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WEEK ENDING DECEMBER 31, 2021

THE BEEF WRAP

The cash cattle market bolted higher this week, averaging $139.88, up a little over $4 from last week's average. Packer inventories were running low after two weeks of very light purchases and they needed to restock ahead of next week's return to a full slaughter schedule. Beef markets also turned a bit higher, with the Choice cutout up $2.91 and the Select gaining $5.56. As market participants put the holiday season behind them and look into early 2022, they see a tremendous amount of uncertainty caused by soaring COVID infections in the US. Will consumers be so sick next week that they just curl up in a ball and fail to visit grocery stores or restaurants? Will beef processing plants be able to run full schedules or will soaring absenteeism cut near-term kills? These are the questions that will determine the direction of prices in the near-term.

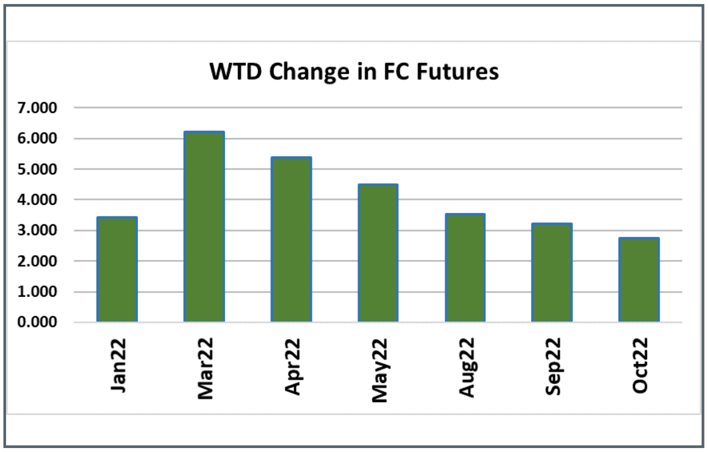
So far, packing plants appear to be operating at levels similar to before the COVID surge, but the wave of infections has not yet been fully felt in the heartland where many of the packing plants are located. Cases have spiked initially in the coastal metropolitan areas: NYC, Florida, California, and are now rising rapidly in the Deep South. However, we have yet to see big increases in states like Nebraska, Kansas, S. Dakota and Oklahoma. That will likely come in the next two weeks and market participants should be bracing for it. Meanwhile, retailers have shifted the focus of their early January ads toward roasts and away from middle meats. The impact can be seen in the wholesale markets where the chucks provided the most cutout support this week and the rib primal was weighing on the cutout. We look for that pattern–end meats stronger, middle meats softer–to continue for much of January and the net effect might be that the cutout hold steady to perhaps a little higher. Much will depend on how much production packers can crank out of the plants.

If omicron infections force packers to cancel shifts or run lighter ones, then the cutouts are likely to push higher quickly, but if packers find a way to keep the plants humming at full speed, then big gains in beef prices are a lot less likely. One might expect beef buyers to try and get ahead of any production slowdowns by ordering aggressively, but so far we haven't seen that. Maybe there is enough uncertainty about how strong store sales will be with case counts soaring that they don't want to over-commit. My guess is that we will see a strong shift away from foodservice over the next few weeks and retail sales will be very strong. The implied margin chart below suggests that beef demand has started to cycle higher and that will likely carry on for several more weeks. In addition, international buyers will be back in full force after the holidays and we could see a fairly strong pull from that sector.

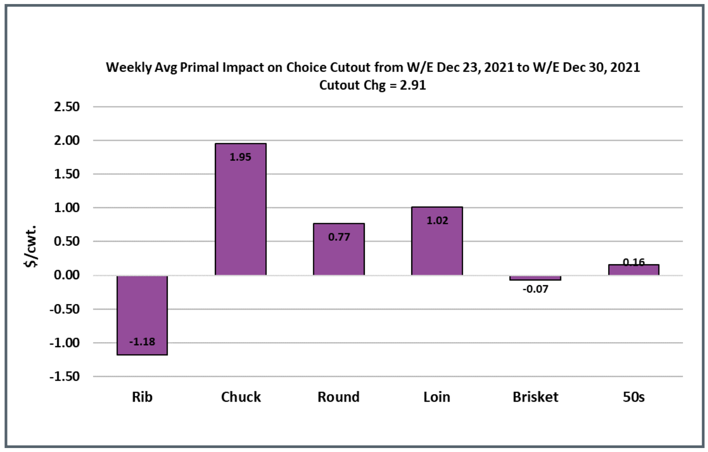
So, the potential is there for higher cutouts in January if the virus surge doesn't make consumers curl up in a ball. Available cattle supplies should be a bit tighter in Q1 than they were in Q4, but that is a normal seasonal pattern. Absent any plant disruptions, I look for fed kills during January to average around 500k per week. Data on this week's kill won't be available until Monday, but my forecast has this week's fed kill coming in around 405k. The flow model suggest that the number of animals coming to slaughter in Q1 will be about 4.7% below last year, but last year kills were quite strong in Q1. Heavier carcass weights could help to offset some of the tightness in animal numbers, but I still see Q1 fed beef production down about 2%. Steer weights were reported down five pounds this week in data that was for the last week prior to the holidays.

Fed weights are running about 2 pounds over last year and last year at this time carcass weights were very heavy. The Northern Plains states are in the grip of a cold snap right now and the forecast has another frigid period set for next week. The risk of huge snow events seems minimal in the near term however and those are usually what cause rapid declines in carcass weights. The DTDS weights are now solidly above zero and at their highest level since last spring. That will provide a bit of a buffer if the winter weather should get nasty in the next few weeks, but if a mild pattern re-emerges, we could see weights remain heavier than expected. The alarm bells should start to go off if the DTDS exceeds +10, so we should be watching that closely over the next few weeks. Weights normally decline steadily from this point until mid-April, but if COVID infections slow the slaughter rate here in January, we would likely see weights decline less-than-seasonal or maybe even post some small gains.

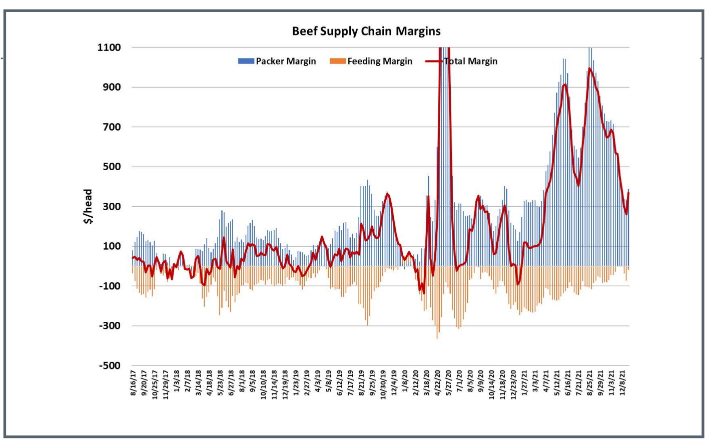
The fact that carcass weights are already quite elevated increases the risk to cattle feeder's leverage as we move into the period of production uncertainty due to soaring COVID infections. The futures market posted gains this week as it became clear that the cash market was going to trade higher. The Dec contract gained the most, while the rest of the curve was less enthusiastic. Feb is now priced close to even with the current cash market, indicating that traders think the cash market doesn't have a lot more upside from here. Next week, the key variable to watch is rising covid infections, and how consumers and processing capacity react to them. This will be the main story for the next few weeks and the main determinant of market direction.



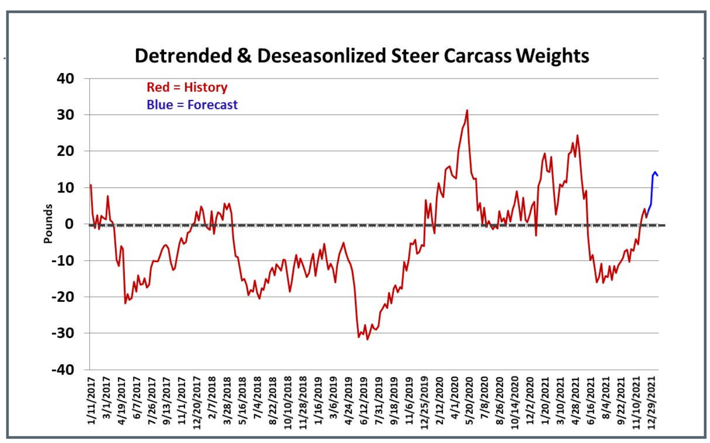
WTD Change in FC Futures
7.000
6.000
5.000
4.000
3.000
2.000
1.000
0.000
Jan22
Mar22
Apr22
May22
Aug22
Sep22
Oct22



Weekly Avg Primal Impact on Choice Cutout from W/E Dec 23, 2021 to W/E Dec 30, 2021
Cutout Chg = 2.91
$/cwt.
2.50
2.00
1.50
1.00
0.50
0.00
-0.50
-1.00
-1.50
-1.18
1.95
0.77
1.02
-0.07
0.16
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



Detrended & Deseasonlized Steer Carcass Weights
Red = History
Blue = Forecast
Pounds
40
30
20
10
0
-10
-20
-30
-40
1/11/2017
3/1/2017
4/19/2017
6/7/2017
7/26/2017
9/13/2017
11/1/2017
12/20/2017
2/7/2018
3/28/2018
5/16/2018
7/4/2018
8/22/2018
10/10/2018
11/28/2018
1/16/2019
3/6/2019
4/24/2019
6/12/2019
7/31/2019
9/18/2019
11/6/2019
12/25/2019
2/12/2020
4/1/2020
5/20/2020
7/8/2020
8/26/2020
10/14/2020
12/2/2020
1/20/2021
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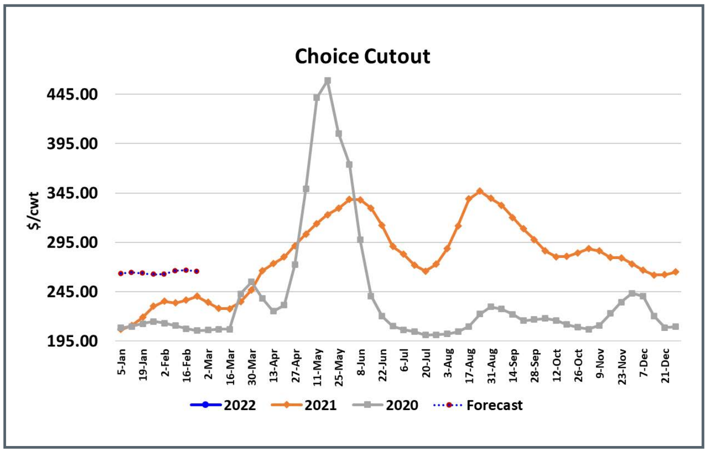
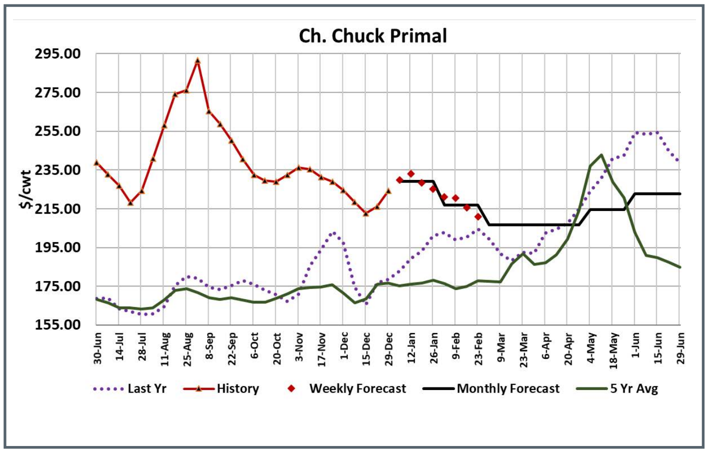
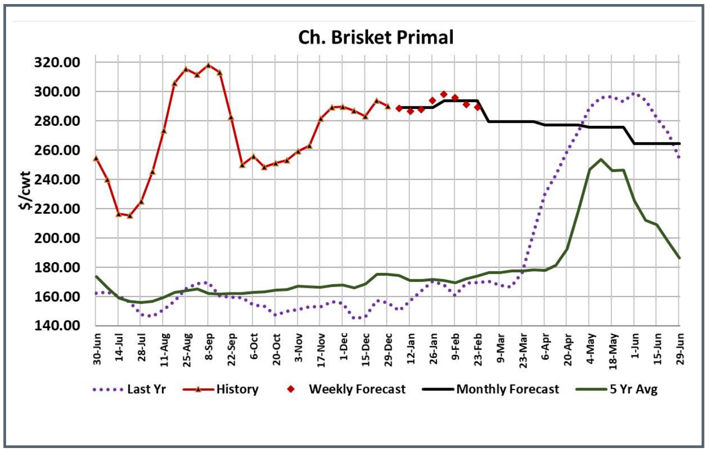
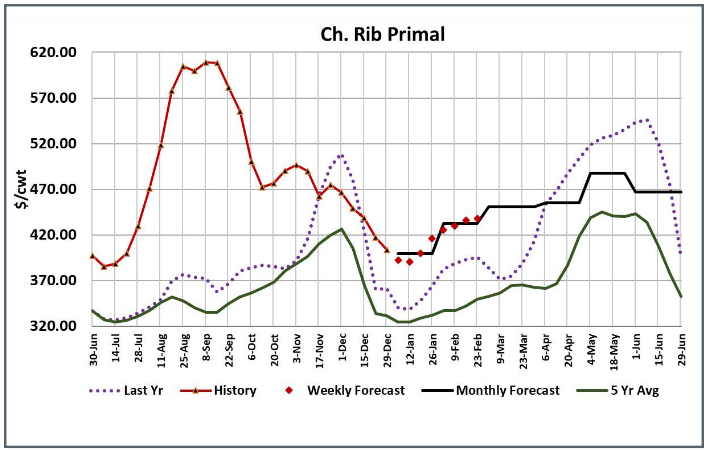
9/22/2021
11/10/2021
12/29/2021









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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.