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WEEK ENDING NOVEMBER 26, 2021

THE BEEF WRAP

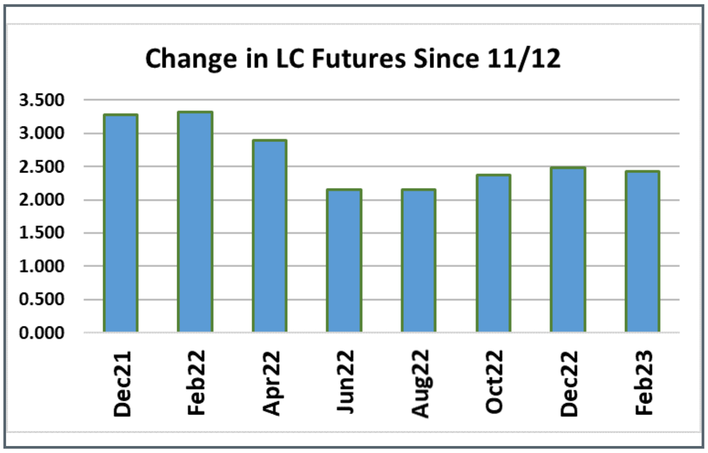
The cash cattle market continues to march higher while the beef market slips lower. Last week's average price for cash cattle was a little over $133, up $2 from the week before and so far this week, packers have come out bidding $135 to $137. Cattle feeders have packers over a barrel and they know it. Over the past seven trading days, the Choice cutout has slipped $4.51 and the Select is down $4.61. As beef pricing falls and cash cattle rockets higher, packer margins are compressing rapidly. Last week's margin averaged just under $600 per head and it looks like margins this week will be down another $70 to $530/head. I fully expect packer margins to be below $500/head next week when those $137 cattle start to show up for slaughter. At the moment, packers are not really fighting back and have just accepted that they need to pay up.

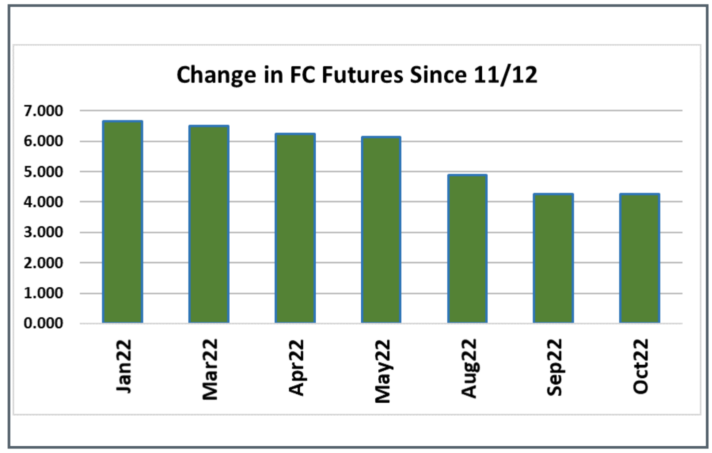
That is likely in their best interest because they have some high-priced orders that were booked back in Aug/Sep and it makes sense that they not short those buyers. Soon however, those orders will be in the rear view mirror and packers are more likely to resist higher cattle pricing. Part of the problem in forecasting this market is no one really knows what a “normal” packer margin is anymore. Prior to 2018, a normal November margin would have been in the $40-100/head range, but in the last couple of years margins have averaged around $335/head in November. If we were to use that as a guide, then cash cattle could move into the mid $140s before margins fell to $335/head. Is that where we are going? Cattle feeders seem to think so, but futures traders are not yet ready to sign up for that. For one thing, it is likely that future margin compression will come from lower cutouts not just higher cattle prices. I've got the Choice cutout working back toward $250 by the end of the year. If that comes true, then cash cattle at $130 will generate a margin of only $275/head. Further, once the holiday orders are filled, packers can scale back the fed kill in order to cool off the cash cattle market.

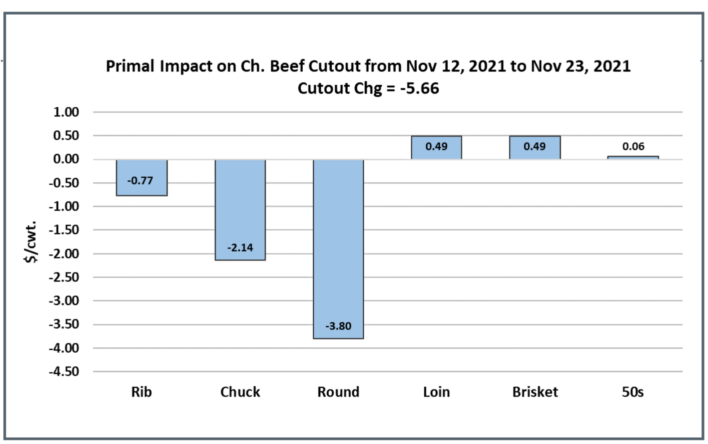
The holidays will give them some cover to reduce the kill and I'm sure that their workforce will greatly appreciate a less demanding schedule in December. Kills have been large recently, with last week's fed kill registering 530k, which is well above what the flow model projects to be available at this time of year. When packers want to over-kill the cattle supply, they create a situation where cash cattle prices can rise and feedyards get more current. With the Thanksgiving holiday right upon us, this week's fed kill may only be about 450k, so that will provide some relief. After Thanksgiving, I expect packers to be less aggressive and thus the fed kill could move back down into the 510-520k range. Carcass weights are near a seasonal top and will soon start trending lower. That will help tighten up the beef supply and thus provide some support for the cutouts in January. The DTDS weights aren't signaling that feedyards are super-current, but they are well above the lows that were made in late summer. Since feedyards aren't super-current and beef demand is easing, I believe that this rally in the cattle will be short-lived and cash prices will be lower at the end of the year than they are today. Time will tell. The chart below indicates that the weakness in beef prices has been concentrated in the end meats and the ribs to some degree. The ribs have failed to rally ahead of the holidays and are now living on borrowed time.

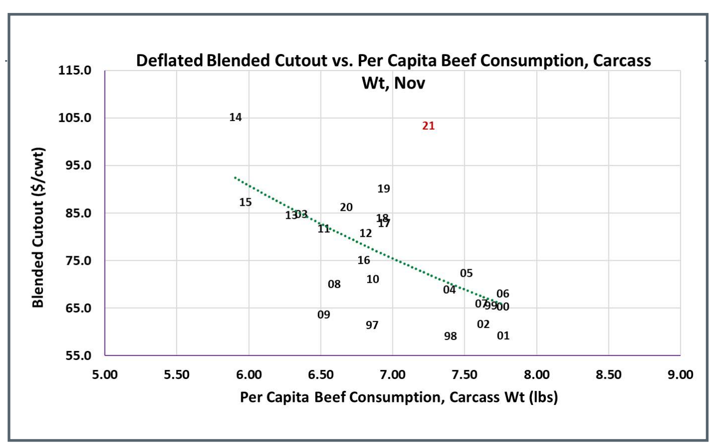
By the second week of December, ribs are likely to be moving lower in big chunks. It could happen sooner than that. End meats might garner a bit of support between Thanksgiving and Christmas as retailers look to offer consumers something different from the usual holiday fare. Still, I don't think that the ends will provide enough support to keep the cutouts from moving lower once the ribs start to break in earnest. The scatter diagram below gives the November demand curve, with the cutout deflated using the CPI. As you can see, the Nov21 data point is still exceptionally high, indicating very strong domestic beef demand persists. The combined margin chart also suggests strong, but declining, demand. In the old days, it used to be common for the combined margin to reach the zero line, but it hasn't been anywhere near zero since the arrival of the pandemic.

My guess is that it will continue to move lower, but won't be near zero any time soon. COVID infections in the US are starting to rise again and with holiday gatherings just ahead, that trend is likely to continue. We know from past experience that rising infections have been good for beef demand, but with almost 2/3rds of the population fully vaccinated and boosters widely available, rising infections won't generate the same stay-at-home mentality that it has in the past and thus probably won't boost beef demand to the same degree that it has in the past. Last week's Cattle on Feed report showed October placements up 2.4% YOY and total on-feed inventories nearly equal to last year, so there isn't a shortage of cattle. Soon, the industry will transition out of the near-term cattle supply tightness that was created by small placements back in May/Jun/July and that will also help keep cash cattle prices contained.


Change in LC Futures Since 11/12
3.500
3.000
2.500
2.000
1.500
1.000
0.500
0.000
Dec21
Feb22
Apr22
Jun22
Aug22
Oct22
Dec22
Feb23


Change in FC Futures Since 11/12
7.000
6.000
5.000
4.000
3.000
2.000
1.000
0.000
Jan22
Mar22
Apr22
May22
Aug22
Sep22
Oct22


Primal Impact on Ch. Beef Cutout from Nov 12, 2021 to Nov 23, 2021
Cutout Chg = -5.66
$/cwt.
-0.77
-2.14
-3.80
0.49
0.49
0.06
Rib
Chuck
Round
Loin
Brisket
50s


Deflated Blended Cutout vs. Per Capita Beef Consumption, Carcass Wt, Nov
Blended Cutout ($/cwt)
Per Capita Beef Consumption, Carcass Wt (lbs)
115.0
105.0
95.0
85.0
75.0
65.0
55.0
5.00
5.50
6.00
6.50
7.00
7.50
8.00
8.50
9.00
14
21
19
15
20
12
16
05
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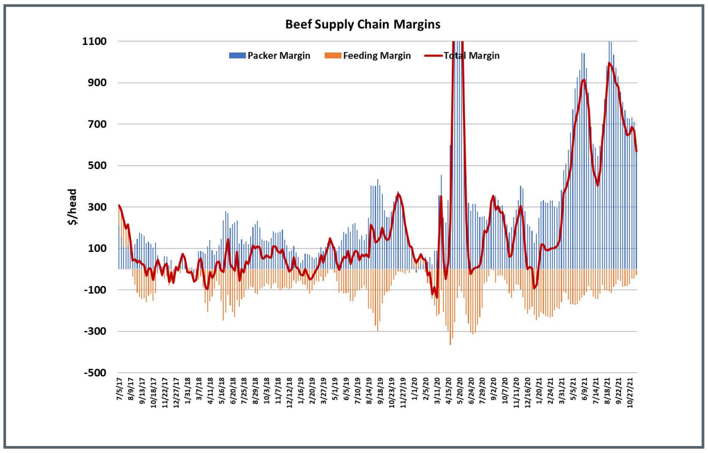
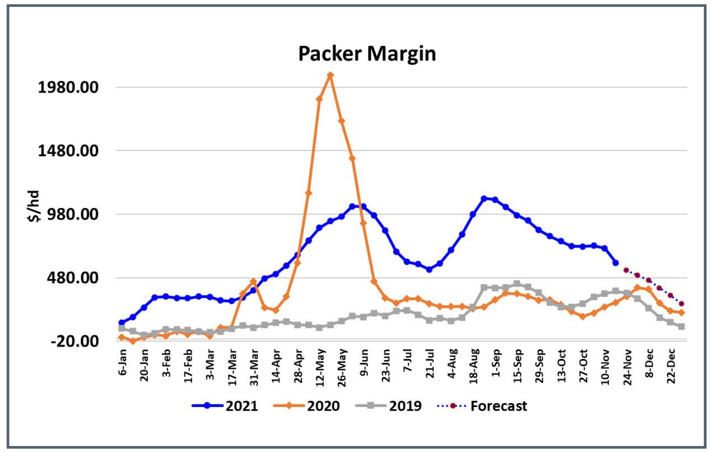
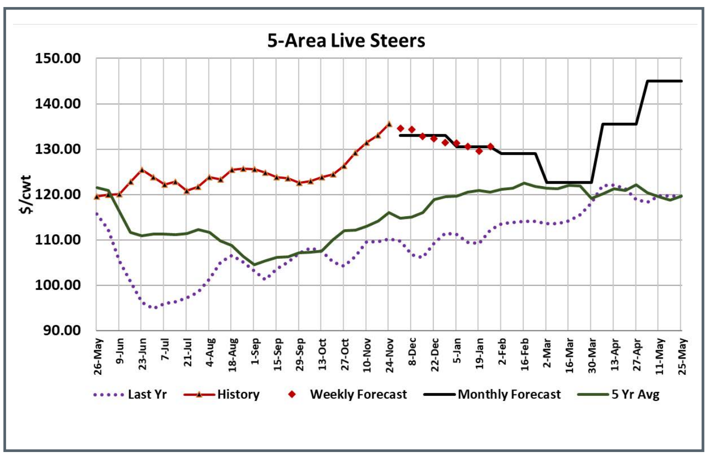
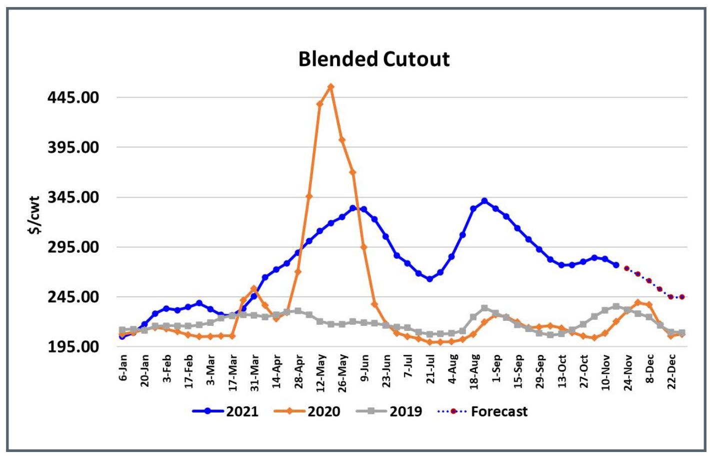
09
97
02
98
01









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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.