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WEEK ENDING DECEMBER 17, 2021

THE BEEF WRAP

The cash cattle market continued on its lower trajectory this week, down a little over $2 to average $137.18. Packers appear to have bought less cattle this week than last and only about half as many as they bought during the week following Thanksgiving when prices peaked at $140.50. The beef market also continued its march lower with both cutouts losing about $5/cwt on a weekly average basis. Toward the end of the week packers were bidding $136, but cattle feeders seemed to lose interest in trading at that level, preferring instead to carry cattle over into next week. I wouldn't expect packer interest to be any stronger next week than it was this week, given the upcoming holiday-shortened kills. Further, it looks to me like cattle feeders might be making a serious error by not moving as many cattle as they can right away. Steer carcass weights were reported up 2 pounds this week and the preliminary data is pointing toward another 2-3 pound increase next week.

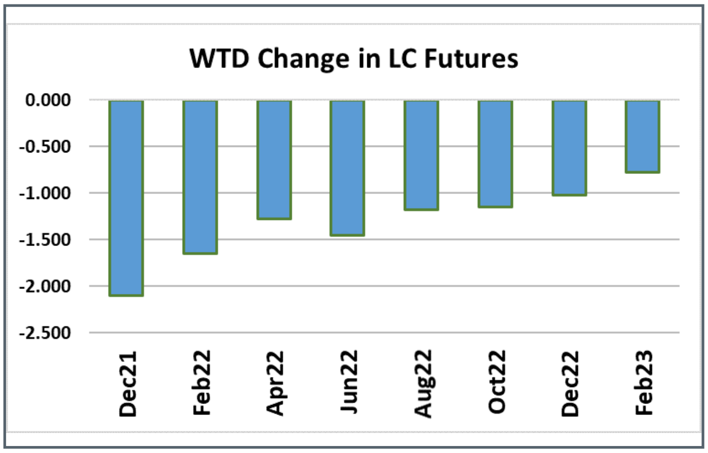
Mild weather across much of the US over the last couple of months has fostered an environment where cattle gained weight rapidly. The chart below indicates that steer weights are now above last year. The de-trended and de-seasonalized carcass weights took a huge jump this week and are now above the zero line and projected to move even higher in coming weeks. For me, that is a flashing red light that signals a shift in leverage back in the packer's favor and I don't think he will hesitate to use it in order to push cattle prices lower over the next few weeks. By limiting the number of cattle they sold this week, cattle feeders could be setting themselves up for an even bigger loss of currentness down the road. This week's fed slaughter tallied 508k, down about 10k from the week before and suggests that the sense of urgency to kill cattle that packers were displaying in November is no longer a factor. Next week, look for packers to do no Saturday kill and a very small Friday. The fed kill may fail to reach 400k.

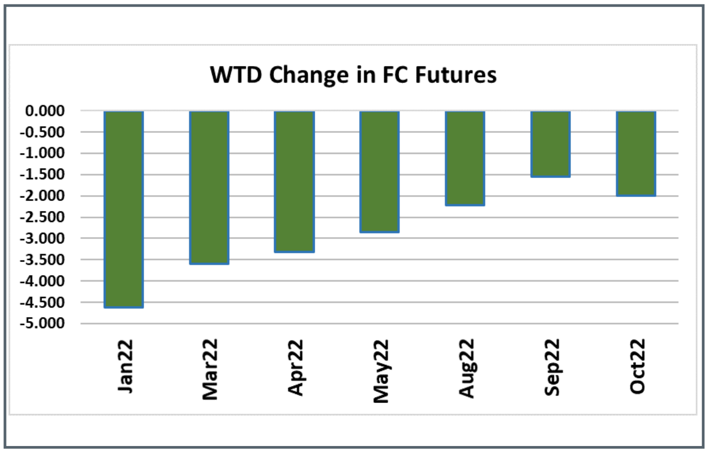
The same pattern will repeat in the week leading up to New Year's, but the Friday kill will likely be larger than during Christmas week and thus the fed kill could be closer to 435k. While these small holiday kills are taking place cattle will be enjoying warm weather in the Plains states and continuing to pack on the pounds. There seems to be a feeling among cattle feeders that the market might take a breather through the holidays but then it will rally again in January. I'm not so sure about that. A lot will depend on how much margin packers have to work with. Margins this week were around $325/head, down $28/head from the week before. An even bigger decline is projected next week and that will leave packers in little mood to be generous. One might think that the small holiday kills would boost beef prices, but beef buyers are also on holiday and thus the need is less. It is common for the cutouts to be steady-softer in the last two weeks of December.

This week, once again, it was everything except briskets and 50s pushing the cutout lower. The fundamental forecast has the Choice cutout finishing the year in the $250-255 range. Ribs have declined a bit less than I expected, but the damage is not fully complete there just yet. End meats look to only have a little more downside risk and should turn decidedly higher in January. Retailers tend to focus on featuring the lower-value end cuts and grinds during January because they realize that consumers will be burdened with holiday bills. This year however, consumers appear to be in a better financial position as a result of all the stimulus money that rained down on them in 2021. Steak cutters normally watch middle meat prices closely for a bottom in early January and then they swoop in and buy product to prepare for spring. It seems to me that domestic beef demand is continuing to leak lower, but international demand remains very good.

Of course, the wild card is the omicron variant and if it causes consumers to move back into stay-at-home mode and thus stockpile meat again. Along those lines, omicron is also a concern for packing plant workers since it seems to evade the vaccines readily. It may not be as life-threatening as other variants, but it is more virulent and thus could spread rapidly through packing plants causing high absenteeism and even possibly causing some plants to close temporarily for lack of labor. We have all seen that movie before–it causes beef prices to rocket higher and cattle prices to tank. So far, there hasn't been much evidence of buyers stockpiling beef as a hedge against such an event, but the potential is real and should be on every buyer's radar. For now though, the combined packer +feeder margin continues to move lower and thus points to softening demand. The turn higher might not come until mid-January unless omicron causes problems that panic both beef buyers and consumers. Futures traders are already beginning to sense the loss of leverage by cattle feeders and the curve was down $1-2/cwt this week.

If they start to believe that COVID is going to become a problem in packing plants again, the downward reaction in the futures will be swift. Next Thursday, USDA will issue a Cattle on Feed report. I'm projecting it will show November placements up 7.3% and on-feed inventories as of Dec 1 to be up 0.2% YOY. Futures traders would likely view a placement number that large as negative to the spring and summer contracts. Next week, watch for further weakness in both the cattle and beef markets on light volume as market participants begin to focus more on the reason for the season and less on the typical course of business.


WTD Change in LC Futures
0.000
-0.500
-1.000
-1.500
-2.000
-2.500
Dec21
Feb22
Apr22
Jun22
Aug22
Oct22
Dec22
Feb23


WTD Change in FC Futures
0.000
-0.500
-1.000
-1.500
-2.000
-2.500
-3.000
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Mar22
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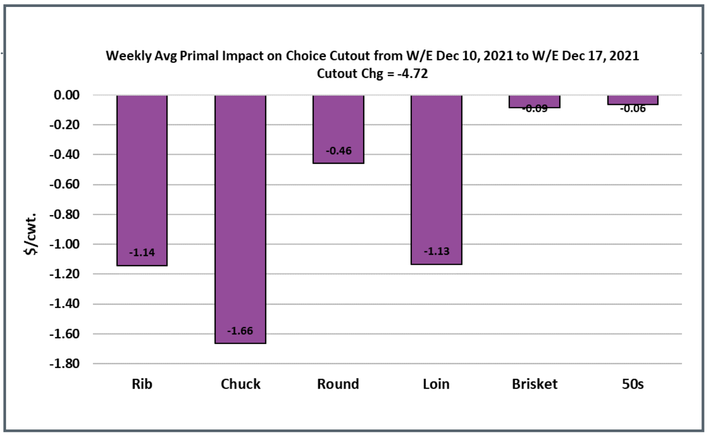
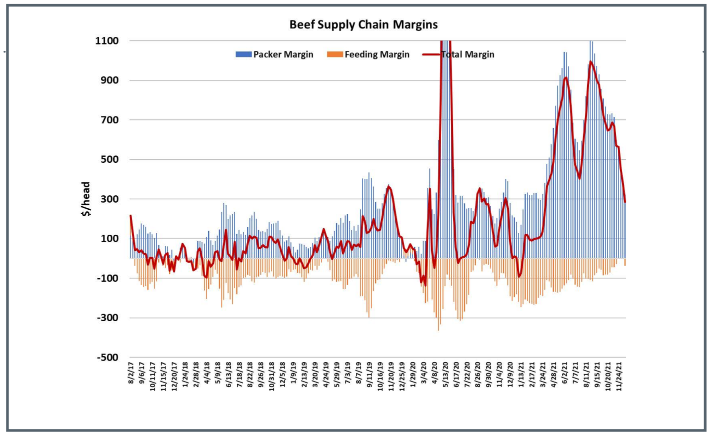
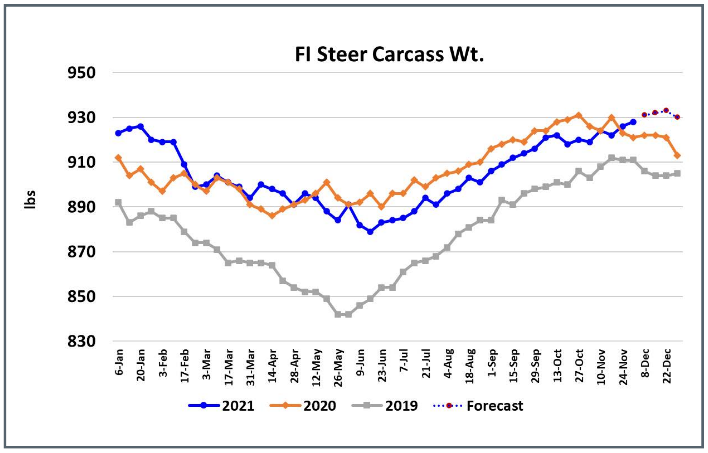
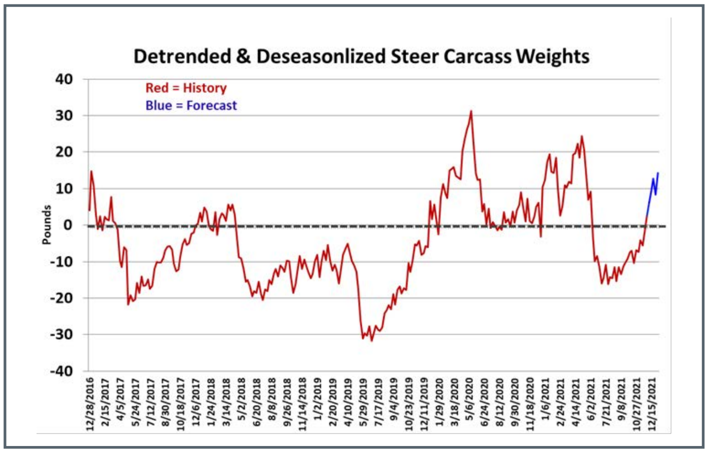
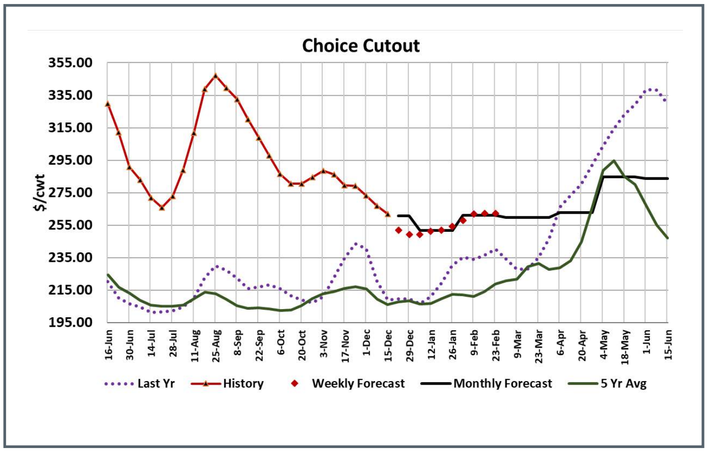
May22
Aug22
Sep22
Oct22

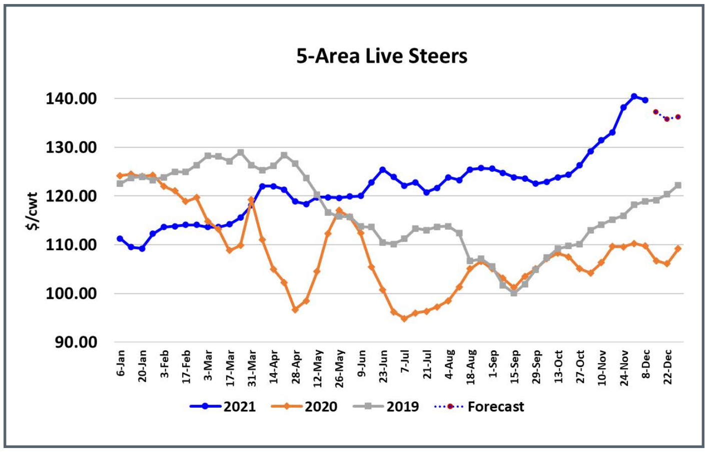

Weekly Avg Primal Impact on Choice Cutout from W/E Dec 10, 2021 to W/E Dec 17, 2021
Cutout Chg = -4.72
$/cwt.
0.00
-0.20
-0.40
-0.60
-0.80
-1.00
-1.20
-1.40
-1.60
-1.80
-1.14
-1.66
-0.46
-1.13
-0.09
-0.06
Rib
Chuck
Round
Loin
Brisket
50s


Beef Supply Chain Margins
Packer Margin
Feeding Margin
Total Margin
$/head
1100
900
700
500
300
100
-100
-300
-500









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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.

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