



WEEK ENDING NOVEMBER 5, 2021

THE BEEF WRAP

Cash cattle prices took another step upward this week. Early in the week, trade was occurring at mostly \$128. Trade was rather light because cattle feeders insisted on \$130 for any additional cattle and packers refused to pay it until Friday morning when they capitulated and \$130 was paid in all regions. When all was said and done, the volume for the week was pretty good and it looks like the weekly average price will be close to \$129. That is up \$3 from last week. I'm sure that packers recognize prices are going to firm up, but want to keep the process orderly and not give feeders the idea that prices will start going up in \$4 increments. Packers should now have sufficient cattle inventories for next week's kill.

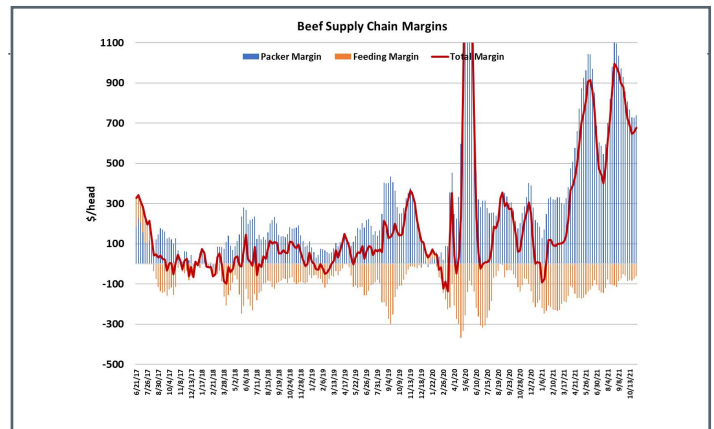
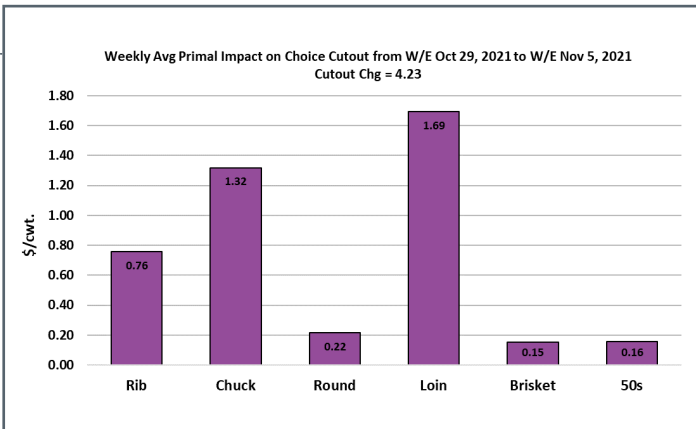
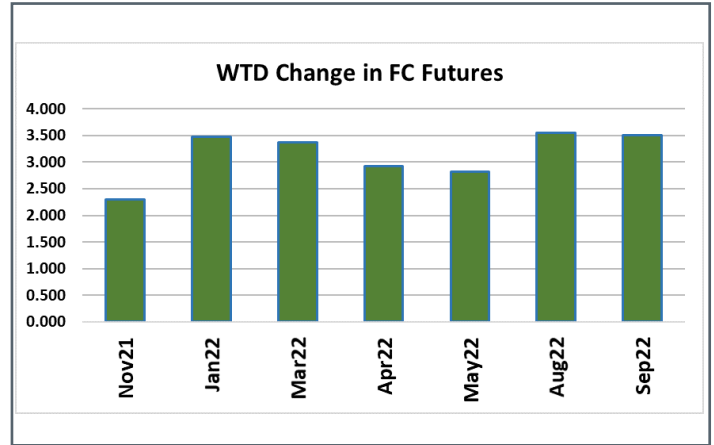
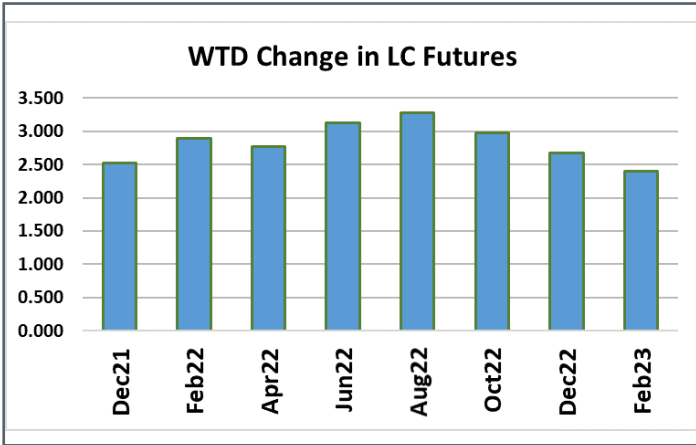
Cattle supplies have tightened due to light placements back in May/June/July and it just so happens that this tighter supply is coming right at the time when packers need to fill orders for Choice middle meats ahead of the holidays. Packers normal defense against rising cattle prices is to scale back on the kill, but that isn't a good option when there are lots of orders to deliver on. Further, how could packers justify cutting the kill when their margins are \$736/head this week? No, they will pay up but they just want to keep the process orderly. Now that we have some movement in cash cattle prices, packer margins will no longer be determined solely by movements in the cutout value. The cutouts are rising now, but packer margins are not because cattle costs are rising. It looks to me like the industry over-killed available supplies in October by about 180,000 head. October was the first month of the 3-month stretch where supplies should be tight.

By over-killing in October, packers have left themselves in an even tighter supply situation here in November. By the middle of December the supply situation could start to favor the packer again. The Choice cutout gained \$4.23 this week while the Select was up \$4.11. Surprisingly, gains were spread across the carcass and not just concentrated in the middle meats as expected. In fact, I'd say the ribs actually under-performed expectations for the first time in a long time. The forecast still has the rib primal making gains over the next few weeks as the final holiday push materializes. Beef is featured prominently in retail ads down here this week, but if it clears well the retailers won't be looking to refill early next week. Instead, they will use that bin space to begin staging turkeys and hams in anticipation of the Thanksgiving ads that normally start to run about mid-month.

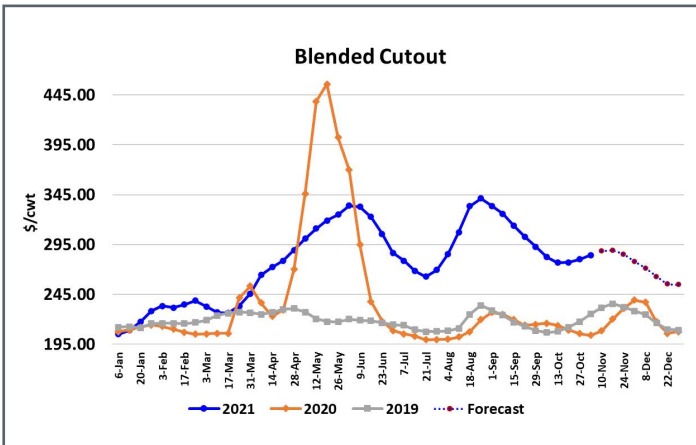
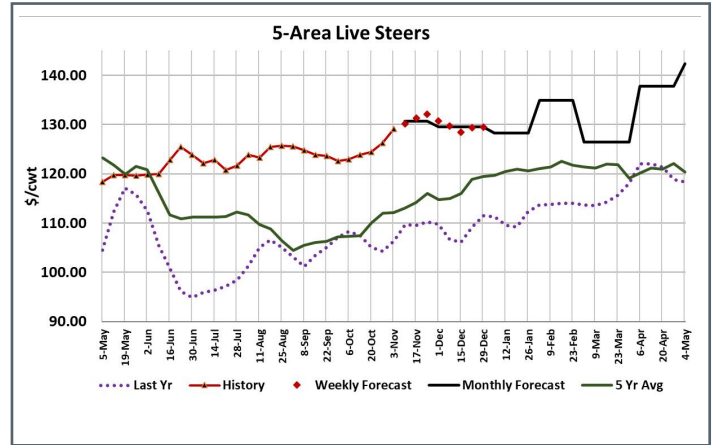
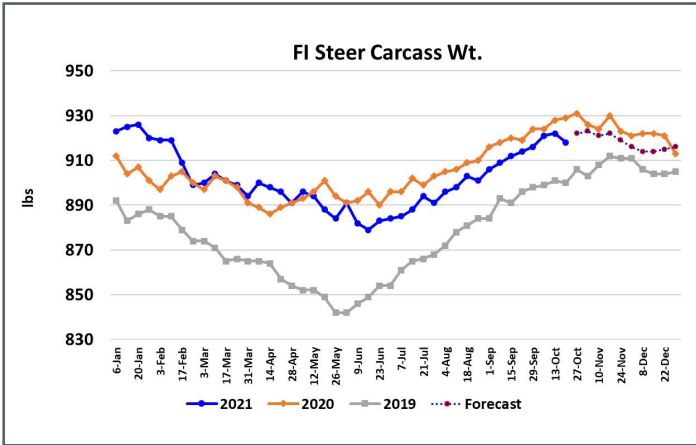
So there could be a bit of a lull in demand by the retail sector in the near term. Foodservice will likely continue to seek out those high quality middle meats and pay up for them if need be. Foodservice should experience stronger sales this holiday season than last due to lower COVID infections and higher vaccination rates. However, in the background there is the drumbeat of slowly softening beef demand as consumers focus things besides cooking at home. That may be masked by the holiday-driven demand, but I think it will become much more apparent as we move beyond the holidays.

This week's fed slaughter was only 501k, down 21k from last week. Since June, the practical top in fed kills has been about 525k per week and I wouldn't expect packers to exceed that in November or December, but they may test that level in the week's surrounding Thanksgiving. Steer carcass weights posted a surprise four pound decline this week, but heifer weights were two pounds higher. I'm not quite ready to declare that the top in carcass weights has been made, but it will probably happen within a couple of weeks. The surprise drop in steer weights this week pushed the DTDS lower, so it is less of a concern now that it was the week before. USDA-ERS released its official trade data for September today and it showed total beef exports up 21% YOY. The weekly data had telegraphed that this big increase was coming, thus it shouldn't be much of a surprise. The YOY comparisons get much tougher in the last three months of the year and the weekly export data has been softer, so I wouldn't expect these big YOY export gains to persist.

Futures traders got excited on Tues and Wed at the prospects for higher cash trade and pushed the Dec contract above last week's high. However, when cash cattle prices didn't advance beyond \$128 at mid-week, traders expressed their disappointment by pushing the futures lower on Thursday. When the \$130 trade broke out Friday morning, the board quickly lit up green. For the week, the Dec contract gained a little over \$2.50. The back months remain strong. Right now the 2022 futures curve is projecting an average cash cattle price of \$136. Average prices in 2021 will be around \$122. In 2020 they were only \$103. Next week, look for another advance in cash cattle and some further gains in the beef cutouts.



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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.

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