J.S. FERRARO

jsferraro.com | 416.306.8788
130 Adelaide Street West, Suite 810 Toronto, Ontario M5H 3P5

## WEEK ENDING DECEMBER 03, 2021

# THE BEEF WRAP

The cash cattle market moved higher once again this week, with prices averaging $140.46, up a little more than $2 from last week's average. The cash market has added close to $16 in the last six weeks. Can all of that be attributed to a tightening cattle supply? Possibly, but it seems like an awful big increase for what should have been a moderate tightening of the cattle supply in November due to light placements in May/June/July. In the back of my mind, I can't help but think that perhaps packers came to the realization that they were going to face some significant legal problems from the Dept of Justice if they didn't allow more of the massive profit from the beef market to flow through to cattle producers.

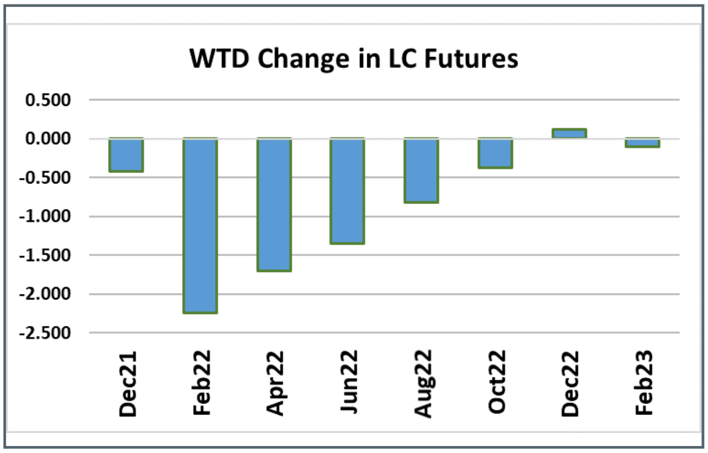
There is no way to validate that of course, but I wouldn't rule it out. Regardless of the cause, the rapid upward acceleration in the cash cattle market has had the desired effect of cutting packer margins dramatically and boosting cattle feeding margins. And, all of this is happening in an environment where beef prices are softening. The week the Choice cutout lost a little over $6 on a weekly average basis and the Select was down $3.60. Both end cuts and middle meats contributed to the declines this week. The only items to post a gain were the fat trim and briskets. The end meats did start to show a little life toward the end of the week, but the middle meats are living on borrowed time. Ribs normally peak in the second week of December and then decline rapidly into the end of the year. Once that strong seasonal pattern starts to take effect, it will be almost impossible for the remainder of the primals to move the cutouts higher.

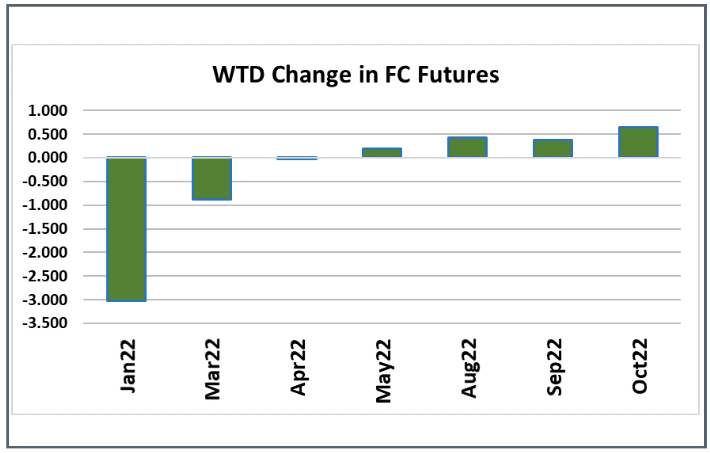
Currently, I have the Choice cutout retreating into the $250-255 area by the end of the year. That means further erosion in packer margins, which have already taken quite a beating. Three weeks ago, packer margins were in the mid $700s and this week they averaged close to $400/head. Next week, I'm projecting them below $300/head and the forecast has them moving slightly below $200/head by January. So, if the packer's objective was to improve the optics around their margins, they have certainly accomplished that. So far, they have shown very little resistance to higher cattle prices, but that will probably change once the Christmas orders are taken care of. Beef demand looks it is softening. The November demand index was 1.23 and December is projected around 1.17. The combined margin continues downward. The new COVID variant presents the biggest uncertainly to demand direction in the next couple of months.

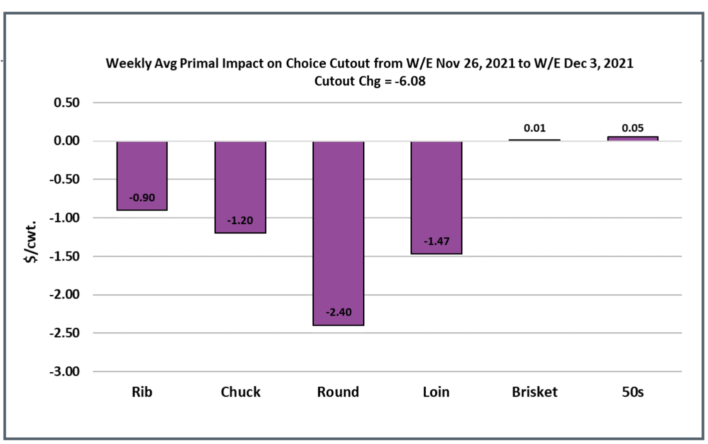
If the variant spreads fast, makes people sick and evades the existing vaccines, then we could see a return to the stay-at-home behavior we have witnessed at other times when covid infections spiked. That would be positive for beef demand. It might even elicit some more government stimulus money. If, however, the vaccines do end up providing good protection against this variant, then we likely see a continuation of the current pattern which is more meals from foodservice relative to retail and continued softening of demand for beef. Keep in mind that January, and particularly February, are not great demand months to start with.

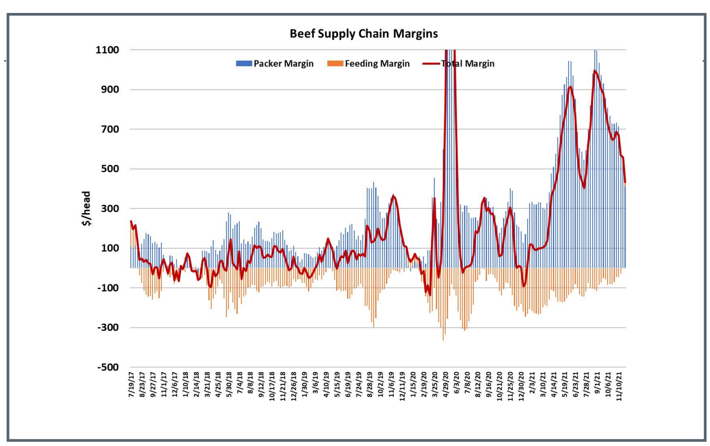
The fed kill this week came in at 523k, down 6k from the week before Thanksgiving. The cow and bull kill was huge at 153k. That is probably a seasonal top in non-fed slaughter. It looks to me like the fed kill is very close to, or maybe just a little above, what prior placements suggest should be slaughter-ready. The weight data doesn't really make it look like packers are having to dig very deep into the cattle supply either. Blended steer and heifer carcass weights were up one pound this week, while steers-only were down 2 pounds. The DTDS weights have been slowly creeping higher– another contradiction to the idea that feedyards are very current and thus that is why packers keep throwing money at cattle feeders. If nothing else, I suspect that the two short kill weeks at the end of the month will tip the leverage meter back in the packer's favor. Futures traders seem to believe that also, pricing the nearby Dec contract, which goes into delivery on Monday, $2-3 below the last traded cash price.

Given the sharp rise in cash cattle prices, I am a little surprised that cash feeder cattle values haven't risen more. The FCI is above $160 now, which is a pretty rare event in itself, but in the past cattle feeders have been known to bid most of their profitability back into the price of feeder cattle. Perhaps that just a few more weeks down the road. Next week, look for cash cattle to trade steady or higher and the cutouts to be steady to lower. Next week should be the last hoorah for the ribs.

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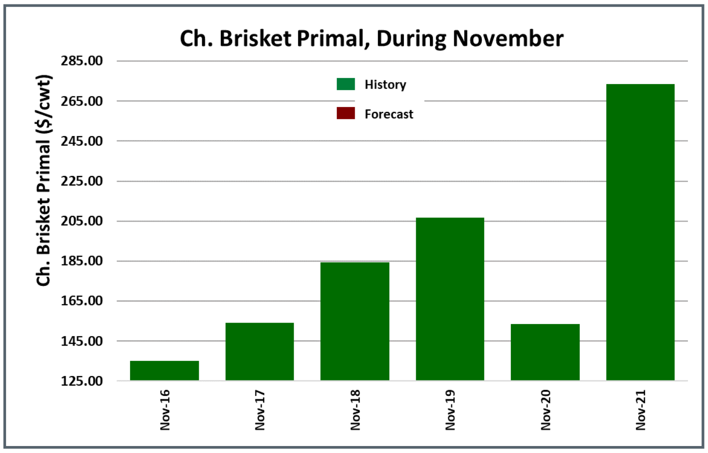


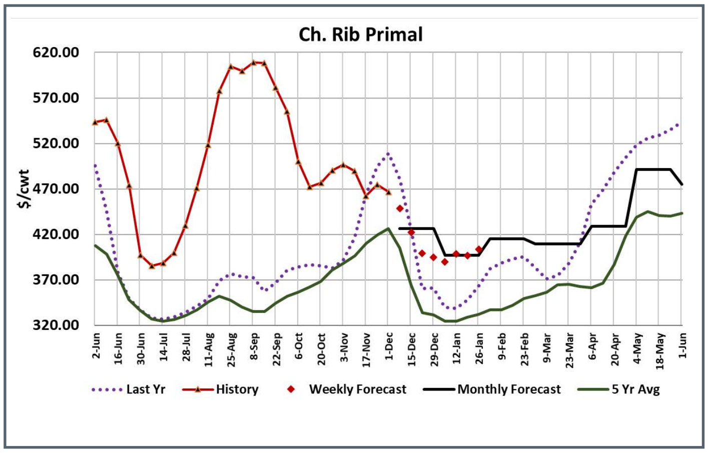


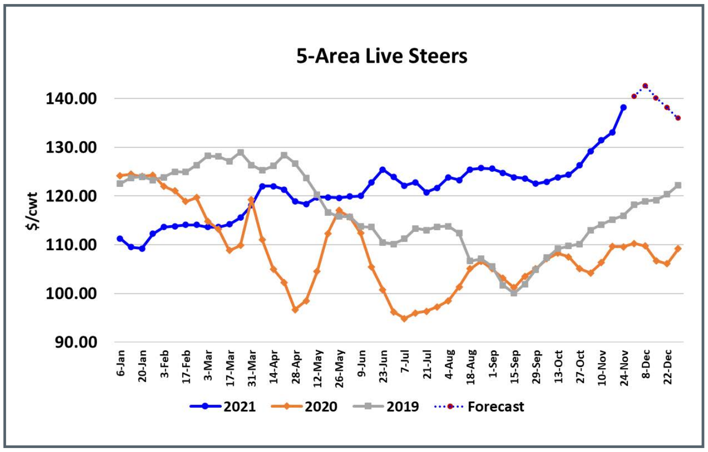


**DR. ROB MURPHY** BS, MS, PhD Agri Economics,
Executive Vice President, Research & Analysis,
J.S. Ferraro

**E:** Rob.Murphy@jsferraro.com

*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.*