



WEEK ENDING DECEMBER 24, 2021

THE BEEF WRAP

The cash cattle market declined again this week, dropping about \$1.50 to average \$135.55. The cutouts stabilized, with the Choice nearly unchanged on a weekly average basis and the Select up about \$2. That allowed packer margins to increase modestly, now at \$377/head. Analysts are watching the COVID situation closely in the US as the virus seems to be spreading rapidly right in the midst of the biggest travel season that has occurred in over 2 years. It seems almost a given that infections are going to spike in the next 2-3 weeks to levels we have never seen before. That spells trouble for the 40% of the population that is unvaccinated. The important question for meat demand is how will society react? Already we are seeing important sporting events like football bowl games being cancelled because one or both teams has so many COVID infections that they can't field a team.

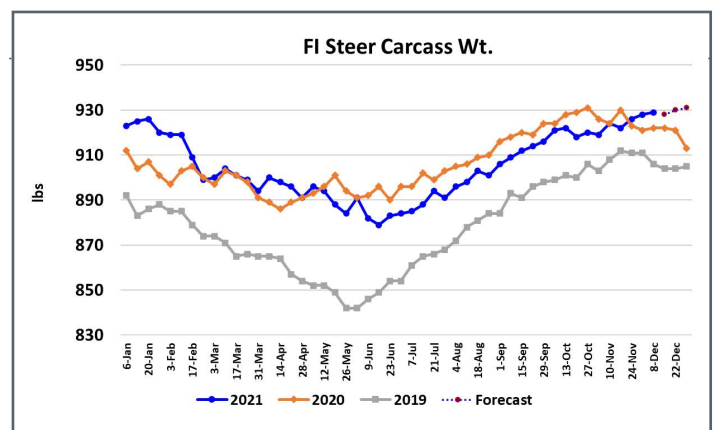
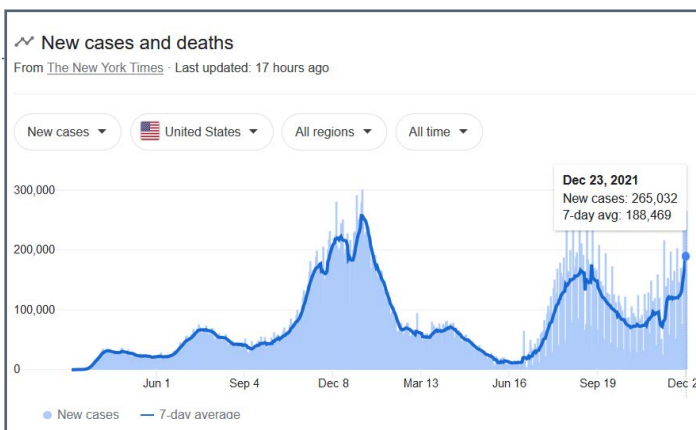
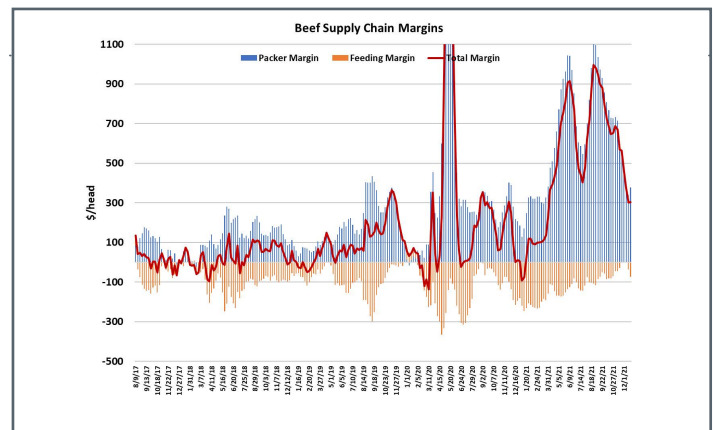
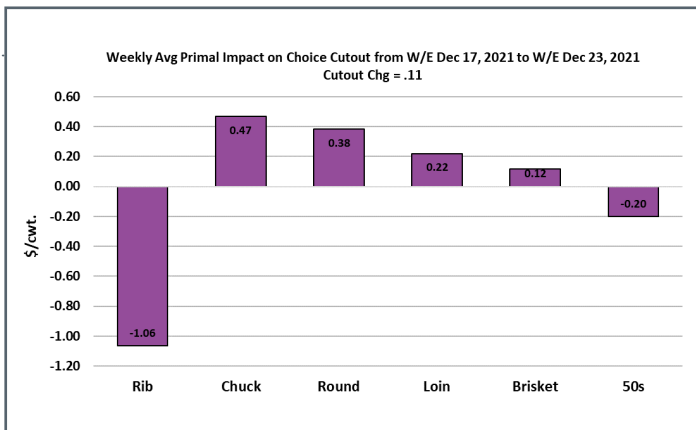
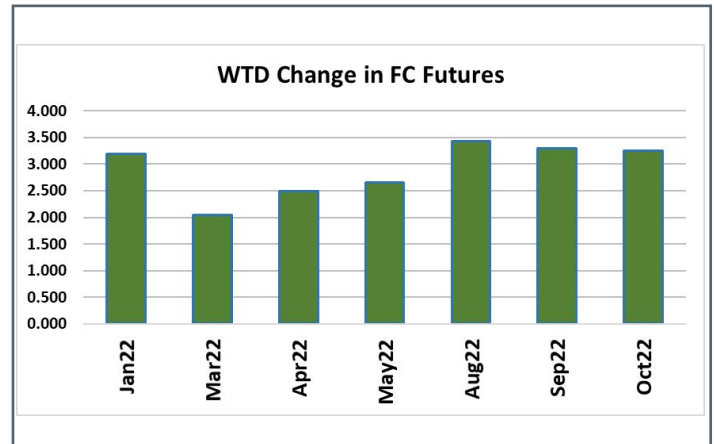
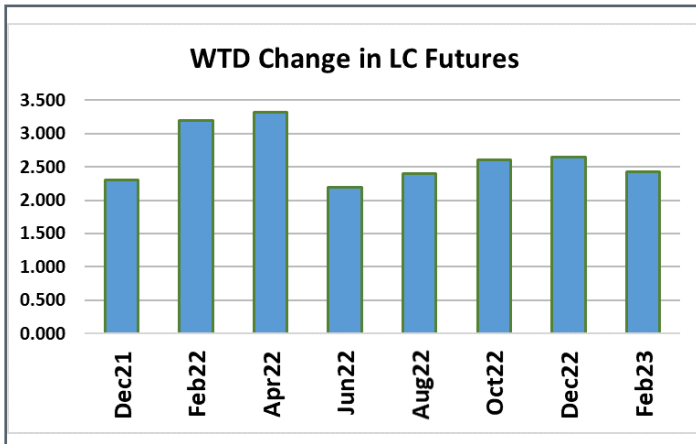
Restaurants are cautiously eyeing this trend and my guess is that a lot of them will be forced to close over the next few weeks. That could result in a surge in retail meat demand yet there is no indication that retailers are ramping up purchases in order to prepare for such an event. That is probably because we were headed into Christmas week and everyone figured it could be dealt with after the holiday. That makes me nervous that we are going to see aggressive buying in the next couple of weeks just when the supply chain is rather bare because of holiday-reduced kills. Of course, we could see an offsetting decline in purchases from the foodservice sector, but that might lag the retail surge by a few weeks. The other thing that needs to be considered is the impact of rapidly rising COVID infections on harvest operations. Most of the major packers have been requiring employee vaccination for some time and my guess is that they will aggressively step-up their booster programs since it seems that having the booster is the key to not getting infected with the omicron variant. They also have pretty solid routine testing procedures in place so they are likely to catch most COVID infections before they are spread among co-workers.

Still, a lot of plant workers are likely to get infected visiting with family and friends over the holidays and that would cause them to need to be quarantined for a few days. So we might see a situation where plants are able to operate, but at a reduced capacity. We already know from previous experience that when plants can't run at normal rates, it is positive for beef prices and negative for cattle prices. Unfortunately for cattle producers, feedyard supplies are quickly rebuilding after the Oct-Dec "hole" that was created by small placements back in late spring and early summer. Cattle performance has been excellent also. Carcass weights are currently near all-time highs. So there is little room for cattle feeders to absorb a slowdown in kills without a lot of cattle becoming excessively heavy.

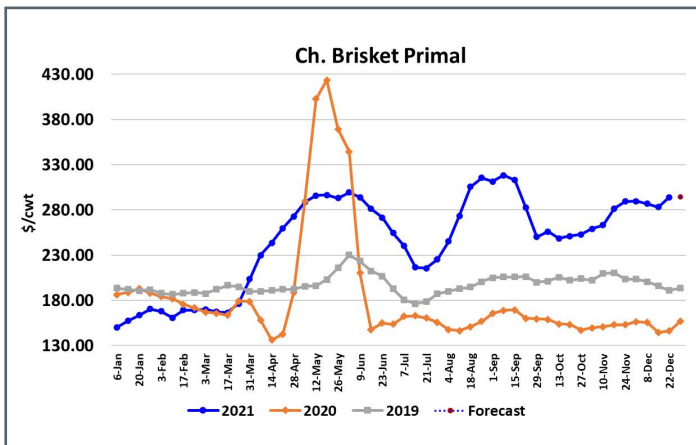
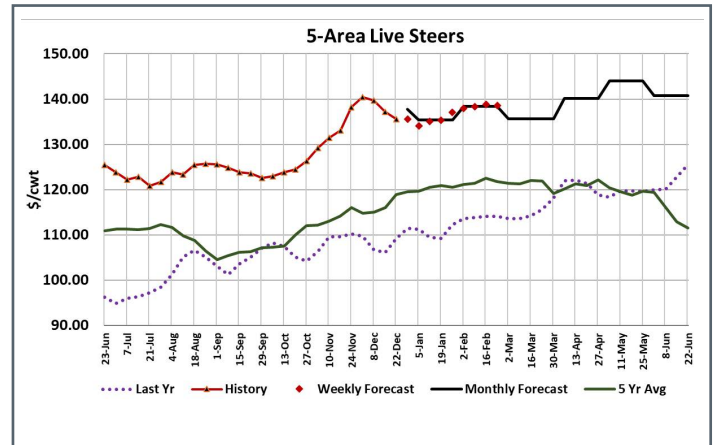
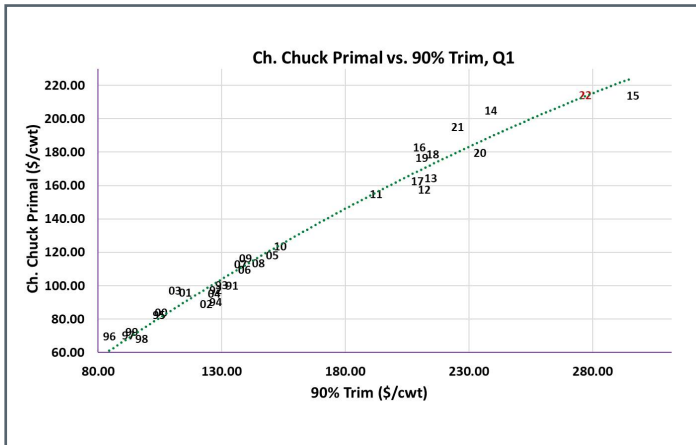
My sense is that the supply side would backlog rather quickly. The strong cattle performance is being driven by exceptionally mild weather in the Plains States. There have been very few snow events in cattle country so far this year. The chart below indicates that carcass weights are now above the very heavy levels registered in 2020 when cattle got severely backlogged due to plant closures. The DTDS weights are also well into positive territory now and moving quickly higher. I have seen very little concern among industry participants about cattle weights and it makes me think that the industry is going to get blindsided by this in January. COVID-related plant slowdowns would just accelerate this brewing problem. Packers will likely do a very light kill on Friday and zero on Saturday to produce a weekly fed kill in the 380-390k range.

Next week, I see the Friday kill being bigger, but still way down from normal and thus rendering a fed kill in the 410-420k range. So the beef pipeline will be temporarily tight on product. Let's hope retailers don't rush in when they see the COVID cases rocketing higher. Futures traders seem oblivious to all of this as the most-active Feb contract gained over \$3 this week. There seems to be a sense in the futures community that the cash cattle market is going to turn higher next week as packers need to rebuild inventory for a full kill in the first week of January. However, packers will have access to all of their January contract cattle as soon as the calendar ticks over to 2022 and that might allow them to be less aggressive than futures traders think, particularly if they see rising COVID cases in their workforce and realize that they won't be able to run full-out in early January. On Monday, the first order of business will be to react to Thursday's Cattle on Feed report. That report pegged November placements up 3.6%, which was very close to the average trade guess. That left the Dec 1 on-feed inventory only a hair below where it was last year. Traders will probably quickly shrug off the report and begin to focus on the COVID situation and what it portends for the cash market in January.

The beef market will soon be shifting out of holiday mode and into winter mode where end meats and grinds will be carrying most of the load in the cutout. We have already started to see that this week where softness in the ribs was offset by strength in the chucks and rounds. The 50s market could come under some supply side pressure once kills get back to normal since very heavy cattle will throw off a lot of fat trim. If retailers rush into the market out of COVID fears, look for them to target the end meats first. Next week, watch the news closely for rapidly escalating COVID infections and the public's reaction to them. In my opinion, that will be the most important story for the next few weeks.



While the information contained in this report has been obtained from sources believed to be reliable, J.S. Ferraro disclaims all warranties as to the accuracy, completeness or adequacy of such information. The information is not a recommendation to trade nor investment research. User assumes sole responsibility for the use it makes of this information to achieve his/her intended results. No part of this material may be copied, photocopied or duplicated in any form by any means or redistributed without the prior written consent of J.S. Ferraro.



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.

SUBSCRIBE NOW for market intelligence