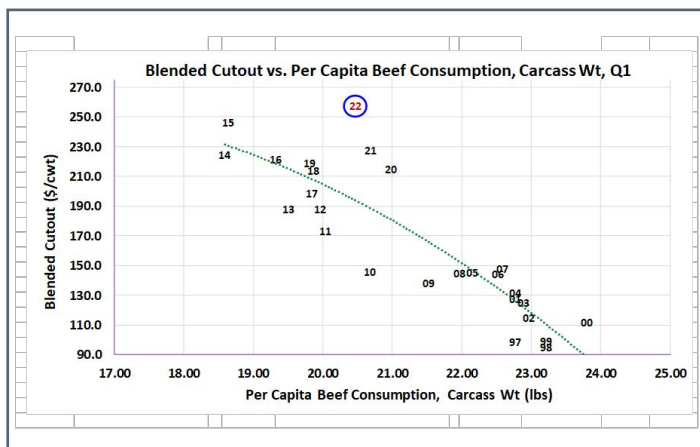
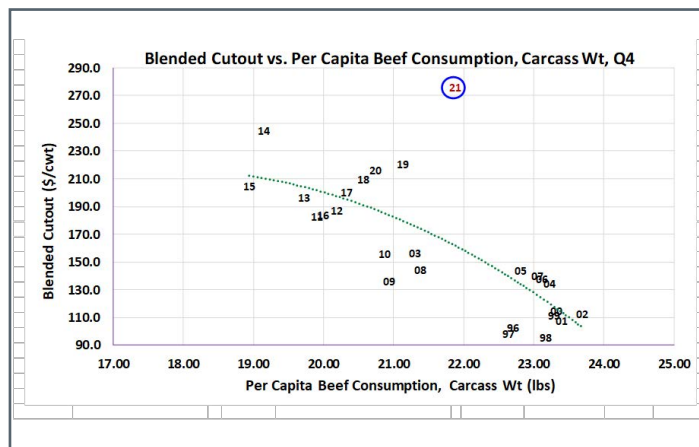
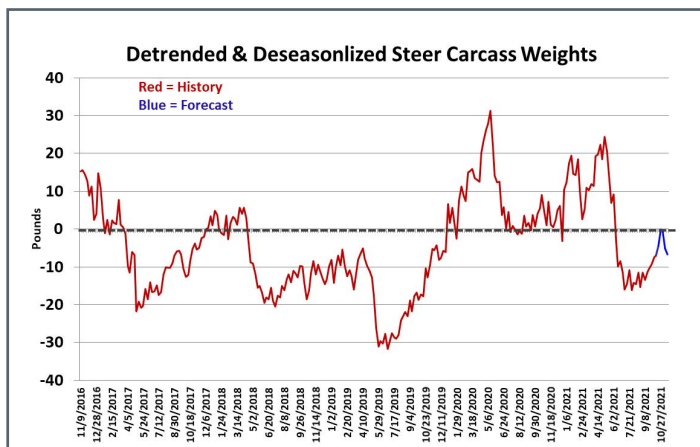
Regardless, we need to keep a close eye on those DTDS weights because they are right about feedyard currentness more than they are wrong. On the demand side, it is easy to conclude that demand has finally stabilized and started to move higher once again. We've seen that in the daily demand scatters over the past week or so and the combined margin chart below is also putting in a bottom. The real question is whether or not this next upcycle in demand explodes higher like it did this summer or if it's a more subdued (and more typical) improvement in demand. Retailers now have cheaper pork and broiler meat that they can feature since wholesale prices in both of those sectors are coming down. That may temper beef demand some. The best opportunity for retailers to promote beef comes in the first two weeks of November because after that, retailers are heavily focused on hams and turkeys in anticipation of Thanksgiving.

Beef usually comes back to the forefront after Thanksgiving as consumers, now sick of turkey and ham, want something different. So I think that Thanksgiving, with its pork and poultry focus, is going to act somewhat like a speed bump for beef demand and thus keep it from running wild to the upside. COVID infections continue to trend lower in the US and that, along with the proximity to the holidays, suggests more beef being consumed in foodservice settings and less at home. We already have ample evidence that kind of shift is not good for overall beef demand. Retailers have pushed the price of beef at retail to all-time record highs and they are not likely to back those down much, especially now that they can see wholesale markets rising again. So, there are a lot of factors that suggest to me this upcycle in beef demand won't be as strong as the ones this spring and summer.

The futures market got excited this week by the higher cash trade, but then pulled back some as the expiring Oct contract faced deliveries. On Monday, Dec will become the nearby and will have to stand on its own merits, without the benefit of a delivery period. Traders want to be bullish cattle so bad it hurts, meanwhile corn futures are rallying again and that has weighed on feeder cattle futures. Next week, watch the primals, particularly the ribs, and keep an eye on those DTDS weights. They might be trying to tell us something.



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