



WEEK ENDING OCTOBER 8, 2021

THE BEEF WRAP

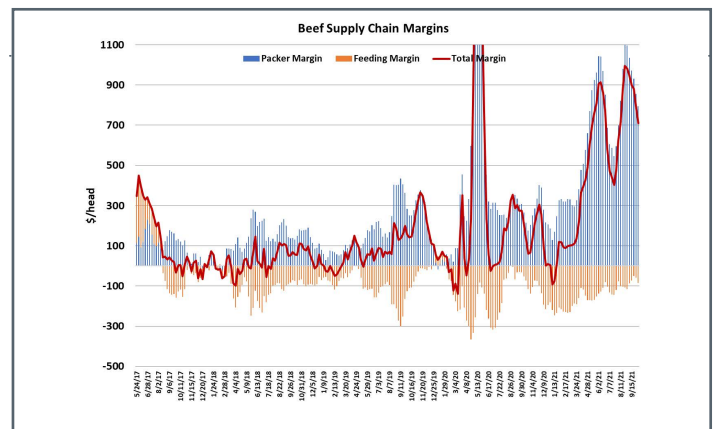
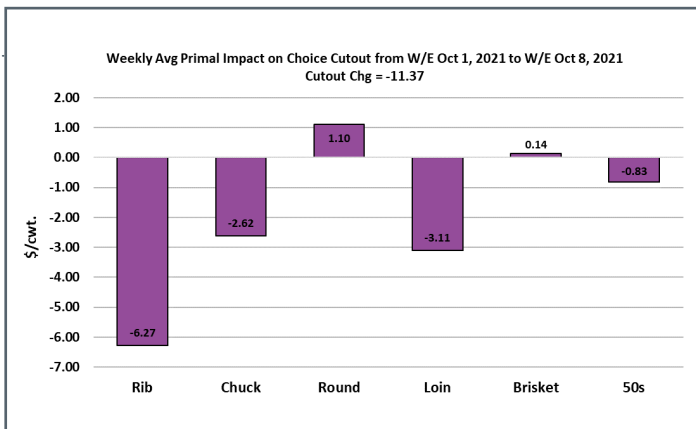
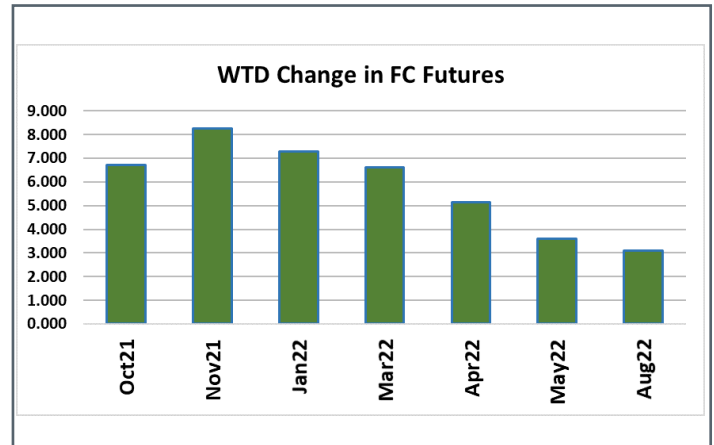
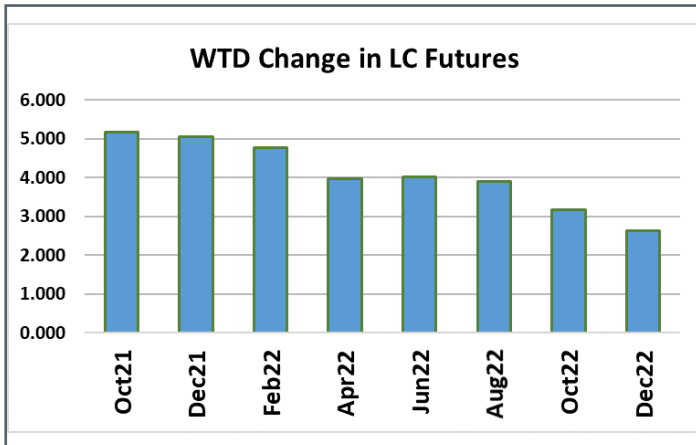
I thought about just saying “see last week’s wrap” and call it a day. Once again, it was more of the same in the cattle and beef complex. The only thing that really changed this week was that futures traders realized how oversold the futures had gotten and they corrected that with five green bars in a row on the nearby Oct contract. The fact that the nearby could gain \$5 in a week where pretty much nothing changed fundamentally is a testament to how oversold they had gotten. Let’s review what has become a familiar story: the beef cutouts moved considerably lower and the cash cattle market was essentially unchanged. The Choice cutout lost \$11.37 this week and the Select was down \$6.33.

The Choice ribs continue to correct lower at a rapid clip and that was the primary driver of this week’s losses, although the chucks and loins helped out to some degree. Everything except the ribs has, at times, looked like it was ready to make a bottom. I think the rib has maybe one or two weeks of downward momentum left and then it will work modestly higher into Thanksgiving on holiday buying. If the ribs keep moving lower, then it will be hard for the cutout to gain much, if anything, in the next couple of weeks. The average price of cash cattle this week was reported at \$122.96, which was \$0.40 higher than last week. With beef prices down and cattle prices essentially steady, packer margins compressed to \$789/head. I have those margins working slowly lower over the next few weeks, but remaining above \$600/head into Thanksgiving. I do have some small gains in cattle prices dialed in near the end of October and early November, since that is when cattle supplies should be near their tightest based on past placement patterns.

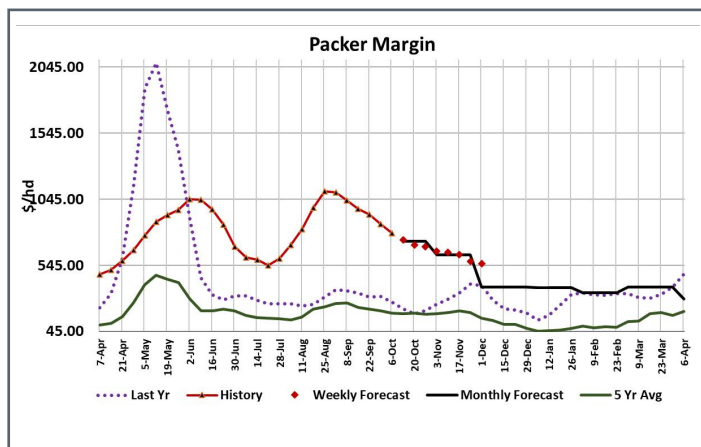
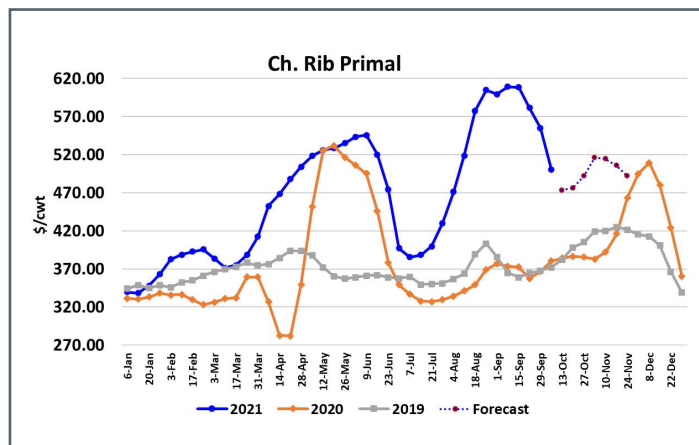
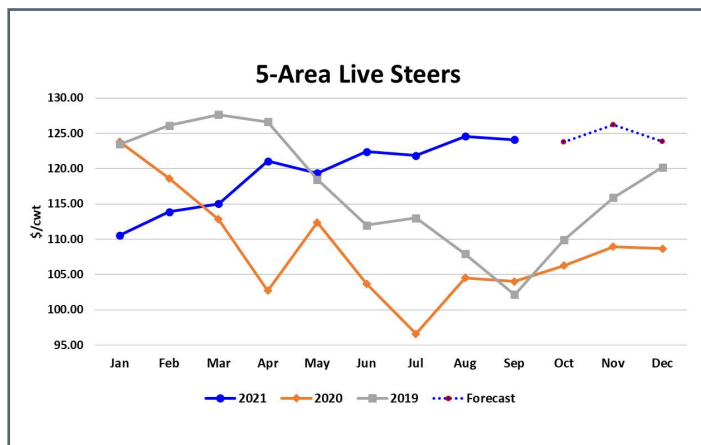
However, from Thanksgiving onward, I’m looking for the cattle market to give back some ground and currently see a \$124 cash cattle at the end of the year. Yeah, I know, not too much different from today. In the interim, we might be able to take the cash to \$127-128. There is something different for you. The cash cattle market has traded between \$120 and \$125 for 21 straight weeks now. That is close to half a year! That is why I think the futures will remain rangebound. Traders should be able to see that cash isn’t going to move substantially in the near-term.

Ditto for feeder cattle, which gained on fats this week. This week’s fed kill came in at 512k, which is a little above the required kill based on past placements, so maybe a few backlogged cattle got cleaned up. However, the daily kills are still pretty erratic and packers are doing maintenance and cooler cleanings, so in any given week the fed kill can fluctuate 10-15k. Steer carcass weights were up two pounds this week and my forecast has them gaining 15 more pounds before they make a seasonal top in early November. There is a significant snow event forecast for the Northern Plains states in the middle of next week and that could set the cattle in that area back some.

Cattle are like people—the first cold blast of the season makes them miserable and that isn’t conducive to weight gains. This week we got official export volumes for August and the data showed a 21.2% YOY increase. Keep in mind that US beef prices were sky high in August, with the blended cutout up 44% from August 2020. When you see bigger volumes moving at higher prices, that is a classic sign of much stronger demand. In this case it is international demand. China and Mexico are leading the charge on that. Given that price levels in September and October were much lower than August, I’d expect to see USDA report strong export numbers for those months as well. It is just unfortunate for cattle feeders that they can’t participate financially in the windfall that strong domestic and international demand is creating for packers due to the labor bottleneck that exists. Next week, expect more of the same—weaker beef prices and stagnant cash cattle prices. Futures may correct lower, but otherwise it will likely be more of the same.



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